



Budget Bill Testimony

2023-2025 Legislative Session

Senate Appropriations

January 11, 2023

Good morning, Chairman Bekkedahl, members of the committee, my name is Joshua Gallion, and I have the honor of serving as North Dakota's State Auditor. I'm here today to discuss how the State Auditor's Office can better serve our state and provide information regarding our efforts to fulfill our statutory obligations while improving accountability and promoting transparency of state and local governments, and institutions of higher education.

As you are aware, the State Auditor is a constitutional state official elected by North Dakota citizens. My job is to lead the way in providing truthful, objective and independent information to you and the citizens of North Dakota. Our mission is to produce informative audits that improve government, and our diverse team is committed to generating greater value for the taxpayers.

As requested by the committee, I'd like to start off by giving you a high-level overview of what we do and who benefits from the work that we do.

- Mission/Vision/Values
- 5 different divisions
- 61 full-time employees, 18 of which are special funded who audit local governments
- Three office locations in Bismarck and in Fargo
- Who we serve
- How we're funded

I understand we're going to go in more depth with the Division meeting later this month so today I'll give you an overview of the key budget requests and leave plenty of time for questions.

We submitted seven decision packages that I'm going to briefly walk you through:

1. 14 Special Funded full-time employees

There is a continued need for more local government auditors. We were fortunate enough to get eight last legislative session and I am happy to report that we've filled them all within the first 16 months of the biennium. We're now back asking for additional resources in our attempt to meet the demands of local government audit services.

We have testified in the past that the number of private firms conducting local government audits in North Dakota is shrinking. There are now 11 firms, three fewer than in the previous biennium who are still conducting these audits. Of those 11, 2 firms have dropped 22 clients since last session citing

workforce issues. If you are not already aware, Senator Klein is proposing a bill that will greatly relieve some of these pressures on local governments while continuing to ensure accountability and change the trajectory of the audit industry in North Dakota for the better.

2. 6 General Funded full-time employees

Four Auditors

We're asking that you restore the one general funded full-time position that was taken last session and add an additional three to accommodate the 51% increase in federal funding that needs to be audited under the Federal Single Audit. As a reminder, we do bill the federal government for work done under this audit so portions of those salaries will be recouped.

A conversation that has internally been ongoing since I took office was the potential need to keep an audit team at the Department of Human Services year-round. With the combining of Health and Human Services this past session, the time has come for us to have a constant presence in HHS due to the complexity of the agency, the breadth of programs, and the increased risk in joining two agencies fiscal practices into one.

Attorney

The fifth position we're asking for is our own Special Assistant Attorney General.

Audits routinely and frequently involve North Dakota Century Code and the Auditor's Office looks for agency compliance. Presently the Auditor's Office must contact the Attorney General's office to obtain an opinion or interpretation of N.D.C.C., or to assist in interpreting legislative intent. The current arrangement can be time-consuming. For example, Labor Commission is only planned and budgeted for two weeks of time for our team, from start to finish. When we need assistance from the AG's Office, that can extend the completion of our audit by weeks that we simply do not have because we're already scheduled to move on to another engagement.

We're often left in conflicts, most recently evident by our investigation of the Attorney General building lease. We found ourselves needing answers to legal questions with nowhere to turn and no time to procure any outside legal advice under our 90-day deadline. We're now on our 3rd SAAG in the past 4 years and we must start over educating this person on auditing standards and our section of code.

Each SAAG assigned to state agencies has a portfolio. They have dozens of agencies, boards and commissions they represent. Our SAAG is not unlike any other. However, we audit all state agencies and some boards and commissions. That creates a conflict of interest. When our SAAG represents the client AND us, we have to wait and get assigned another attorney for the audit who is completely unfamiliar with auditing standards and our Chapter of N.D.C.C.

Education and Training Coordinator

The final general funded position we're asking for is an education and training coordinator.

Since I took office, we've seen an increase in the demand for education and training for the local government officials that we interact with daily. Unlike the state agencies that we work with, most of these local governments don't have trained accountants managing their books. Some are part time and even volunteers.

Government accounting and auditing standards are ever changing and are becoming more and more stringent in their requirements and these local governments don't have the resources to educate their staff on these requirements.

We've found through a little education, these entities better understand the accounting standards they need to follow, how the Auditor's Office can be helpful, and ultimately what necessary steps they need to take to ensure financial accountability to their citizens.

Education assists in speeding up audits, thus reducing audit costs and allowing us to serve more clients with the same number of staff. To emphasize this issue, I'd like to share a little fact, 92% of the cities who submitted annual financial reports to our office had a finding throughout the course of their annual review. With the right education and training, and of course participation, this number should drop substantially.

Up to this point, we have tried to take on these added responsibilities in addition to our already full workload of doing actual audits. This person would solely focus on education and training for these local governments by producing resources, tools, webinars, videos, etc.

3. Equity Package of 10%

In the United States, there's been a 17% decline in accountants and auditors leaving their jobs in the past two years, and the number of college students coming into the field can't fill the gap. The North Dakota University System and private colleges combined are graduating less than 250 students per year while the number of job openings for accountants and auditors is exceeding 400+ per year. Once we recruit these students into these positions, we must have the means to keep their salaries competitive in order to retain them.

The SAO realizes the world is changing rapidly and our legislative increases are not keeping up with inflation and cost of living. In addition, the salary gap with private business has made it tough to retain current staff and recruit experienced ones. Data provided by the North Dakota Labor Market Information from 2021 supports the office's request and shows employees under five years of service are up to 10% behind the North Dakota average for accountants and auditors.

4. Temp Salary Line

I am proud to say that the Auditor's Office doesn't have a recruitment issue. In fact, our strong internship program has been our main talent pipeline for filling vacant full-time positions. Since 2018, we've hired 30 interns and have filled FTE vacancies with 12 of them. Our internship program is keeping North Dakota students right here in North Dakota upon graduation. We currently have ten interns on staff and are the second largest internship program behind the NDDOT.

Our local government team is responsible for reviewing 2000 annual financial reports every calendar year under the direction of full-time staff. This business function relies on interns being able to help process and review these while the full-time staff focus primarily on audits. Without these interns to do this work we would have to have additional FTE to do it and, as you know, that comes at a higher price for the taxpayers.

Up to this point, we've used excess salary fund dollars to fund our internship program. What we've found is when we cross biennium's, we can find ourselves in a situation where we are fully-staffed and may not have dollars to support our talent pipeline of interns.

5. Training & Development Inflationary Increase

With the recent inflationary increases, travel and professional development costs have increased drastically and there is a need for additional operating money to continue auditing and training at current levels.

Government auditors are required to have 80 hours of continuing professional education every two years. To achieve this, we attend conferences, participate in webinars, and use online subscription based professional development platforms to adhere to the requirement.

6. TeamMate Upgrade

The IT system the Auditor's Office uses for its electronic working papers, a system which is essential to each audit, has end of life approaching and will require an upgrade to TeamMate +. End of life was originally December 2023 but has been pushed back a bit due to COVID, but expectations are our current version will have no support soon.

This is the primary software used by our audit teams to conduct their audits and our auditors spend 80% of their day in TeamMate. Other agencies, such as BND, DOT, and Trust Lands have already migrated, but do not have the level of use the SAO does with the software.

7. Dickinson Office Space

Many local government clients in Western North Dakota are struggling to find an auditor to conduct their audits. Some private firms are removing themselves from the government auditing field due to differing reasons, but this is leaving local governments in a tough spot. Opening a Dickinson office would allow the SAO to be closer to clients and assist these clients face-to-face. 27 of the 45 on our waiting list, or 60%, are from the western part of the state.

The only businesses serving clients out west are either coming from Bismarck or Montana.

This concludes my testimony and I'm happy to answer any questions you may have. Thank you.