

1999 SENATE APPROPRIATIONS

SB 2004

1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2004

Senate Appropriations Committee

Conference Committee

Hearing Date 1/14/99; 2/10/99

Tape Number	Side A	Side B	Meter #
1		x	320-1808
2/10/99 1		x	3603-4505
Committee Clerk Signature <i>Gaudia Anderson</i>			

Minutes:

SENATOR NAADEN: Opened the hearing on SB 2004, A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor; and to amend the reenact section 54-10-10 of the North Dakota Century Code, relating to the salary of the state auditor.

ROBERT R. PETERSON: State Auditor to testify in support of SB 2004 (testimony attached) (tape 320-1340)

SENATOR SOLBERG: I have a question for OMB for removing of the performance auditors from the budget.

JEFF LARSHUS: (OMB) (tape 1370) When we were preparing the recommendation we were looking at the financial constraints we were working within. Also, the auditor's office expressed a need for IS auditors. In prioritizing where we wanted to focus those efforts, it fell more on the IS auditors than the performance auditors.

SENATOR GRINDBERG: (tape 1415) On page 9 on the performance auditor resource comparison and the dollars spent per state, do you have any numbers on South Dakota?

ROBERT R. PETERSON: South Dakota does not have a performance audit program, they will do a special project as requested by the legislature who then appropriates the necessary funding to complete that special project.

SENATOR ANDRIST: If we approve these additional funds, these performance audits are billable to the agency, aren't they?

ROBERT R. PETERSON: Currently we do not charge an agency for a performance audit. Many agencies are federally funded and do not have dollars available.

SENATOR ANDRIST: I'm inclined to support the additional funds. But, I would like to get them back into a fiscal note which would make them revenue neutral. Do you have a suggestion as to how we could do that?

ROBERT R. PETERSON: No, but let me talk to my staff.

SENATOR NAADEN: I don't think you would gain anything by doing this.

SENATOR BOWMAN: A performance audit could become neutral real fast if you could find some misallocation of funding. That would justify your job and what we are doing together. With all of the dollars that go through Human Services, we have to track those dollars.

SENATOR SOLBERG: I think a lot of people have a misconception of performance audits. In the performance audit, we're not so concerned about what the agency is doing right rather than what they're doing wrong. I would not like to lose the performance audit division.

SENATOR NAADEN: Closed the hearing on SB 2004.

2/10/99

Tape 3603-4505

2-10-99

SENATOR NETHING: Reopened the hearing on SB 2004.

PAUL KRAMER: (LC) Explained the amendments.

SENATOR ANDRIST: Moved do pass the amendments to SB 2004.

SENATOR HOLMBERG: Seconded the motion.

ROLL CALL: MOTION CARRIED BY UNANIMOUS VOICE VOTE TO DO PASS THE AMENDMENTS

SENATOR NAADEN: Moved do pass SB 2004 as amended.

SENATOR HOLMBERG: Seconded the motion.

ROLL CALL: 12 YEAS; 0 NAYS; 2 ABSENT & NOT VOTING.

MOTION CARRIED TO DO PASS SB 2004 AS AMENDED

Yeas: Nothing; Naaden; Lindaas; Tallackson; Tomac; Robinson; Krauter; St. Aubyn; Grindberg; Holmberg; Kringstad; Andrist
Absent & Not Voting: Solberg; Bowman

CARRIER: SENATOR NAADEN

SENATOR NETHING: Closed the hearing on SB 2004.

FISCAL NOTE

(Return original and 10 copies)

Bill/Resolution No.: SB 2004 Amendment to: _____

Requested by Legislative Council Date of Request: 12-30-98

1. Please estimate the fiscal impact (in dollar amounts) of the above measure for state general or special funds, counties, cities, and school districts.

Narrative:

The information in this fiscal note is limited to the statutory change in salary for the State Auditor only (Section 4).

This bill will increase the salary of the State Auditor in the 1999-2001 biennium by \$14,016 over the salary of the current biennium. The amount includes the governor's recommended salary increases.

2. State fiscal effect in dollar amounts:

	1997-99 Biennium		1999-2001 Biennium		2001-03 Biennium	
	General Fund	Special Funds	General Fund	Special Funds	General Fund	Special Funds
Revenues:	NA	NA	NA	NA	NA	NA
Expenditures:	NA	NA	\$14,016	NA	NA	NA

3. What, if any, is the effect of this measure on the appropriation for your agency or department:

- a. For rest of 1997-99 biennium: None
- b. For the 1999-2001 biennium: None
- c. For the 2001-03 biennium: None

4. County, City, and School District fiscal effect in dollar amounts:

1997-99 Biennium			1999-2001 Biennium			2001-03 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
NA	NA	NA	NA	NA	NA	NA	NA	NA

If additional space is needed, attach a supplemental sheet.

Signed *Ed Nagel Jr.*

Typed Name Ed Nagel Jr

Department OFFICE OF THE STATE AUDITOR

Phone Number 8-4782

Date Prepared: 1/4/99

Date: 2-10-99
Roll Call Vote #: 1

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB2004

Senate APPROPRIATIONS Committee

Subcommittee on _____
or
 Conference Committee

✓ Legislative Council Amendment Number 98026.0103

Action Taken NO PASS

Motion Made By SENATOR ANDRIST Seconded By SENATOR HOLMBERG

Senators	Yes	No	Senators	Yes	No
Senator Nething, Chairman					
Senator Naaden, Vice Chairman					
Senator Solberg					
Senator Lindaas					
Senator Tallackson					
Senator Tomac					
Senator Robinson					
Senator Krauter					
Senator St. Aubyn					
Senator Grindberg					
Senator Holmberg					
Senator Kringstad					
Senator Bowman					
Senator Andrist					

Total (Yes) UNANIMOUSLY No _____

Absent APPROVED

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:

Date: 2-10-99
Roll Call Vote #: 1

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2004

Senate APPROPRIATIONS Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number 98026-0103

Action Taken DO PASS AS AMENDED

Motion Made By SENATOR NAADEN Seconded By SENATOR HOLMBERG

Senators	Yes	No	Senators	Yes	No
Senator Nething, Chairman	✓				
Senator Naaden, Vice Chairman	✓				
Senator Solberg					
Senator Lindaas	✓				
Senator Tallackson	✓				
Senator Tomac	✓				
Senator Robinson	✓				
Senator Krauter	✓				
Senator St. Aubyn	✓				
Senator Grindberg	✓				
Senator Holmberg	✓				
Senator Kringstad	✓				
Senator Bowman					
Senator Andrist	✓				

Total (Yes) 12 No 0

Absent 2

Floor Assignment SENATOR NAADEN

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2004: Appropriations Committee (Sen. Nething, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (12 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). SB 2004 was placed on the Sixth order on the calendar.

Page 1, line 10, replace "277,458" with "268,538"

Page 1, line 11, replace "1,215,134" with "1,204,310"

Page 1, line 12, replace "3,708,031" with "3,852,274"

Page 1, line 13, replace "752,758" with "746,196"

Page 1, line 14, replace "5,953,381" with "6,071,318"

Page 1, line 15, replace "1,967,892" with "1,950,506"

Page 1, line 16, replace "3,985,489" with "4,120,812"

Page 1, line 18, replace "\$1,215,134" with "\$1,204,310"

Page 1, line 20, replace "\$1,215,134" with "\$1,204,310"

Page 2, line 6, replace "sixty-two" with "fifty-eight", replace "three" with "two", overstrike "sixty-four" and insert immediately thereafter "sixty-two", and after "2000" insert "fifty-nine thousand four hundred twenty-eight dollars through December 31, 2000"

Page 2, line 7, replace "sixty-four" with "sixty-two", replace "two" with "eight", and replace "thirty-six" with "fifty-five"

ReNUMBER accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

DEPARTMENT 117 - STATE AUDITOR

SENATE - This amendment makes the following changes:

	EXECUTIVE BUDGET	SENATE CHANGES	SENATE VERSION
Administration	\$277,458	(\$8,920)	\$268,538
Division of local gov. audits	1,215,134	(10,824)	1,204,310
Division of state audits	3,708,031	144,243	3,852,274
Mineral royalty auditing	<u>752,758</u>	<u>(6,562)</u>	<u>746,196</u>
Total all funds	\$5,953,381	\$117,937	\$6,071,318
Less special funds	<u>1,967,892</u>	<u>(17,386)</u>	<u>1,950,506</u>
General fund	\$3,985,489	\$135,323	\$4,120,812
FTE	53.00	2.00	55.00

Detail of Senate changes to the executive budget includes:

	REDUCE COMPENSATION PACKAGE TO 2/2	ADJUST HEALTH INSURANCE COST	DELAY MARKET SALARY ADJUSTMENT TO JANUARY 1, 2001	PROVIDE ADDITIONAL SALARY FUNDING TO ADDRESS TURNOVER	ADD 1 FTE AUDITOR POSITION	ADD 1 FTE PERFORMANCE AUDITOR POSITION
Administration	(\$3,246)	\$570	(\$6,244)			
Division of local gov. audits	(13,960)	3,136				
Division of state audits	(43,452)	9,695		\$38,000	\$70,000	\$70,000
Mineral royalty auditing	(8,272)	1,710				
Total all funds	(\$68,930)	\$15,111	(\$6,244)	\$38,000	\$70,000	\$70,000
Less special funds	(22,232)	4,846				
General fund	(\$46,698)	\$10,265	(\$6,244)	\$38,000	\$70,000	\$70,000
FTE	0.00	0.00	0.00	0.00	1.00	1.00

	TOTAL SENATE CHANGES
Administration	(\$8,920)
Division of local gov. audits	(10,824)
Division of state audits	144,243
Mineral royalty auditing	(6,562)
Total all funds	\$117,937
Less special funds	(17,386)
General fund	\$135,323
FTE	2.00

Senate changes narrative:

In addition to the two percent annual salary increases, funding is included to provide the State Auditor with a market equity salary increase of \$285.58 per month for the final six months of the biennium. The statutory annual salary for the State Auditor will be:

Current salary	\$57,120
July 1, 1999	\$58,262
July 1, 2000	\$59,428
January 1, 2001	\$62,855

The amendment provides \$38,000 from the general fund to address the high turnover rate within the State Auditor's office.

The amendment also adds one FTE auditor position for a financial auditor to provide audits of the Mill and Elevator Association and the Veterans Home along with additional auditing resources for auditing the University System. The audits of the Mill and Elevator Association and the Veterans Home will generate an additional \$60,000 of departmental collections, which are deposited in the general fund, from the State Auditor's office.

The amendment adds one FTE performance auditor; six FTE performance auditors were removed in the executive budget. Of the six FTE removed, three were funded with federal funds which were not available. The one FTE position being restored is funded with general fund moneys.

1999 HOUSE APPROPRIATIONS

SB 2004

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 2004

House Appropriations Committee

Conference Committee

Hearing Date March 11, 1999

Tape Number	Side A	Side B	Meter #
2	x		7.9-42.5
Committee Clerk Signature	<i>Roxanne Stone</i>		

Minutes:

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor; and to amend and reenact section 54-10-10 of the North Dakota Century Code, relating to the salary of the state auditor.

2A: 7.9 Robert Peterson, State Auditor testified in support of the bill (See attached written testimony).

2A: 13.8 Rep. Poolman asked if the department does not have enough personnel to conduct audits. Replied yes. Rep. Poolman asked if it is required by statute to do audits. Replied it is not in statute. They follow government audit standards. Required to audit all books/records of agencies. Rep. Poolman asked if any of the audits are done externally by companies? Replied the Mill and Elevator and Veterans Home are paying to private firms to have audits done. The Senate added an amendment of \$70,000 to provide audits for both the Mill and Veterans Home. Difference of \$14,000.

2A: 25.5 Rep. Poolman asked for an explanation of 3 additional positions that were not funded last biennium regarding federal funds. Replied positions were to be funded by a federal grant through the Human Services. Did not get the grant. Three FTEs were never hired.

2A: 29.6 Rep. Poolman asked how often a performance audit needs to be done for an agency in statute. Replied there is nothing in statute but follow government standards of consistency and Interim Committees recommendations.

2A: 31.7 Rep. Tollefson discussion regarding Performance Auditor definition.

General Discussion

- Committee on Committees
- Rules Committee
- Confirmation Hearings
- Delayed Bills Committee
- House Appropriations
- Senate Appropriations
- Other

Date March 16, 1999			
Tape Number	Side A	B Side	Meter #
1	x		2.9-10.3
Committee Clerk Signature <i>Roxanne Kohl</i>			

Minutes:

Chairman Dalrymple opened the discussion on Senate Bill 2004.

Rep. Carlisle handed out amendments to the committee: take out one of the financial auditors, put back in two of the performance auditors, and removing the three information systems auditors: \$240,000 general funds less.

1A: 4.5 Rep. Byerly commented the performance auditors were far more important then the information systems auditor. Presentation of testimony was unclear as to what they were trying to accomplish.

1A: 6.5 Rep. Poolman commented on contracting out to outside sources to complete auditing. Will vote for amendment but thought presentation was poor by auditor's office.

1A: 8.5 Rep. Carlisle moved to adopt amendment 98026.0201. Rep. Huether 2nd the motion. On a voice vote the motion carried. Rep. Carlisle made a motion for a DO PASS AS AMENDED. Rep. Huether 2nd the motion. On a Roll Call Vote the motion carried. 5 voting Yes, 0 voting No, 1 voting Absent
Rep. Huether will carry the bill to the full committee.

General Discussion

- Committee on Committees
- Rules Committee
- Confirmation Hearings
- Delayed Bills Committee
- House Appropriations
- Senate Appropriations
- Other

Date March 17, 1999			
Tape Number	Side A	B Side	Meter #
1	x		14.8-48.5
Committee Clerk Signature <i>Casey Davis</i>			

Minutes:
SB 2004

CHAIRMAN DALRYMPLE opened the meeting.

IA: 14.8 REP. HUETHER presented the Government Operations subcommittee's recommendation for the bill and the proposed amendments 0201.

IA: 15.6 REP. HUETHER made a motion to adopt amendments 0201 to SB 2004. The motion was seconded by Rep. Byerly.

IA: 17.5 REP. TIMM asked if the removal of one financial auditor was a trade-off for the gain of \$10,000. Rep. Byerly replied that the audits are already being done. The position in question was an overflow position, and the subcommittee was not convinced that it was necessary.

IA: REP. NICHOLS brought up the issue of putting the performance auditor positions back in. He stated that performance audits do not yield much information. Rep. Byerly responded that those audits are to reassure the legislature that the funds are being spent properly.

IA: 20.9 REP. AARSVOLD said that he had served on the Audit and Fiscal Review committee, and feels that they would be better served to have an outside group come in to do the performance auditing because it is a political situation.

IA: 29.0 REP. AARSVOLD made a motion to remove the two performance auditor positions, reinstate one financial auditor position at \$70,000, and reinstate \$100,000 for contracting out performance audits. The motion was seconded by Rep. Nichols. A voice vote was taken and the motion failed.

IA: A voice vote was taken on the original motion to adopt the amendments. The motion carried.

IA: 45.7 REP. HUETHER made a motion for a Do Pass as amended. The motion was seconded by Rep. Byerly. A roll call vote was taken and the motion carried with 12 yeas and 8 nays. Rep. Huether will carry the bill.

Date: 3.16.99
 Roll Call Vote #: 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO. 2004

House APPROPRIATIONS - Government Operations Committee

Subcommittee on gov't operations
 or
 Conference Committee

Legislative Council Amendment Number 98026.0201

Action Taken DO PASS AS AMENDED

Motion Made By Carlisle Seconded By Huetner

Representatives	Yes	No	Representatives	Yes	No
Rex R. Byerly	✓				
Ron Carlisle	✓				
Ben Tollefson					
Robert Huether	✓				
Pam Guleson	✓				
Jim Poolman	✓				

Total (Yes) 5 No 0

Absent 1

Floor Assignment Rep. Huether

If the vote is on an amendment, briefly indicate intent:

Date: 3-17-99
 Roll Call Vote #: 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2004

House Appropriations Committee

Subcommittee on _____
 or
 Conference Committee

Legislative Council Amendment Number 0201

Action Taken Do Pass as amended

Motion Made By Huether Seconded By Byerly

Representatives	Yes	No	Representatives	Yes	No
Chairman Dalrymple	✓		Nichols		✓
Vice-Chairman Byerly	✓		Poolman	✓	
Aarsvold		✓	Svedjan	✓	
Bernstein	✓		Timm	✓	
Boehm	✓		Tollefson	✓	
Carlson		✓	Wentz	✓	
Carlisle	✓				
Delzer		✓			
Gulleson		✓			
Hoffner		✓			
Huether	✓				
Kerzman		✓			
Lloyd		✓			
Monson	✓				

Total (Yes) 12 No 8

Absent _____

Floor Assignment Huether

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2004, as engrossed: Appropriations Committee (Rep. Dalrymple, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (12 YEAS, 8 NAYS, 0 ABSENT AND NOT VOTING). Engrossed SB 2004 was placed on the Sixth order on the calendar.

Page 1, line 12, replace "3,852,274" with "3,612,274"

Page 1, line 14, replace "6,071,318" with "5,831,318"

Page 1, line 16, replace "4,120,812" with "3,880,812"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

DEPARTMENT 117 - STATE AUDITOR

HOUSE - This amendment makes the following changes:

	EXECUTIVE BUDGET	SENATE VERSION	HOUSE CHANGES	HOUSE VERSION
Administration	\$277,458	\$268,538		\$268,538
Division of local government audits	1,215,134	1,204,310		1,204,310
Division of state audits	3,708,031	3,852,274	(\$240,000)	3,612,274
Mineral royalty auditing	752,758	746,196		746,196
Total all funds	\$5,953,381	\$6,071,318	(\$240,000)	\$5,831,318
Less special funds	<u>1,967,892</u>	<u>1,950,506</u>		<u>1,950,506</u>
General fund	\$3,985,489	\$4,120,812	(\$240,000)	\$3,880,812
FTE	53.00	55.00	(2.00)	53.00

Detail of House changes to the Senate version includes:

	REMOVE 1 FTE FINANCIAL AUDITOR ADDED BY THE SENATE	ADD 2 FTE PERFORMANCE AUDITOR POSITIONS	REMOVE 3 FTE INFORMATION SYSTEM AUDITORS	REMOVE PERFORMANCE AUDITING CONTRACTING FUNDING	TOTAL HOUSE CHANGES
Administration					
Division of local government audits					
Division of state audits	(\$70,000) *	\$140,000 *	(\$210,000) *	(\$100,000) *	(\$240,000)
Mineral royalty auditing					
Total all funds	(\$70,000)	\$140,000	(\$210,000)	(\$100,000)	(\$240,000)
Less special funds					
General fund	(\$70,000)	\$140,000	(\$210,000)	(\$100,000)	(\$240,000)
FTE	(1.00)	2.00	(3.00)	0.00	(2.00)

House changes narrative:

* Removes one FTE financial auditor and \$70,000 from the general fund for a position added by the Senate. The removal of this position will decrease departmental collections by \$60,000 which are deposited in the general fund.

Adds two FTE performance auditors and \$140,000 of general fund moneys, removes three FTE information system auditors and \$210,000 of general fund moneys, and removes \$100,000 of general fund moneys which were to be used for contracting for performance audits.

The executive budget changed three FTE performance auditors to three FTE information system auditors and provided \$100,000 for contracting for performance auditors. The Senate restored one of the three FTE performance auditors. This amendment restores the remaining two FTE performance auditors and removes the contracting funds and the information system auditors.

1999 SENATE APPROPRIATIONS

CONFERENCE COMMITTEE

SB 2004

1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2004C

Senate Appropriations Committee

Conference Committee

Hearing Date April 7, 1999

Tape Number	Side A	Side B	Meter #
1	X		1-1040
Committee Clerk Signature <i>Kathy C. Kotteleroch</i>			

Minutes:

SENATOR NAADEN: Opened the conference committee on SB2004.

ROLL CALL: Present; Senator Naaden, Senator St. Aubyn, Senator Robinson, Representative Tollefson, Representative Byerly, Representative Huether.

REPRESENTATIVE BYERLY: Handed out an information listing of what the House changed and their rational. We had no problem with the concept of the Financial Auditor, we has a little doubt about whether this particular auditor indeed be increasing department collections by the \$60,000 in General funds as talked about. The State Mill and Elevator and Veterans Home are already being audited within the existing system, in our minds we had a little problem connecting with that one. We did put two Performance Auditors back. The Information Systems auditors, we had trouble in our hearing with this, the Auditor and the Information Auditor had a hard time explaining to our committee the rational of the Auditor. The \$100,000 on General funds to augment the Performance Auditors and that one was a typographical mistake, it was not supposed to come out in the amendment but, it did. That's one without questions, we would turnaround and take care of.

SENATOR ST. AUBYN: One thing I suggested before the meeting started was to restore one Financial Auditor, one Information Auditor and restoration of the \$100,000.

SENATOR NAADEN: Distributed an amendment that Senator Nething had prepared.

REPRESENTATIVE BYERLY: We see no problem with the amendment.

SENATOR ST. AUBYN: Would the House have problems with one Financial Auditor, one Information Auditor and the \$100,000?

REPRESENTATIVE BYERLY: As long as we retain the two Performance Auditor positions we would have no problem with that.

REPRESENTATIVE BYERLY: Moved that the House Recede from it's amendments and further amend the Senate amendment to add two Performance Auditor positions and remove two Information System Auditor positions and also incorporate the amendment given from Senator Nething and recognize the \$60,000 as income.

REPRESENTATIVE HUETHER: Seconded the motion.

ROLL CALL: 6 YEAS, 0 Nay, 0 ABSENT & NOT VOTING.

SENATOR NAADEN: Motion carried.

SENATOR NAADEN: Adjourned the conference committee hearing on SB2004.

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2004

That the House recede from its amendments as printed on pages 790-791 of the Senate Journal and pages 872-873 of the House Journal and that Engrossed Senate Bill No. 2004 be amended as follows:

Page 2, after line 2, insert:

"SECTION 4. STATEWIDE SINGLE AUDIT. The state auditor shall complete the North Dakota statewide single audit for fiscal years 1999 and 2000. The state auditor may not use additional contracted services above the amount of contracted services used to complete the statewide single audit for fiscal years 1997 and 1998."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

DEPARTMENT 117 - STATE AUDITOR

CONFERENCE COMMITTEE - This amendment adds a section requiring the State Auditor to complete the statewide single audit for fiscal years 1999 and 2000 without using more contracted services than were used to complete the fiscal years 1997 and 1998 statewide single audits.

JE3
4/8/99
LOF 2

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2004
CONF. COMMITTEE AMENDMENTS TO ENGR. SB 2004 APPROP. 4/8/99

That the House recede from its amendments as printed on pages 790 and 791 of the Senate Journal and pages 872 and 873 of the House Journal and that Engrossed Senate Bill No. 2004 be amended as follows:

Page 2, after line 2, insert:

"SECTION 4. STATEWIDE SINGLE AUDIT. The state auditor shall complete the North Dakota statewide single audit for fiscal years 1999 and 2000. The state auditor may not use additional contracted services above the amount of contracted services used to complete the statewide single audit for fiscal years 1997 and 1998."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

DEPARTMENT 117 - STATE AUDITOR

CONFERENCE COMMITTEE - This amendment makes the following changes:

	EXECUTIVE BUDGET	SENATE VERSION	CONFERENCE COMMITTEE CHANGES	CONFERENCE COMMITTEE VERSION	HOUSE VERSION	CONFERENCE COMPARISON TO HOUSE VERSION
Administration	\$227,458	\$268,538		\$268,538	\$268,538	
Division of local gov. audits	1,215,134	1,204,310		1,204,310	1,204,310	
Division of state audits	3,708,031	3,852,274		3,852,274	3,612,274	\$240,000
Mineral royalty auditing	<u>752,758</u>	<u>746,196</u>		<u>746,196</u>	<u>746,196</u>	
Total all funds	\$5,953,381	\$6,071,318	\$0	\$6,071,318	\$5,831,318	\$240,000
Less special funds	<u>1,967,892</u>	<u>1,950,506</u>		<u>1,950,506</u>	<u>1,950,506</u>	
General fund	\$3,985,489	\$4,120,812	\$0	\$4,120,812	\$3,880,812	\$240,000
FTE	53.00	55.00	0.00	55.00	53.00	2.00

Detail of Conference Committee changes to the Senate version includes:

	ADD 2 FTE PERFORMANCE AUDITOR POSITIONS	REMOVE 2 FTE INFORMATION SYSTEM AUDITORS	TOTAL CONFERENCE COMMITTEE CHANGES
Administration			
Division of local gov. audits			
Division of state audits	\$140,000 *	(\$140,000) *	
Mineral royalty auditing			
Total all funds	\$140,000	(\$140,000)	\$0
Less special funds			
General fund	\$140,000	(\$140,000)	\$0
FTE	2.00	(2.00)	0.00

*The amendment adds two FTE performance auditors and \$140,000 of general fund moneys and removes two FTE information system auditors and \$140,000 of general fund moneys.

This amendment also adds a section requiring the State Auditor to complete the statewide single audit for fiscal years 1999 and 2000 without using more contracted services than were used to complete the fiscal years 1997 and 1998 statewide single audits.

The amendment did not change the Senate's addition of one FTE financial auditor and the related increased general fund revenues (departmental collections) by \$60,000.

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REPORT OF CONFERENCE COMMITTEE

SB 2004, as engrossed: Your conference committee (Sens. Naaden, St. Aubyn, Robinson and Reps. Tollefson, Byerly, Huether) recommends that the **HOUSE RECEDE** from the House amendments on SJ pages 790-791, adopt further amendments as follows, and place SB 2004 on the Seventh order:

That the House recede from its amendments as printed on pages 790 and 791 of the Senate Journal and pages 872 and 873 of the House Journal and that Engrossed Senate Bill No. 2004 be amended as follows:

Page 2, after line 2, insert:

"SECTION 4. STATEWIDE SINGLE AUDIT. The state auditor shall complete the North Dakota statewide single audit for fiscal years 1999 and 2000. The state auditor may not use additional contracted services above the amount of contracted services used to complete the statewide single audit for fiscal years 1997 and 1998."

Re-number accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

DEPARTMENT 117 - STATE AUDITOR

CONFERENCE COMMITTEE - This amendment makes the following changes:

	EXECUTIVE BUDGET	SENATE VERSION	CONFERENCE COMMITTEE CHANGES	CONFERENCE COMMITTEE VERSION	HOUSE VERSION	CONFERENCE COMPARISON TO HOUSE VERSION
Administration	\$227,458	\$268,538		\$268,538	\$268,538	
Division of local gov. audits	1,215,134	1,204,310		1,204,310	1,204,310	
Division of state audits	3,708,031	3,852,274		3,852,274	3,612,274	\$240,000
Mineral royalty auditing	<u>752,758</u>	<u>746,196</u>		<u>746,196</u>	<u>746,196</u>	
Total all funds	\$5,953,381	\$6,071,318	\$0	\$6,071,318	\$5,831,318	\$240,000
Less special funds	<u>1,967,892</u>	<u>1,950,506</u>		<u>1,950,506</u>	<u>1,950,506</u>	
General fund	\$3,985,489	\$4,120,812	\$0	\$4,120,812	\$3,880,812	\$240,000
FTE	53.00	55.00	0.00	55.00	53.00	2.00

Detail of Conference Committee changes to the Senate version includes:

	ADD 2 FTE PERFORMANCE AUDITOR POSITIONS	REMOVE 2 FTE INFORMATION SYSTEM AUDITORS	TOTAL CONFERENCE COMMITTEE CHANGES
Administration			
Division of local gov. audits			
Division of state audits	\$140,000 *	(\$140,000) *	
Mineral royalty auditing			
Total all funds	\$140,000	(\$140,000)	\$0
Less special funds			
General fund	\$140,000	(\$140,000)	\$0
FTE	2.00	(2.00)	0.00

*The amendment adds two FTE performance auditors and \$140,000 of general fund moneys and removes two FTE information system auditors and \$140,000 of general fund moneys.

This amendment also adds a section requiring the State Auditor to complete the statewide single audit for fiscal years 1999 and 2000 without using more contracted services than were used to complete the fiscal years 1997 and 1998 statewide single audits.

The amendment did not change the Senate's addition of one FTE financial auditor and the related increased general fund revenues (departmental collections) by \$60,000.

Engrossed SB 2004 was placed on the Seventh order of business on the calendar.

1999 TESTIMONY

SB 2004

1/14/99

**TESTIMONY BEFORE THE
SENATE APPROPRIATIONS COMMITTEE**

January 14, 1999

Senate Bill No. 2004

Testimony - Presented by: Robert R. Peterson
State Auditor

	<u>Pages</u>
Slide Presentation	1 - 12
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ND State Auditor's Office SB 2004 Testimony

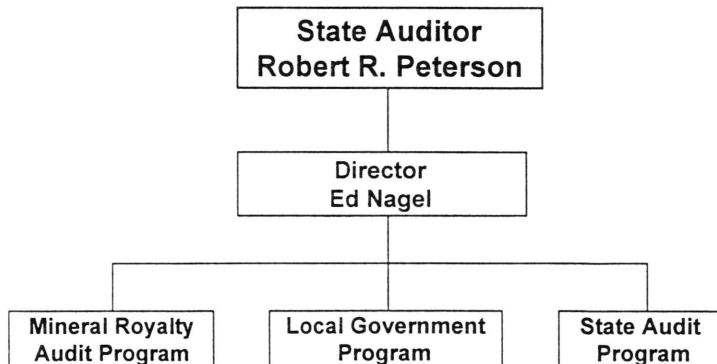
Presentation to Senate
Appropriations Committee

1999-2001 Appropriation Request

1

Organization

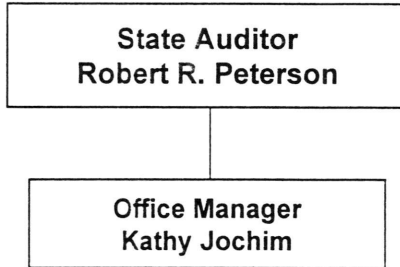
SB 2004 Recommendation 53 FTE \$5,953,381



2

Administration

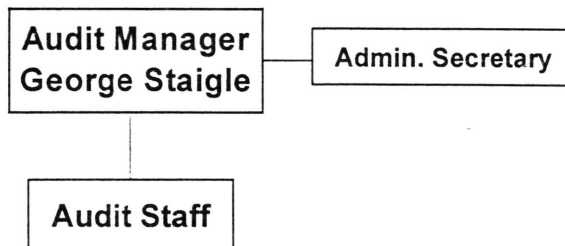
SB 2004 Funding 2 FTE \$277,458 (General Funds)



3

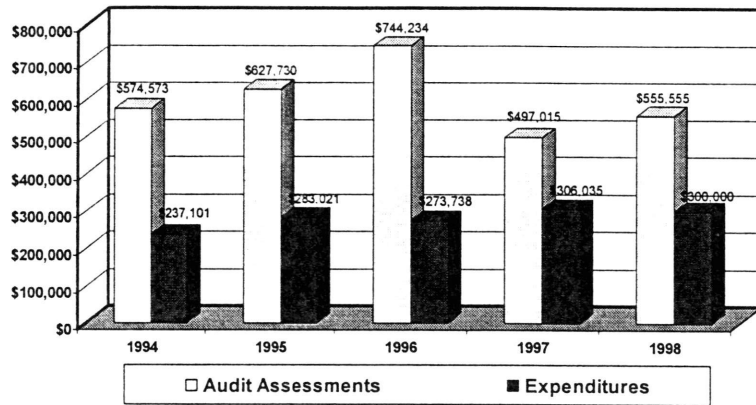
Mineral Royalty Audit Program

SB 2004 Funding 6 FTE \$752,758 (Federal Funds)



4

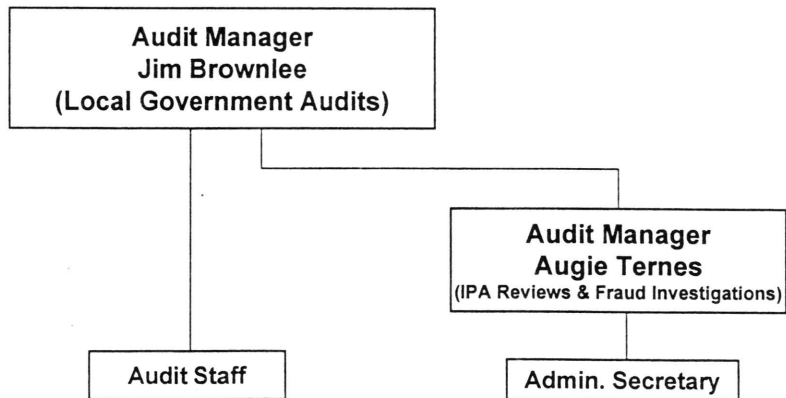
Mineral Royalty Audit Program



5

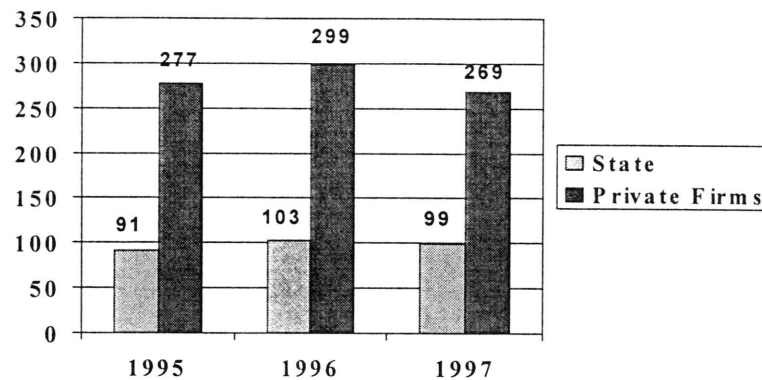
Local Government Program

SB 2004 Funding 11 FTE \$1,215,134 (Special Funds)



6

Local Government Audits



7

Local Government Program

- State Auditor's Office reviews about 700 annual reports in lieu of audits (NDCC Section 54-10-14)
- Investigates instances of fraud or embezzlement of public funds
- Since 1990 over \$1.1 million paid out of state bonding fund due to fraud or embezzlement in political subdivisions

8

State Audit Program

SB 2004 Funding 34 FTEs \$3,708,031 (General Funds)

Audit Manager
John Grettum, CPA
(University & Financial Audits - Fargo)

Audit Manager
Paul Welk, CPA
(CAFR Audit)

Technical Specialist
Ron Tolstad, CPA

Audit Manager
Gordy Smith, CPA
(Performance & Single Audit)

Audit Manager
Don LaFleur, CPA, CISA
(Information System Audits)

9

State Audit Program

- **Information Systems (IS) Audits**
- **Financial and Compliance Audits**
 - Audit 52 state agencies and 11 colleges and universities every 2 years
 - Annual audit of the ND University System
 - Annual audit of the State's CAFR
(Comprehensive Annual Financial Report)
 - Single Audit of federal assistance received by state agencies is performed every 2 years
- **Performance Audits**

10

Information System (IS) Audits

State-wide Systems Audited

- **General Control Audits:**
 - Information Services Division (ISD)
 - Higher Education Computer Network (HECN)
- **Application Control Audits:**
 - Statewide Accounting & Management Information System (SAMIS)
 - HECN
 - Central Payroll System

11

IS Audits Required

- **Department of Human Service Systems:**
 - Medical Management Information System (MMIS)
 - Technical Eligibility Computer System / Training, Education, Employment, and Management (TECS / TEEM)

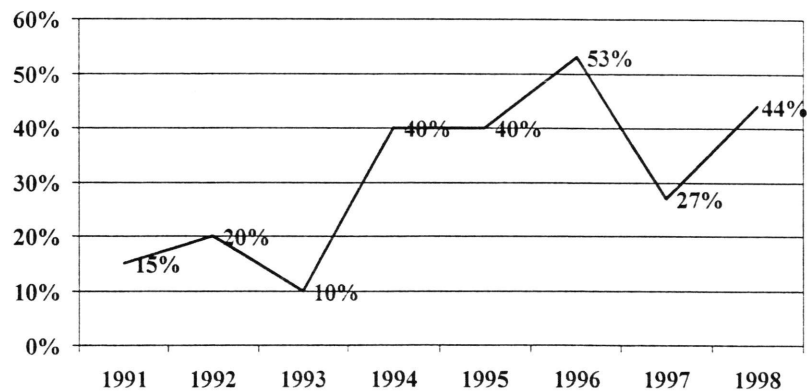
12

Other IS Audits Required

- DOT: Financial Accounting and Reporting Information System (FARIS)
- Tax Department Systems:
 - Tax Refunds
 - Motor Fuel Tax
- Public Instruction Systems:
 - Foundation Aid
 - Food Services

13

Bismarck Financial Auditor Turnover



14

Amendment Request

**Funding to Address
Turnover Problem**

\$38,000

15

Additional Financial Auditor

Annual Audit Costs

Mill & Elevator Association	\$14,000
Veteran's Home	<u>14,400</u>
	<u>\$28,400</u>

Total biennial costs	\$56,800
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**Additional resources will also be available
for auditing the University System where
audit demands continue to grow.**

16

Amendment Request

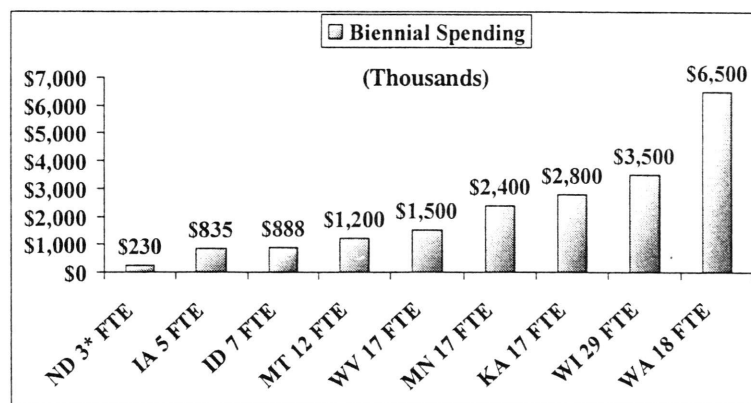
Add A Financial Auditor

\$70,000

To provide audits of the Mill & Elevator Association and the Veteran's Home along with additional resources for auditing the University System.

17

Performance Audit Resource Comparison



* 3 additional positions were funded with federal funds which were not made available.

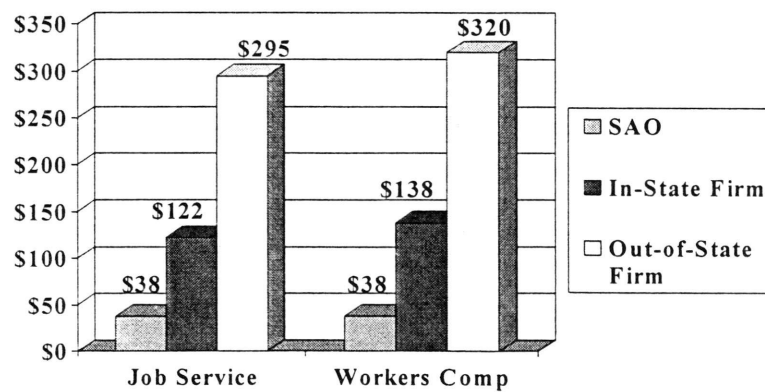
18

Performance Audits.

- The North Dakota Legislature established the performance audit function in 1991.
- The State Auditor has performed 14 performance audits since 1991.
- The State Auditor has over 34,000 hours of performance audit experience.
- The State Auditor's office is the expert in performance auditing.

19

Performance Audit Hourly Rates SAO Versus Contractors



20

Examples of Performance Audit Benefits

- Money saved based on Protection and Advocacy audit - \$500,000 per biennium since 1995- total of \$1,000,000 in general funds
- Money saved based on Children's Services Coordinating Committee audit \$450,000 of special funds during 97-99 biennium.

21

Amendment Request

Restore the State's Performance Audit Function

Funding of 6 Performance Auditors

\$420,000

**To provide more performance audits for the benefit of
state government and the legislature.**

22

SB 2004 Amendment Request

State Audit Amendments

	<u>FTE</u>	<u>Amount</u>	<u>Source</u>
Performance auditors	6	\$420,000	General
Funding to address Turnover		38,000	General
Financial auditor	<u>1</u>	<u>70,000</u>	General
Totals	<u>7</u>	<u>\$528,000</u>	

23



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITAL
600 E. BOULEVARD AVE. - DEPT. 117
BISMARCK, ND 58505

TESTIMONY BEFORE THE SENATE APPROPRIATIONS COMMITTEE

January 14, 1999

Senate Bill No. 2004

Testimony - Presented by Robert R. Peterson
State Auditor

PERFORMANCE MEASURES PILOT AGENCY

The Office of the State Auditor is one of the twelve pilot agencies involved in the performance measures budget project.

As part of the pilot project, we have spelled out the mission of our agency, and identified the goals and objectives that we are striving to accomplish.

Agency Mission - The mission of our agency is to provide efficient, quality audit services, with limited interruption to our client's operations, and to use the information gained from our audits to help state and local governmental units operate more efficiently and effectively for the benefit of the citizens of North Dakota.

Programs and Objectives - The activities of the Office of the State Auditor are carried out through four programs, each with a goal, objective, strategy, and performance measures. The following pages provide an overview of each of these programs.

PROGRAM 1 - ADMINISTRATION

- Goal - Provide leadership, oversight, and administrative services for the Office of the State Auditor.
- Objective - Coordinate and monitor the activities of the office.
- Strategy - Efficiently and effectively provide leadership, including strategic planning, oversight, and administrative services for the office.

Included as costs in this program are all expenses associated with the State Auditor and the office manager, which consist primarily of salaries, travel expenses, professional development expenses, and professional services costs which benefit all programs of the office.

The Governor's executive budget recommendation provides the necessary funding to successfully carry out the objective of this program.

PROGRAM 2 - MINERAL ROYALTY AUDITS

- Goal - Provide assurance that royalty payers are in compliance with federal laws, regulations, and lease terms applicable to federal mineral leases in the state.
- Objective - Audit the companies of lessees who are extracting minerals from federal leases located in North Dakota.
- Strategy - Perform risk analysis to select and audit leases in coordination with the Mineral Management Service's cycle of company audits.

This program was started in 1982, and in 1985 the federal government started funding the program 100 percent. This program is responsible for ensuring that the federal government and the State of North Dakota are receiving their share of royalty payments, for federal public domain leases located within the State. Royalty payments are made on oil, gas, and coal leases. There are currently 10 states and 6 Native American tribes participating in this program with the U.S. Department of Interior, Minerals Management Service.

The Governor's executive budget recommendation provides the necessary funding to successfully carry out the objective of this program.

PROGRAM 3 - LOCAL GOVERNMENT AUDITS

- Goal - Increase the accountability of state and local government units by insuring decision-makers have understandable, reliable, relevant, timely, and accurate information.
- Objective - Increase the accountability of local government units.
- Strategy - Audit political subdivisions, monitor audits performed by private firms, review reports submitted by small political subdivisions not subject to statutory audit requirements, and perform fraud audits.

Financial and Compliance Audits –

Section 54-10-14 of the North Dakota Century Code requires counties, cities, school districts, and other political subdivisions to be audited every two years. The governing board of these entities may select the Office of the State Auditor, or a public accounting firm to perform the audit. On an annual basis, our office performs about 100 audits, with public accounting firms doing about 275 local government audits.

Annual Reports of Small Entities –

Cities with less than 300 population, school districts with less than 100 enrolled students, and other political subdivisions with less than \$100,000 of annual receipts may file an annual report in lieu of an audit. These reports are reviewed and approved by our office. We review about 700 of these reports each year. Smaller local government reports reviewed include: park districts, special education districts, vocational and technical centers, and water resource districts.

Review of State Subrecipient Audit Reports –

This division also reviews audit reports of local governments receiving federal assistance from six state agencies. This service saves those state agencies from having to review the reports themselves. We reviewed about 200 reports in calendar year 1998 for these agencies.

With millions of dollars of federal assistance being passed every year from state agencies to political subdivisions, the review of CPA audit reports and working papers is a very important function of our office. Local governments, as a general rule, do not have the expertise needed to determine if their audits and related reports meet all applicable auditing standards.

The reviews by our office determine whether audits conducted by CPA firms comply with generally accepted government auditing standards. The U.S. Department of Health and Human Services, which is the cognizant agency for the State of North Dakota, has appointed the State Auditor as its designee to help them determine that audits of political subdivisions are performed in compliance with federal regulations.

If the political subdivisions do not comply with the applicable federal regulations, then the state agency which provided the federal funds is potentially liable for repaying those federal funds to the federal government.

Review of Alleged Fraud or Embezzlement –

This division is also responsible for investigating any alleged instances of fraud or embezzlement of public funds. Since June of 1990 we have investigated 40 instances of suspected fraud or embezzlement, resulting in total payments of approximately \$1.1 million from the State Bonding Fund. Before any state or local governmental entity can recover funds from the State Bonding Fund, our office must conduct an investigation and file a report with the State Bonding Fund.

The local government division is entirely self-funded. It operates on revenue generated by audit fees, fees charged for reviewing small government reports and private auditing firms' reports, as well as fees for fraud, embezzlement, or investigations.

The Governor's executive budget recommendation provides the necessary funding to successfully carry out the objective of this program.

PROGRAM 4 - STATE AUDITS

- Goal - Increase the accountability of state and local government units by insuring decision-makers have understandable, reliable, relevant, timely, and accurate information.
- Objective - Increase the accountability of state government.
- Strategy - Audit the State's financial statements and federal assistance, audit state agencies, conduct performance audits, and perform special projects including legislative requests.

Financial and Compliance Audits -

There are 52 state agency and 11 college or university audits that are performed by the State Auditor. In addition, the Office of the State Auditor performs an annual audit of the State's combined financial statements, and the ND University System's combined financial statements.

As of June 30, 1998 there are a total of 90 different state audits. Of that total, 25 audits are conducted by CPA firms. The Office of the State Auditor issues the audit contracts for 19 of the audits done by CPA firms.

The last type of financial audit done is the statewide single audit of federal assistance received by all state agencies. This audit is currently performed once every two years, and requires approximately 14,000 hours to complete.

Information Technology Audits -

Currently our information systems auditors audit computer applications (application control audits) and computer environments (general control audits). We have identified three major computer applications and two data centers which require audits. There are also a number of significant applications in the state that should receive audits. We have identified ten applications which cumulatively process billions of dollars in financial transactions each biennium. We have recently reviewed the three major applications and two data centers. With the additional IS staff proposed in the Governor's Executive Recommendation we will be able to audit these annually and also audit the other significant systems. Our information systems auditors are also responsible for helping

with computer assisted audit techniques, LAN administration, and handling all computer problems and support for the office, at three different locations.

Special Projects –

In addition to financial and performance audits, our office provides other services to state government and to legislators. We assist the Office of Management and Budget (OMB) in preparing the statewide financial statements, we help state agencies implement and adhere to policies issued by OMB, and we answer many questions from state agencies on state and federal laws and regulations. We are involved in monitoring approximately 25 audits of state agencies or programs that are performed by independent CPA firms. We answer questions and work on projects from various legislators, who are interested in specific aspects of various state agencies. Each of these services require a considerable amount of time and are performed almost on a daily basis. During fiscal year 1998 our office spent approximately 885 hours of management and staff time on significant special projects. This does not include the time we spent in responding to requests of other state agencies.

Performance Audits -

The authority and responsibility to conduct performance audits was provided by the 1991 Legislature. This special type of audit is much more comprehensive than a financial audit. *Governmental Auditing Standards* define a performance audit as an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action. The use of this type of audit is growing nationwide.

Performance audits cover the areas of compliance, efficiency, and effectiveness of programs administered by state agencies and institutions. The compliance aspect examines the adherence of administrators to state and federal laws and regulations, administrative policies, and other requirements and restrictions. The efficiency component is concerned with the manner in which an auditee uses its resources to generate services or products. The effectiveness component is concerned with determining the extent to which an auditee accomplishes its objectives, and ultimately, its goals.

Performance audits provide valuable, useful, and accurate information which benefits the auditee, government decision-makers, and the public. Some of the benefits derived from these reports include:

- identifying opportunities for eliminating waste and inefficiency;
- offering suggestions to improve policies, procedures, and organizational structures;
- determining whether the entity is complying with legal and regulatory requirements;
- providing an independent analysis of the appropriateness of an organization's goals;
- determining the accuracy and usefulness of information routinely generated and distributed by the entity;
- providing a basis for decisions on the allocation of resources; and
- identifying opportunities to improve the effectiveness of programs.

During the 1997-99 biennium, the Legislature authorized three additional performance auditors. The funding for those auditors was supposed to come from a grant that Human Services was applying for from the federal government. The grant for the three performance auditors didn't materialize and the Office of the State Auditor didn't hire for those three performance auditor positions.

My office currently has three full-time auditors conducting performance audits. During calendar years 1997 and 1998 performance audits were completed relating to: the Procurement System for State Agencies; the Procurement System for the North Dakota University System; the Status of Information Technology Projects; the Central Personnel System for State Agencies; and North Dakota Personnel Systems - North Dakota University System. These performance audits were directly responsible for significant improvements in the agencies and institutions involved. The users of these reports relied on them to make important decisions that resulted in improvements in efficiency and effectiveness of the entity's operations. Compliance with laws, rules, and regulations was also increased as a result of these audits.

The State Auditor's audits have been used by stakeholders in the past and we foresee this increasing in the future. The performance audit reports present the stakeholders with useful, accurate information. However, the ultimate beneficiaries of performance audits are the public. Increased efficiency of government agencies and programs has the potential for providing the public with more and better services at less cost. Increased effectiveness of programs means more relevant and improved services being available to those that need them.

If the executive budget remains unchanged, it means that only one performance audit will be done next biennium instead of the 4 or 5 performance audits that will be done by the Office of the State Auditor during the current biennium. Thus, the executive budget essentially eliminates the performance audit program created by the Legislature.

As State Auditor, I know it is inefficient to have private firms conduct performance audits instead of having the Office of the State Auditor continue to conduct them. This is exactly what the executive budget proposes. It eliminates the six performance auditor positions from the Office of the State Auditor and leaves \$100,000 to pay for consultants. We have prepared a graph that compares the cost of having the Office of the State Auditor conduct performance audits with the cost of having CPA firms conduct them. The figures are based on the hourly rates for the CPA firms who performed the Job Service and Workers Compensation performance audits. We also included the hourly rate of the one out-of-state CPA firm who bid on these two audits. As shown in the graph, the hourly cost of having in-state CPA firms conduct the performance audits

is over three times the hourly rate of the Office of the State Auditor. The hourly rate of the out-of-state CPA firm to do these audits would have been over eight times that of the Office of the State Auditor.

From a knowledge and experience standpoint, the Office of the State Auditor overshadows the private in-state audit firms. The in-state CPA firms have conducted a total of two performance audits. The Office of the State Auditor has conducted fourteen performance audits during the past seven years. The Office of the State Auditor has over 34,000 hours of performance audit experience, while the in-state firms have approximately 1,100 hours of experience.

Private firms do not have the knowledge of state government operations, legislative intent, laws, rules, and regulations.

The Office of the State Auditor conducts financial and federal audits of the vast majority of state agencies, colleges, and universities. As a result, we are able to use our knowledge of these entities to help us in determining the scope of our performance audits. The financial and federal audit staff share ideas and information gathered during their audits with the performance audit staff.

Past performance audits have identified methods to improve the efficiency and effectiveness of state government. As a result, the state has realized savings as well as increased efficiency and effectiveness.

For example, the Legislature was able to save approximately \$500,000 in general funds for each of the past two bienniums as a result of actions taken in response to the performance audit of Protection and Advocacy.

Another example is the action taken by the 1997 Legislature as a result of the performance audit on the Children's Services Coordinating Committee. The Legislature was able to reorganize aspects of the agency's operations and as a result was able to use approximately \$450,000 of refinancing monies to fund other related programs for the current biennium.

Past performance audits contain recommendations that have the potential to result in significant savings for state government.

For example, a performance audit report on Statewide Leasing contained information relating to the amount of funds used to lease building space throughout the state. The audit contained a recommendation that the Legislature study the advantages and disadvantages of constructing a state office building in Bismarck. The report identified significant savings (approximately \$5 million) which could be realized over thirty years if this building were constructed.

The performance audit of the Child Support Enforcement Program contained a recommendation regarding charging of interest on past due accounts. If this recommendation had been implemented, we estimated the agency could have collected over \$800,000 of interest assessments annually.

We will gladly provide copies of the above mentioned reports, or any of the other performance reports to the committee members.

We are the cheapest, we are the experts, and we've proven we can save the state money.

The national trend is for state government to expand into more performance auditing. According to information we obtained from the National Conference of State Legislatures, 45 states currently have a performance audit function in one form or another. A comparison of the amount of resources allocated to performance audits by North Dakota with other states shows that other states are dedicating significantly more resources to performance auditing.

1999-2001 BUDGET CONSIDERATIONS

We are asking to restore the 6 performance audit positions which were deleted in the Governor's Executive Budget recommendation, and to fund these positions with general fund dollars. Performance audits have proven to be useful to legislators and agencies, and we consistently have more requests for these types of audits, than we realistically can do.

Employee turnover for our Bismarck financial auditors is much higher than we can tolerate. While turnover has been too high for many years, the last few years have been especially bad. We have 16 financial auditor positions in the Bismarck office, and in calendar years 1997 and 1998 we had a total of 11 resignations. The length of employment of the people who left varied from 3 months to 10 years, with most people having an average of just over 2 years of experience. We are requesting an additional \$38,000 to increase the salaries of our middle level auditors, to reduce the rate of turnover.

Finally, we are requesting another FTE for a financial auditor in our Fargo office. With another person we can take back the Mill & Elevator and Veteran's Home audits, which were done in the past by our office. These two audits are currently done by private CPA firms for approximately \$57,000 a biennium. We will also be able to use this additional auditor to spend more time auditing the University System.

WE ARE REQUESTING THE FOLLOWING AMENDMENTS BE MADE TO
SENATE BILL NO. 2004:

1. Add \$420,000 of general funds for performance auditors, and to increase the authorized FTEs by 6.
2. Add \$38,000 of general funds for salary adjustments to reduce the turnover rate.
3. Add \$70,000 of general funds and 1 FTE for an additional financial auditor.

PROPOSED AMENDMENTS TO SENATE BILL NO. 2004

Page 1, line 12, replace "3,708,031" with "4,236,031"

Page 1, line 14, replace "\$5,953,381" with "\$6,481,381"

Page 1, line 16, replace "\$3,985,489" with "\$4,513,489"

Renumber accordingly

Bismarck Financial Auditor Resignations

Calendar Years 1996, 1997 and 1998

<u>Employee</u>	<u>Auditor Level</u>	<u>Date Position Vacated</u>	<u>Employee Went To</u>
T. Senger	Aud. 1	Feb-96	Private sector
V. Nemmers	Aud. 2	Feb-96	Private sector
S. Olsen	Aud. 2	Mar-96	Private sector
K. Leier	Aud. 4	Apr-96	Dept. of Corrections
T. Jacobson	Aud. 4	Apr-96	Dept. of Human Services
E. Holwegner	Aud. 4	May-96	OMB
D. Perkins	Aud. 1	Aug-96	Private sector
P. Schell	Aud. 2	Dec-96	Attorney General Office
J. Sprynzynatyk	Aud. 2	Jan-97	Private sector
C. Southam	Aud. 1	Jan-97	Private sector
J. Huber	Aud. 1	Jun-97	Private sector
R. Skarphol	Aud. 2	Aug-97	Private sector
B. Brash	Aud. 2	Apr-98	Health Dept.
L. Froelich	Aud. 2	May-98	Private sector
C. Engelhard	Aud. 3	Jun-98	Econ. Dev. & Finance
H. Brand	Aud. 3	Jul-98	Dept. of Human Services
L. Senne	Aud. 5	Sep-98	Private sector
T. Weil	Aud. 4	Nov-98	Private sector
T. Dockter	Aud. 1	Dec-98	Private sector

WITH THE EXCEPTION OF THE ATTACHED PAGES THIS TESTIMONY
IS THE SAME AS GIVEN TO THE SENATE.

**TESTIMONY BEFORE THE
HOUSE APPROPRIATIONS COMMITTEE**
Government Operations Division

March 11, 1999

Engrossed Senate Bill No. 2004

Testimony - Presented by: Robert R. Peterson
State Auditor

	<u>Pages</u>
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ND State Auditor's Office Engrossed SB 2004 Testimony

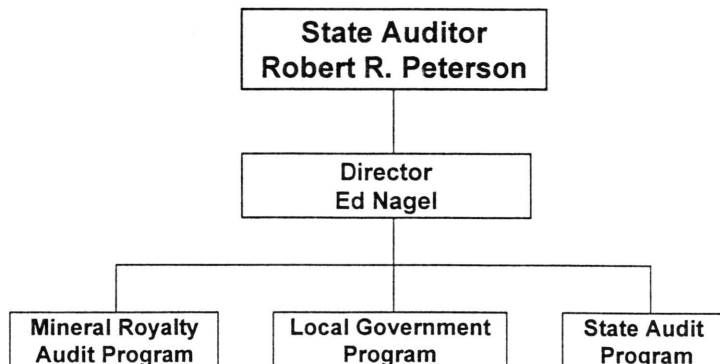
Presentation to House
Appropriations Committee
Government Operations Division

1999-2001 Appropriation Request

1

Organization

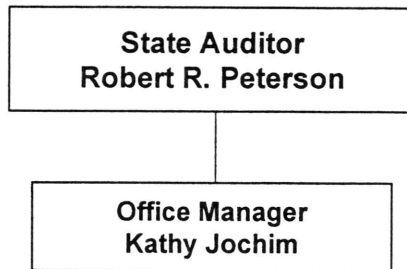
Engrossed SB 2004 Funding 55 FTE \$6,071,318



2

Administration

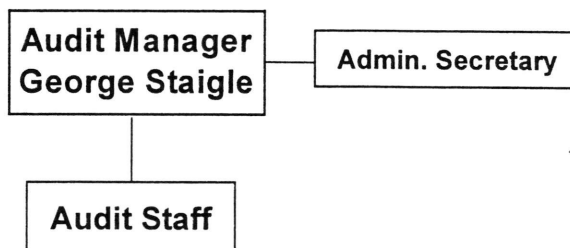
Engrossed SB 2004 Funding 2 FTE \$268,538 (General Funds)



3

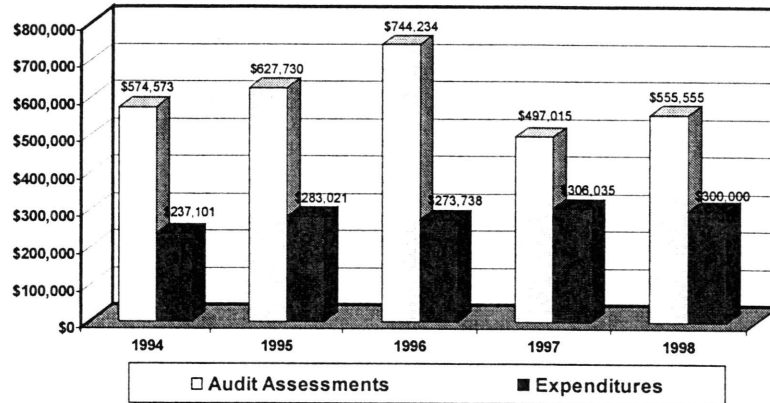
Mineral Royalty Audit Program

Engrossed SB 2004 Funding 6 FTE \$746,196 (Federal Funds)



4

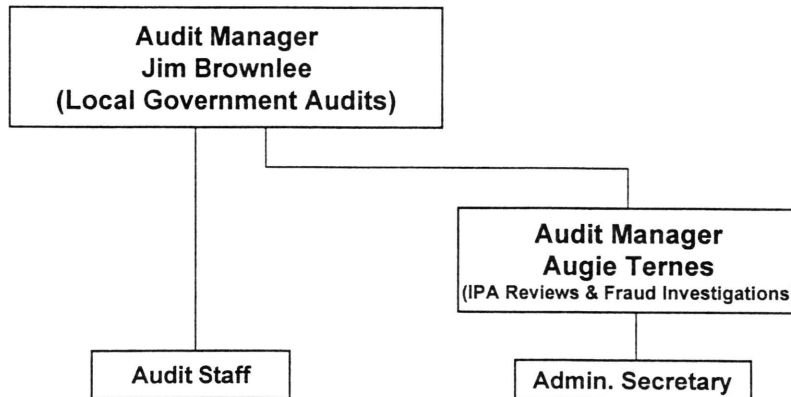
Mineral Royalty Audit Program



5

Local Government Program

Engrossed SB 2004 Funding 11 FTE \$1,204,310 (Special Funds)



6

State Audit Program

Engrossed SB 2004 Funding 36 FTEs \$3,852,274 (General Funds)

Audit Manager
John Grettum, CPA
(University & Financial Audits - Fargo)

Audit Manager
Paul Welk, CPA
(CAFR Audit)

Technical Specialist
Ron Tolstad, CPA

Audit Manager
Gordy Smith, CPA
(Performance & Single Audit)

Audit Manager
Don LaFleur, CPA, CISA
(Information System Audits)

9

State Audit Program

- **Information Systems (IS) Audits**
- **Financial and Compliance Audits**
 - Audit 52 state agencies and 11 colleges and universities every 2 years
 - Annual audit of the ND University System
 - Annual audit of the State's CAFR (Comprehensive Annual Financial Report)
 - Single Audit of federal assistance received by state agencies is performed every 2 years
- **Performance Audits**

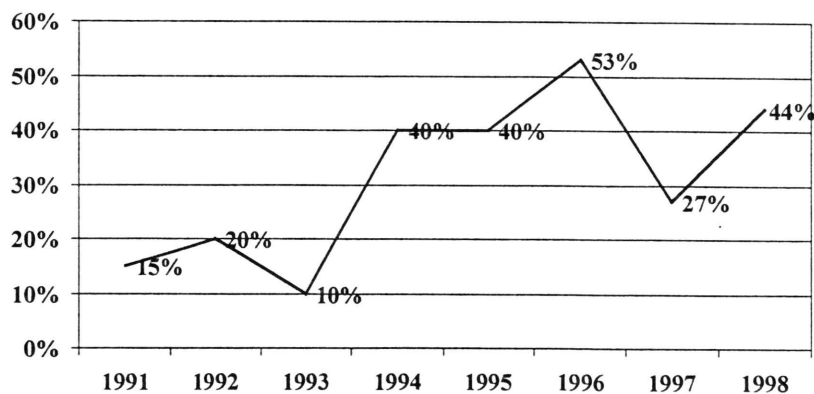
10

Other I.S. Audits Required

- **Dept. of Transportation:**
 - Financial Accounting and Reporting Information System (FARIS)
- **Tax Department:**
 - Tax Refunds
- **Dept. of Public Instruction:**
 - Foundation Aid
- **ND University System:**
 - Payroll

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Bismarck Financial Auditor Turnover



14

Senate Amendment

The Senate decided to address our serious turnover problem by adding \$38,000 to the executive budget.

15

Additional Financial Auditor

Annual Audit Costs

Mill & Elevator Association	\$14,000
Veteran's Home	<u>14,400</u>
	<u>\$28,400</u>
 Total biennial costs	 \$56,800

Additional resources will also be available for auditing the University System where audit demands continue to grow.

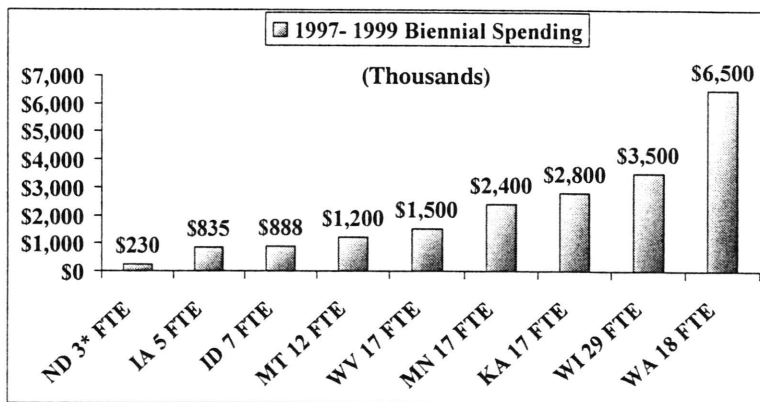
16

Senate Amendment

The Senate decided to add \$70,000 to the executive budget to provide for audits of the Mill & Elevator Association and the Veteran's Home along with additional resources for auditing the University System.

17

Performance Audit Resource Comparison



* 3 additional positions were funded with federal funds which were not made available.

18

Examples of Performance Audit Benefits

- **Money saved based on Protection and Advocacy audit - \$500,000 per biennium since 1995- total of \$1,000,000 in general funds**
- **Money saved based on Children's Services Coordinating Committee audit \$450,000 of special funds during 97-99 biennium.**

21

Amendment Request

Restore the State's Performance Audit Function

Funding of 5 Performance Auditors

\$350,000

**To provide more performance audits for the benefit of
state government and the legislature.**

22

Engrossed SB 2004 Amendment Request

State Audit Amendment

	<u>FTE</u>	<u>Amount</u>	<u>Source</u>
Performance auditors	5	\$350,000	General

PROGRAM 1 - ADMINISTRATION

- Goal - Provide leadership, oversight, and administrative services for the Office of the State Auditor.
- Objective - Coordinate and monitor the activities of the office.
- Strategy - Efficiently and effectively provide leadership, including strategic planning, oversight, and administrative services for the office.

Included as costs in this program are all expenses associated with the State Auditor and the office manager, which consist primarily of salaries, travel expenses, professional development expenses, and professional services costs which benefit all programs of the office.

Senate Bill No. 2004, as engrossed, provides the necessary funding to successfully carry out the objective of this program.

With millions of dollars of federal assistance being passed every year from state agencies to political subdivisions, the review of CPA audit reports and working papers is a very important function of our office. Local governments, as a general rule, do not have the expertise needed to determine if their audits and related reports meet all applicable auditing standards.

The reviews by our office determine whether audits conducted by CPA firms comply with generally accepted government auditing standards. The U.S. Department of Health and Human Services, which is the cognizant agency for the State of North Dakota, has appointed the State Auditor as its designee to help them determine that audits of political subdivisions are performed in compliance with federal regulations.

If the political subdivisions do not comply with the applicable federal regulations, then the state agency which provided the federal funds is potentially liable for repaying those federal funds to the federal government.

Review of Alleged Fraud or Embezzlement –

This division is also responsible for investigating any alleged instances of fraud or embezzlement of public funds. Since June of 1990 we have investigated 40 instances of suspected fraud or embezzlement, resulting in total payments of approximately \$1.1 million from the State Bonding Fund. Before any state or local governmental entity can recover funds from the State Bonding Fund, our office must conduct an investigation and file a report with the State Bonding Fund.

The local government division is entirely self-funded. It operates on revenue generated by audit fees, fees charged for reviewing small government reports and private auditing firms' reports, as well as fees for fraud, embezzlement, or investigations.

Senate Bill No. 2004, as engrossed, provides the necessary funding to successfully carry out the objective of this program.

PROGRAM 4 - STATE AUDITS

- Goal - Increase the accountability of state and local government units by insuring decision-makers have understandable, reliable, relevant, timely, and accurate information.
- Objective - Increase the accountability of state government.
- Strategy - Audit the State's financial statements and federal assistance, audit state agencies, conduct performance audits, and perform special projects including legislative requests.

Financial and Compliance Audits -

There are 52 state agency and 11 college or university audits that are performed by the State Auditor. In addition, the Office of the State Auditor performs an annual audit of the State's combined financial statements, and the ND University System's combined financial statements.

As of June 30, 1998 there are a total of 90 different state audits. Of that total, 25 audits are conducted by CPA firms. The Office of the State Auditor issues the audit contracts for 19 of the audits done by CPA firms.

The last type of financial audit done is the statewide single audit of federal assistance received by all state agencies. This audit is currently performed once every two years, and requires approximately 14,000 hours to complete.

Information Technology Audits –

Currently our information systems auditors audit computer applications (application control audits) and computer environments (general control audits). We have identified three major computer applications and two data centers which require audits. There are also a number of significant applications in the state that should receive audits. We have identified ten significant applications which have never been audited. These ten applications cumulatively process billions of dollars in financial transactions each biennium. We have recently reviewed the three major applications and two data centers. With the additional IS staff proposed in the Governor's Executive Recommendation we will be able to audit all significant financial applications in a timely

manner. Our information systems auditors are also responsible for helping with computer assisted audit techniques, LAN administration, and handling all computer problems and support for the office, at three different locations.

Special Projects –

In addition to financial and performance audits, our office provides other services to state government and to legislators. We assist the Office of Management and Budget (OMB) in preparing the statewide financial statements, we help state agencies implement and adhere to policies issued by OMB, and we answer many questions from state agencies on state and federal laws and regulations. We are involved in monitoring approximately 25 audits of state agencies or programs that are performed by independent CPA firms. We answer questions and work on projects from various legislators, who are interested in specific aspects of various state agencies. Each of these services require a considerable amount of time and are performed almost on a daily basis. During fiscal year 1998 our office spent approximately 885 hours of management and staff time on significant special projects. This does not include the time we spent in responding to requests of other state agencies.

Performance Audits -

The authority and responsibility to conduct performance audits was provided by the 1991 Legislature. This special type of audit is much more comprehensive than a financial audit. *Governmental Auditing Standards* define a performance audit as an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action. The use of this type of audit is growing nationwide.

My office currently has three full-time auditors conducting performance audits. During calendar years 1997 and 1998 performance audits were completed relating to: the Procurement System for State Agencies; the Procurement System for the North Dakota University System; the Status of Information Technology Projects; the Central Personnel System for State Agencies; and North Dakota Personnel Systems - North Dakota University System. These performance audits were directly responsible for significant improvements in the agencies and institutions involved. The users of these reports relied on them to make important decisions that resulted in improvements in efficiency and effectiveness of the entity's operations. Compliance with laws, rules, and regulations was also increased as a result of these audits.

The State Auditor's audits have been used by stakeholders in the past and we foresee this increasing in the future. The performance audit reports present the stakeholders with useful, accurate information. However, the ultimate beneficiaries of performance audits are the public. Increased efficiency of government agencies and programs has the potential for providing the public with more and better services at less cost. Increased effectiveness of programs means more relevant and improved services being available to those that need them.

As State Auditor, I know it is inefficient to have private firms conduct performance audits instead of having the Office of the State Auditor continue to conduct them. This is exactly what Engrossed SB 2004 does. It eliminates five performance auditor positions from the Office of the State Auditor and leaves one auditor and \$100,000 to pay for consultants. We have prepared a graph that compares the cost of having the Office of the State Auditor conduct performance audits with the cost of having CPA firms conduct them. The figures are based on the hourly rates for the CPA firms who performed the Job Service and Workers Compensation performance audits. We also included the hourly rate of the one out-of-state CPA firm who bid on these two audits. As shown in the graph, the hourly cost of having in-state CPA firms conduct the performance audits is over three times the hourly rate of the Office of the State Auditor. The hourly rate of the out-of-state CPA firm to do these audits would have been over eight times that of the Office of the State Auditor.

From a knowledge and experience standpoint, the Office of the State Auditor overshadows the private in-state audit firms. The in-state CPA firms have conducted a total of two performance audits. The Office of the State Auditor has conducted fourteen performance audits during the past seven years. The Office of the State Auditor has over 34,000 hours of performance audit experience, while the in-state firms have approximately 1,100 hours of experience.

Private firms do not have the knowledge of state government operations, legislative intent, laws, rules, and regulations.

The Office of the State Auditor conducts financial and federal audits of the vast majority of state agencies, colleges, and universities. As a result, we are able to use our knowledge of these entities to help us in determining the scope of our performance audits. The financial and federal audit staff share ideas and information gathered during their audits with the performance audit staff.

Past performance audits have identified methods to improve the efficiency and effectiveness of state government. As a result, the state has realized savings as well as increased efficiency and effectiveness.

For example, the Legislature was able to save approximately \$500,000 in general funds for each of the past two bienniums as a result of actions taken in response to the performance audit of Protection and Advocacy.

Another example is the action taken by the 1997 Legislature as a result of the performance audit on the Children's Services Coordinating Committee. The Legislature was able to reorganize aspects of the agency's operations and as a result was able to use approximately \$450,000 of refinancing monies to fund other related programs for the current biennium.

Past performance audits contain recommendations that have the potential to result in significant savings for state government.

For example, a performance audit report on Statewide Leasing contained information relating to the amount of funds used to lease building space throughout the state. The audit contained a recommendation that the Legislature study the advantages and disadvantages of constructing a state office building in Bismarck. The report identified significant savings (approximately \$5 million) which could be realized over thirty years if this building were constructed.

The performance audit of the Child Support Enforcement Program contained a recommendation regarding charging of interest on past due accounts. If this recommendation had been implemented, we estimated the agency could have collected over \$800,000 of interest assessments annually.

We will gladly provide copies of the above mentioned reports, or any of the other performance reports to the committee members.

We are the lowest cost, we are the experts, and we've proven we can save the state money.

The national trend is for state government to expand into more performance auditing. According to information we obtained from the National Conference of State Legislatures, 45 states currently have a performance audit function in one form or another. A comparison of the amount of resources allocated to performance audits by North Dakota with other states shows that other states are dedicating significantly more resources to performance auditing.

1999-2001 BUDGET CONSIDERATIONS

We are asking to restore the 5 performance audit positions which have been deleted from the current budget, and to fund these positions with general fund dollars. Performance audits have proven to be useful to legislators and agencies, and we consistently have more requests for these types of audits, than we realistically can do.

**WE ARE REQUESTING THE FOLLOWING AMENDMENT BE MADE TO
ENGROSSED SENATE BILL NO. 2004:**

- 1. Add \$350,000 of general funds for performance auditors, and to increase the authorized FTEs by 5.**

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2004

Page 1, line 12, replace "3,852,274" with "4,202,274"

Page 1, line 14, replace "\$6,071,318" with "\$6,421,318"

Page 1, line 16, replace "\$4,120,812" with "\$4,470,812"

Renumber accordingly

Bismarck Financial Auditor Resignations

Calendar Years 1996, 1997 and 1998

<u>Employee</u>	<u>Auditor Level</u>	<u>Date Position Vacated</u>	<u>Employee Went To</u>
T. Senger	Aud. 1	Feb-96	Private sector
V. Nemmers	Aud. 2	Feb-96	Private sector
S. Olsen	Aud. 2	Mar-96	Private sector
K. Leier	Aud. 4	Apr-96	Dept. of Corrections
T. Jacobson	Aud. 4	Apr-96	Dept. of Human Services
E. Holwegner	Aud. 4	May-96	OMB
D. Perkins	Aud. 1	Aug-96	Private sector
P. Schell	Aud. 2	Dec-96	Attorney General Office
J. Sprynzynatyk	Aud. 2	Jan-97	Private sector
C. Southam	Aud. 1	Jan-97	Private sector
J. Huber	Aud. 1	Jun-97	Private sector
R. Skarphol	Aud. 2	Aug-97	Private sector
B. Brash	Aud. 2	Apr-98	Health Dept.
L. Froelich	Aud. 2	May-98	Private sector
C. Engelhard	Aud. 3	Jun-98	Econ. Dev. & Finance
H. Brand	Aud. 3	Jul-98	Dept. of Human Services
L. Senne	Aud. 5	Sep-98	Private sector
T. Weil	Aud. 4	Nov-98	Private sector
T. Dockter	Aud. 1	Dec-98	Private sector

From: Gordy L. Smith/ISD/NoDak@Hub on 03/22/99 03:47 PM
To: John M. Dorso/NDLC/NoDak@NoDak, Gary J. Nelson/NDLC/NoDak@NoDak
cc:
Subject: good afternoon!

Gentlemen, I realize how busy both of you must be at this time, so I decided that perhaps I would email both of you in order to save you time. The State Auditor's Office appropriation bill (2004) was passed on the House floor this afternoon. Gary you will note that the House made some significant changes to the Senate version of our bill. On the positive side, the House added back in two performance auditor positions (as we discussed in our meeting in Gary's office with both of you and Rod Backman). However the House made some cuts to the Senate version of our bill. These include:

a) cutting the \$100,000 we had requested for consultants for performance auditors (the Senate provided us this funding and Rod Backman agreed it was important.) John, you have previously supported this concept and I believe it is crucial to have this funding to enable us to ensure performance audits focus more on the technical aspects of the agencies we audit. This will help us offer recommendations which will save the state money and increase the efficiency and effectiveness of the agency audited.

b) cutting the 3 Information System auditors which the Governor's budget and the Senate version of our bill had included. I'm confident that if given the chance we can support including funding for these positions in our bill. I don't believe we did as good a job of presenting this to the House as we could have. However I feel I should inform both of you that if you are unable to find funding for this, the State Auditor's Office will find itself in a dilemma. The work these auditors will perform is required by the auditing standards.

c) cutting the additional financial auditor in the Fargo office. I would like to comment that Representative Byerly in his discussion on the House floor regarding our bill indicated he cut this position because the person was also going to be doing some political subdivision audits. Rex must be confused because that statement is false. This position would enable us to audit the Veteran's Home and the State Mill (which are currently audited by CPA firms at a biennial cost of \$57,000). This position was also going to spend time conducting additional audit steps on the University System. The position was funded at \$70,000....which after we deposit our audit fees of \$57,000 to the state general fund translates into a net cost of only \$13,000.

I would welcome the opportunity to speak with members of the conference committee or to each of you at your convenience if they or you desire additional information on these issues. Thank you for your past and current support of the State Auditor's Office and I appreciate the time both of you have spent with me during this session. If there is anything that I can do to bring additional light to these issues, please feel free to ask. Thanks!

3-24-99

100,000 Needs To Stay -
3 FTE Information System Auditors should stay -
1 Financial Auditor - Senate added - question is who
see it the best.
Added 2 FTE Performance Aud. - should stay -