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Deanna Bell
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10/2/03
Date

2003 HOUSE POLITICAL SUBDIVISIONS

HB 1187

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10/2/03
Date

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1187

House Political Subdivisions Committee

Conference Committee

Hearing Date: January 23, 2003 10:00 am

Tape Number	Side A	Side B	Meter #
1	X		43.0-52.9
1		X	0.0-15.9
Committee Clerk Signature <i>Mickie Schmidt</i>			1-27-03

Minutes:

***TAPE 1: SIDE A:**

(43.0) REP. GLEN FROSETH: We will now open the hearing on HB 1187.

(44.8) REP. RON IVERSON: Testified in support of HB 1187. (See attachment #1)

(48.6) REP. MARY EKSTROM: Are we illuminating the State Auditors audits?

(48.8) REP. RON IVERSON: There is nothing in this Bill that prohibits the State Auditors from bidding on political subdivision audits.

(49.6) REP. CAROL NIEMEIER: What numbers do you have on how the savings on salaries, of possible 9 FTE's would compare to the loss of audit income.

(50.0) REP. RON IVERSON: I do not have that information for you but can get it for you. I would contend that the savings that we would have from the auditory to private firms, would be more significant.

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Page 2
House Political Subdivisions Committee
Bill/Resolution Number HB 1187
Hearing Date January 23, 2003

(50.7) REP. BRUCE ECKRE: In your opinion, have the State Auditor not do a good job at a fair price?

(51.1) REP. RON IVERSON: Absolutely not! I think they do a fine job. I don't have a rant against the Auditors Office. I'm looking at the budget. I thought this was one area where we could save money.

(52.9) REP. GLEN FROSETH: You said this does not prohibit the State Auditor from bidding on audits, but the language on page 2, line 45, sounds to me like the political subdivision must be audited by the public.

(0.0) *TAPE 1; SIDE B:

(3.9) REP. ANDREW MARAGOS: Why would you want to take any option away from any governing body, when we always say that the best decisions are made at the local level.

(4.3) REP. RON IVERSON: What I'm doing exactly the opposite. I'm giving them the option to be audited by any CPA they wish.

(4.5) REP. ANDREW MARAGOS: Read current law: "A political subdivision at the option of it's governing bodies may be audited by a certified public accountant or a licensed accountant rather than by the State Auditors".

(4.7) REP. RON IVERSON: If you look that page over at the very beginning, it says that a political subdivision must be audited by the state auditor. If we go by that portion of the law, then they all have to be audited by the state auditor.

(7.2) BOB PETERSON; STATE AUDITOR: Testified in opposition of HB 1187. (See attachment #2)

(9.4) REP. GLEN FROSETH: What percent of the court subdivisions are used?

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House Political Subdivisions Committee
Bill/Resolution Number HB 1187
Hearing Date January 23, 2003

(9.5) BOB PETERSON: In year ending 2002, State Auditor's office did 103 audits.

Independent Public Accountants did 285 audits. We did about 27% and they did about 73%. We do charge a fee to review them.

(10.2) REP. MARY EKSTROM: Is there anything else that we can do with your operations that includes introduce more efficiency?

(10.6) BOB PETERSON: Not at this time. I think it's up to the governing board to make their own decisions. It's their dollars and they represent those taxpayers.

(11.6) REP. ANDREW MARAGOS: Does the figure of the 1.4 million in fraud claims, do you think those would have been paid out regardless? In your statement you said the Bureau of Criminal Investigation conducts fraud analysis. Are you stating that because the State Auditor had a hand in helping uncover these fraud claims?

(12.3) BOB PETERSON: Quite possibly. As our population diminishes, we end up with internal control problems.

(14.5) REP. MIKE GROSZ: This precludes the State Auditors from doing audits. Do you have an unfair advantage over others whom are bidding for these jobs?

(15.1) BOB PETERSON: Not in bidding. A firm can take a loss. We're not trying to make a profit out of these. That's our advantage.

(15.6) REP. GLEN FROSETH: Further opposition on HB 1187? Hearing none we'll close this hearing on HB 1187.

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1/23/03
Date

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1187

House Political Subdivisions Committee

Conference Committee

Hearing Date: January 23, 2003 3:00 PM

Tape Number	Side A	Side B	Meter #
2		X	9.6-14.8
Committee Clerk Signature <i>Micki Schmidt</i>			3-5-03

Minutes:

TAPE 2: SIDE B:

(9.6) CHAIRMAN GLEN FROSETH: Let's take a look at HB 1187.

(9.7) REP. RON IVERSON: It was my intent to help the state government. Legislative Council told me that the auditor would be able to compete on this but, as it's written right now, it would look like that is not the case. I will support this.

(11.6) REP. MARY EKSTROM: I WOULD MOVE A DO NOT PASS.

(11.6) REP. CAROL NIEMEIER: I SECOND IT.

(11.7) CHAIRMAN GLEN FROSETH: Any discussion?

(12.4) REP. ANDREW MARAGOS: I agree with your philosophy about moving as much business into the private sector as possible with one caviar, that it doesn't crunch with subdivisions or anybody for that purpose, because that's not fair.

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Page 2
House Political Subdivisions Committee
Bill/Resolution Number HB 1187
Hearing Date: January 23, 2003

(12.7) REP. NANCY JOHNSON: It's still going to be public money paying, because it's all passing authority. It's either going to be the State Auditor putting money back to the subdivision or the subdivision putting out to the community, it's still going to be the public paying for it.

(13.2) CHAIRMAN GLEN FROSETH: Any further discussion? Hearing none, I will have the clerk take the Roll Call Vote: 12-y; 1-n; 1-absent; Carrier: Rep. Grosz. (14.8)

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1/2/03
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FISCAL NOTE
 Requested by Legislative Council
 01/13/2003

REVISION

Bill/Resolution No.: HB 1187

1A. State fiscal effect: Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.

	2001-2003 Biennium		2003-2005 Biennium		2005-2007 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$186,000	(\$1,252,923)	\$186,000	\$0
Expenditures	\$0	\$0	\$0	(\$1,252,923)	\$0	\$0
Appropriations	\$0	\$0	\$0	(\$1,252,923)	\$0	\$0

1B. County, city, and school district fiscal effect: Identify the fiscal effect on the appropriate political subdivision.

2001-2003 Biennium			2003-2005 Biennium			2005-2007 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
\$0	\$0	\$0	\$9,999,999	\$9,999,999	\$9,999,999	\$9,999,999	\$9,999,999	\$9,999,999

2. Narrative: Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.

Lines 6 through 12 on page 2 of HB No. 1187 eliminate the State Auditor's operating account which is used for funding audits of political subdivisions, by the State Auditor's Office.

Lines 24 and 25 on page 2 of HB No. 1187 would prohibit the State Auditor from conducting political subdivision audits.

Assuming that CPA firms do the same amount of audit work as the State Auditor's Office, the cost of audits to counties, cities and school districts will be significantly higher. The exact amount is unknown.

3. State fiscal effect detail: For information shown under state fiscal effect in 1A, please:

A. Revenues: Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.

Audit fees generated by political subdivision audits (other fund revenue) would be reduced to zero.

Fund #246 "State Auditor Operating Fund" would be closed.

Other fund revenue of \$1,252,923 is included in the 2003-2005 executive budget.

Review fees of political subdivision audits and reports (\$186,000) would be deposited into the general fund.

B. Expenditures: Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.

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Expenditures for fund #246 (other fund expenditures) would be reduced to zero in the 2003-2005 biennium.

Nine FTEs funded with other funds would be eliminated.

Two FTEs currently funded with special funds would need to be funded with general funds.

C. Appropriations: Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.

Fund #246 "State Auditor Operating Fund" would be closed, reducing other fund appropriation to zero in the 2003-2005 biennium.

Expenditures for 2 FTEs currently funded with other funds would need to be funded with state general funds. Currently the costs for these 2 FTEs are included in the executive budget and funded with other funds.

Name:	Ed Nagel	Agency:	State Auditor's Office
Phone Number:	328-4782	Date Prepared:	01/13/2003

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FISCAL NOTE
 Requested by Legislative Council
 01/08/2003

Bill/Resolution No.: HB 1187

1A. **State fiscal effect:** Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.

	2001-2003 Biennium		2003-2005 Biennium		2005-2007 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$186,000	(\$1,252,923)	\$186,000	\$0
Expenditures	\$0	\$0	\$233,570	(\$1,252,923)	\$240,800	\$0
Appropriations	\$0	\$0	\$233,570	(\$1,252,923)	\$240,800	\$0

1B. **County, city, and school district fiscal effect:** Identify the fiscal effect on the appropriate political subdivision.

2001-2003 Biennium			2003-2005 Biennium			2005-2007 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
\$0	\$0	\$0	\$9,999,999	\$9,999,999	\$9,999,999	\$9,999,999	\$9,999,999	\$9,999,999

2. **Narrative:** Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.

Lines 6 through 12 on page 2 of HB No. 1187 eliminate the State Auditor's operating account which is used for funding audits of political subdivisions, by the State Auditor's Office.

Lines 24 and 25 on page 2 of HB No. 1187 would prohibit the State Auditor from conducting political subdivision audits.

Assuming that CPA firms do the same amount of audit work as the State Auditor's Office, the cost of audits to counties, cities and school districts will be significantly higher. The exact amount is unknown.

3. **State fiscal effect detail:** For information shown under state fiscal effect in 1A, please:

A. **Revenues:** Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.

Audit fees generated by political subdivision audits would be reduced to zero.

Fund #246 "State Auditor Operating Fund" would be closed.

Other fund revenue of \$1,252,923 is included in the 2003-2005 executive budget.

Review fees of political subdivision audits and reports would be deposited into the general fund.

B. **Expenditures:** Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.

Expenditures for fund #246 would be reduced to zero in the 2003-2005 biennium.

Nine FTEs funded with other funds would be eliminated.

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Two FTEs currently funded with special funds would need to be funded with general funds.

Salaries line - other funds - (\$1,078,501)

Salaries line - general funds - \$223,970

Operating line - other funds - (\$174,422)

Operating line - general funds - \$9,600

C. Appropriations: Explain the appropriation amounts. Provide detail, when appropriate, of the amount in the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.

Expenditures for 2 FTEs currently funded with other funds would need to be funded with state general funds. Currently the costs for these 2 FTEs are included in the executive budget and funded with other funds.

Name:	Ed Nagel	Agency:	State Auditor's Office
Phone Number:	328-4762	Date Prepared:	01/10/2003

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Date: 1-23-03

Roll Call Vote #:

2003 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1187

House "POLITICAL SUBDIVISION" Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken DO NOT PASS

Motion Made By Rep. Ekstrom Seconded By Rep. Niemeier

Representatives	Yes	No	Representatives	Yes	No
Chairman Glen Froseth	✓				
Vice-Chairman Nancy Johnson	✓				
Mike Grosz	✓				
Gil Herbel	✓				
Ron Iverson		✓			
William E. Kretschmar	✓				
Andrew Maragos	✓				
Dale Severson	✓				
Alon Wieland	✓				
Bruce Eckre	0	0			
Mary Ekstrom	✓				
Carol A. Niemeier	✓				
Sally M. Sandvig	✓				
Vonnie Pletsch	✓				

Total (Yes) 12 No 1

Absent 1

Floor Assignment Rep. Grosz

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

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REPORT OF STANDING COMMITTEE (410)
January 24, 2003 2:58 p.m.

Module No: HR-14-1082
Carrier: Groz
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE
HB 1187: Political Subdivisions Committee (Rep. Froseth, Chairman) recommends DO NOT PASS (12 YEAS, 1 NAY, 1 ABSENT AND NOT VOTING). HB 1187 was placed on the Eleventh order on the calendar.

(2) DEBK, (3) COMM

Page No. 1

HR-14-1082

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2003 TESTIMONY

HB 1187

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1-23-03

Testimony on HB 1187

Chairman Froseth and Members of the committee:

For the record my name is Ron Iverson I represent the 27th district which is comprised of Southwest Fargo.

Today I am testifying on behalf on HB 1187. This bill would completely open up the process of Political Subdivision audits to private enterprise.

The main thrust of this legislation is for competition to occur over who will audit North Dakota's political subdivisions. As we all know when competition occurs the price of goods and services decreases. A prime example is Long Distance Phone Service. I looked at a phone book at a friends house that was from 1970 it stated the rate for long distance service was \$1.18 a minute. Today we can walk into a Store and buy a card where the rate is 3.4 cents per minute. That is PROGRESS due to competition. The costs savings to individuals and our economy as a whole are and remain significant.

I wish the same could be said of Government services. While North Dakota's population has remained stagnant the cost of government continues to increase. If we allow private enterprise to perform the functions that government currently provides we all win. The cost of government goes down and employment in the private sector increases.

I must apologize for what will seem like a lone wolf howling alone for this legislation. I was unable to get any CPA's to testify on behalf of this bill because they did not want to disturb their relationship with the Auditors office. But when I spoke to them off the record they were very supportive and if it becomes law, as I hope it will, they would welcome the additional work.

Undoubtedly you have seen the fiscal note that was prepared by the Auditor's Department. I have spoken with some of you concerning the contents of the audit and I would contend that it is misleading. To say it will cost Political subdivisions more for their audits is one man's opinion and not a fact. I would submit that when the Auditor is faced with the possible loss of 9 FTE's they might be concerned. But Chairman Froseth and members of the committee those 9 FTE's would be a tremendous cost savings to the state in this fiscally constraining time.

I would like to conclude that the government that governs least is the one that governs best. Let the private sector take care of the functions of government that government does not need to perform. Political subdivisions would be able to attain the necessary audits at the lowest possible price.

Thank you Chairman Froseth and Members of the committee. I would welcome the opportunity to answer any questions you may have at this time.

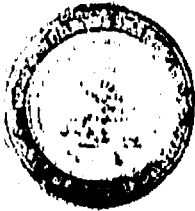
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Ron Iverson
Operator's Signature

10/2/03
Date

#02-1-23-03

STATE AUDITOR
ROBERT R. PETERSON



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(701) 328-408

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

**TESTIMONY BEFORE THE
HOUSE POLITICAL SUBDIVISION**
January 23, 2003

House Bill No. 1187

Good morning Mr. Chairman and members of the committee, my name is Bob Peterson and I'm the State Auditor. I'm here to testify in opposition to HB1187.

This bill eliminates the State Auditor's Office from auditing political subdivisions. We asked our representative from the Attorney General's Office to review this bill and he stated that his preliminary review in fact indicates that the bill will eliminate the State Auditor's Office from auditing political subdivisions. There are many political subdivisions that want the State Auditor's Office to conduct their audit. That is, they select us without following any bidding process. They may also select a private firm without following any bidding process. Other political subdivisions follow a formal bidding process and some end up selecting us to conduct their audit while others select private accounting firms. The point is the current process allows the governing board of the political subdivision to select its auditor. What public purpose is served by limiting this selection to accounting firms?

The State of North Dakota provides an enormous amount of funding to political subdivisions. In addition, the federal government grants funding to political subdivisions that it passes through various state agencies. These state agencies are liable for any federal questioned costs involved with these pass-through moneys. These are two good reasons why it is important to have the State Auditor's Office involved in auditing political subdivisions.

My office handles hundreds of calls each year from political subdivisions with questions on accounting related issues. In addition, my office working with the Bureau of Criminal Investigations conducts fraud audits relating to political subdivisions. Over the past 13 years the State Bonding Fund has paid out \$1.4 million in fraud claims relating to political subdivisions. The Office of the State Auditor has very specialized expertise relating to the auditing of political subdivisions and to remove my office from auditing them would not be in the best interests of the citizens of this state.

The division of my office that handles the audits of political subdivisions is 100% funded by the charges for our services. This division receives no state general funds and operates exactly like a private business does, with one exception. They aren't trying to make a profit. They simply try to break even.

This bill is an excellent example of a solution looking for a problem. The present system has been operating well since 1967 and to our knowledge, we are not aware of any reason to change it. I urge you to vote against HB1187. Mr. Chairman that concludes my testimony and I will be happy to answer any questions you have.

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