

**2017 HOUSE APPROPRIATIONS**

**HB 1004**

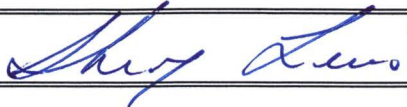
# 2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division  
Medora Room, State Capitol

HB1004  
1/12/2017  
Recording Job# 26854

- Subcommittee  
 Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor.

## Minutes:

Attachment A

**Chairman Brandenburg:** Opened the hearing on HB1004 and HB1064.

**Joshua Gallion, State Auditor, State Auditor Department:** See testimony attachment A.

**Chairman Brandenburg:** The \$572,000.00 is federal and special funds. When we have you back you might want to bring something to explain the breakdown of the federal and special funds. Also the turn back money and the \$180,000.00. Two of the auditors were eliminated in higher education; but all four were turned back to the higher education?

**Joshua Gallion:** They cut two FTE's.

**Chairman Brandenburg:** They cut two, left two?

**Joshua Gallion:** There's six total, they cut two, left two and unfunded the other two.

**Chairman Brandenburg:** So there's some auditing going on by two of them?

**Joshua Gallion:** Yes.

Joshua Gallion continued with his testimony

**Representative Kempenich:** You do get some federal funds on the minerals. You said there was one position open? Do you have to use it on the federal funds? You won't lose it because there's an open position?

**Joshua Gallion:** I believe we can leave that position vacant. If and when the oil play returns, then we would look at filling that position.

**Representative Kempenich:** Some of that federal money is tied to some type of performance. I was just wondering how that worked. I was looking at the amount of money that was in the budget and that's why I was wondering if it stays or disappears.

**Joshua Gallion:** I believe it will stay with the program.

**Vice Chairman Boehning:** What is driving your rent cost up? It went up last time over \$70,000.00; this year it's going up \$65,000.00. What's driving that rent increase double in two bienniums?

**Joshua Gallion:** The inclusion of these university system performance auditors required additional space. So we had to relocate offices in Fargo.

**Representative Vigesaa:** Who audits the auditor?

**Joshua Gallion:** Eide Bailey.

**Chairman Brandenburg:** I know there was a lot of discussion last session about higher ed and the higher ed audits. It looks like we have two in higher ed. Are we getting anywhere with that? Is it a work in process?

**Joshua Gallion:** We do four university system performance auditors working. Going forward, if we go with what the governor's executive recommended budget says; we will go down to just two. This would significantly impact our ability to conduct those audits. They have found \$2 million to \$6 million in potential savings if they implement those recommendations.

**Representative Brabandt:** Your higher education auditing; are there some people auditing in Bismarck and some in Fargo?

**Joshua Gallion:** They are all located in Fargo.

**Representative Brabandt:** It's off campus?

**Joshua Gallion:** Yes.

**Representative Brabandt:** You rent from a private business or individual?

**Joshua Gallion:** Yes.

**Representative Brabandt:** There wouldn't be room on campus? How big of an area do you need?

**Joshua Gallion:** There about 15 to 20 people. We have several divisions housed over there.

**Representative Brabandt:** You couldn't find that space on campus?

**Joshua Gallion:** I'm not sure what kind of review was done about this space. We'll have to get back to you.

**Vice Chairman Boehning:** All those people in Fargo, the 15 to 20, they're not all doing higher ed. They're doing the whole gamut of political subdivisions.

**Joshua Gallion:** There are several different divisions there. There are some state agency auditors that focus on several different things.

**Representative Nathe:** During LAFRC in October, we had a lot of discussion on the performance out on the foundations; NDSU and UND. It put a pause on that. Do we have to re-fire that up again?

**Chairman Brandenburg:** No.

**Representative Kempenich:** When we do performance audits; usually they're the managers of the audit. Usually it's hired out? Have you had a lot of turnover or has it been fairly steady?

**Joshua Gallion:** The performance audit team has been very consistent for several years. The university system performance auditors are somewhat new. We've hadn't had turnover that I'm aware of.

**Chairman Brandenburg:** Closed the hearing.

# 2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division  
Medora Room, State Capitol

HB1004  
2/1/2017  
Recording Job# 27707

- Subcommittee  
 Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor.

## Minutes:

Attachments A & B

**Chairman Brandenburg:** Opened the hearing on HB1004 and HB1064.

**Representative Nathe:** What I did is asked the auditor was to go through his budget and come up with a 5% reduction off the base.

**Joshua Gallion, State Auditor, Office of State Auditor:** See testimony attachment A.

**Representative Delmore:** Can you tell me what the impact of not doing those security reviews would be?

**Don LaFleur, IS Audit Manager, Office of State Auditor:** We've been doing the security audit on the state since the 1990's. It's been useful to ITD; but they're in a pretty good position from what we've done. The one we've done in higher ed we've only done twice; we do it once a biennium. We're looking to have a report within a week.

**Representative Nathe:** Will this affect anything by not having the audit? Has higher ed taken care of that issue?

**Don LaFleur:** What we do on that audit is we do an external assessment; so they look from your average internet user at what they can see, what they can get in to and where they see vulnerabilities at. We have them then do an internal audit; like they're an employee, and they do the same thing on the internal side. Any vulnerabilities they find, we do allow them to try to exploit and break into them to prove they do exist. We give that information to the state or to higher ed so they can fix all those.

**Representative Nathe:** If we postpone this for one biennium are we putting the security of higher ed at risk?

**Don LaFleur:** There's a slight risk; but from the two audits we've done, they're well aware of what needs to be corrected. There's always new vulnerabilities coming out.

**Representative Nathe:** There is a risk whether we have the audit or not. Right?

**Don LaFleur:** Yes.

**Representative Delmore:** Those two FTE's are \$250,000.00? Or is it a combination of \$450,000.00? Under the security review portion you have two FTE's under one part and then you have special funds of \$200,000.00 in the other. Can you explain that to me?

**Joshua Gallion:** The two FTE's that we're proposing have already been taken out of the budget. The \$250,000.00 and the \$200,000.00 is the total cost of the two security reviews. There's a general fund component and a special fund component; because higher ed pays for part of their cost. We're asking to shift money around to make sure that we can maintain those higher education performance auditors. I want to add that these security reviews are extremely important to this office. There's not a lot of room in the state auditor's budget to move money around; we are heavily salaried.

**Representative Delmore:** The number of FTE's don't seem to have gone down anywhere close to the six that I see were supposedly gone. It seems like in the 2015-2017 biennium, you had 59.80 FTE's and now you're 57.8. I don't know where those six have gone.

**Representative Nathe:** Those six were Burgum's suggestion. That wasn't in the base and it wasn't Governor Dalrymple's either. If we were to follow the Burgum suggestion, we might have to cut 10 auditors. We were advised to basically just cut six auditors. Am I correct?

**Joshua Gallion:** The executive budget cut state agency auditors to meet some of these objectives that we look at in the executive recommendations. We would have had to eliminate the entire higher ed performance audit division to meet the additional cuts. The cuts were almost 11 FTE's.

**Representative Nathe:** The reason that keeping the higher ed auditors to me was important was from the auditor's testimony. The auditors had already showed a potential savings between \$2 million to \$6 million per year with the purchasing cards.

**Representative Delmore:** Are there any unfilled positions now?

**Joshua Gallion:** The two higher ed performance that we're proposing to cut are vacant.

**Representative Delmore:** Those were cut but nobody's job was cut because they weren't filled before.

**Joshua Gallion:** That's correct. We never did fill those. We're talking about eliminating positions that we decided not to fill because of the down turn. We did include those as part of the allotment. We may have one other vacant position in the agency.

**Representative Nathe:** You are eliminating the two unfilled. Those two are totally gone. Correct?

**Joshua Gallion:** Correct.

**Representative Delmore:** Those two are gone, will you be shifting someone over eventually to do these audits that you say are important? Eventually, will we get the job done with the employees that you have?

**Joshua Gallion:** This will leave an audit manager and three auditors in the higher ed performance audit division. They can conduct the performance audits.

Joshua Gallion continued with his testimony.

**Representative Kempenich:** That's including the health insurance?

**Joshua Gallion:** Yes.

Joshua Gallion continued with his testimony.

**Representative Kempenich:** When we ask for performance audits, usually the agency pays for it don't they?

**Joshua Gallion:** The state performance audit division is funded by the general fund. If we are asked by the legislative audit fiscal review committee to conduct a performance audit, that is paid by the state of North Dakota.

**Representative Kempenich:** In the past we've had to come up with money if it goes beyond the scope.

**Don LaFleur:** LAFRC can authorize the performance audit division to hire a consultant and make the agency involved pay for that.

**Representative Nathe:** Along those same lines, if we have to cut 11 auditors and they can't perform the audits; it costs \$300.00 per hour to go outside of the state. I have \$180,000.00 in turn back money. Is that correct?

**Joshua Gallion:** We are looking at \$180,000.00; we hope to have more.

**Representative Brabandt:** Are all of your auditors CPA's?

**Joshua Gallion:** Yes. Many of them are.

**Representative Brabandt:** But not all?

**Joshua Gallion:** All of the managers are CPA's, several of the lower staff are CPA's. That's why our operating line is so important; is to continue education so these individuals can maintain their professional certifications.

**Representative Brabandt:** Do you have any human resources people?

**Joshua Gallion:** We have an office manager that does handle some of those tasks.

**Representative Brabandt:** So you would say that you .5 human resources?

**Joshua Gallion:** I suppose.

**Representative Brabandt:** In your department, I would assume, if there were red flags in the agencies you're auditing that you would catch it. How often does this happen or doesn't it?

**Joshua Gallion:** It's a high probability that we'll catch significant issues. They don't look at everything; they do conduct a sample. There are chances where things will be missed.

**Representative Nathe:** One of the other things we're asking the agencies about is the Fair Labor Act; the money on that. How much money do you have for that?

**Chairman Brandenburg:** There is some money that some agencies used; some didn't. Is there some money in your agency that was obtain or put aside?

**Joshua Gallion:** We don't have any of that.

**Vice Chairman Boehning:** Are you doing any overtime?

**Joshua Gallion:** Most of the staff or nearly all of them are exempt. Their salaries are high enough, so if we do have overtime, it's comp time and overtime.

**Representative Kempenich:** When is your next internal audit?

**Joshua Gallion:** I believe our next review is April.

**Representative Brabandt:** Do you have a lot of overtime?

**Joshua Gallion:** For exact numbers, I would have to get back to you on that.

**Representative Nathe:** Can you explain the higher ed audits and the purchasing cards? Is that just someone using a credit card?

**Joshua Gallion:** What the purchasing card with the state of North Dakota does is it simplifies procurement processes. The other savings is a rebate; and I believe it's 2% on the amount spent that comes back to the state of North Dakota.

**Chairman Brandenburg:** We're looking at this issue that we're talking about. There is a pool of money in some agencies for that particular program; but if you dedicated your cuts and brought them to the committee that may also have to be looked at.



**Representative Nathe:** Talking with the auditor, we've gotten to the 5% reduction and have been able to keep the auditors that are generating money.

**Vice Chairman Boehning:** Which bill do we take the 5% off of? Would it be HB1004?

**Representative Nathe:** Correct. We talked about going off of Governor Burgum's budget; that's where we would have lost the 11 auditors.

**Representative Delmore:** Except two of those four aren't being funded because they haven't been filled. So you have to look at that part of it also. Yes, it was taken over, but, two of those positions haven't been filled and they're not going to be filled.

**Representative Nathe:** Those two positions will be eliminated.

**Joshua Gallion:** The base budget numbers eliminated four of the higher ed performance audit division. That would have left us a manager and a single other person. At that point they might as well all be cut because that's not enough to do performance audits on higher education. This \$302,000.00 is to make sure we can maintain four of the six. Those two were part of the allotments. We want to restore two of the unfunded parts of the allotment.

**Chairman Brandenburg:** Closed the hearing.

Attachment B was submitted but not specifically discussed.

# 2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division  
Medora Room, State Capitol

HB1004  
2/7/2017  
Recording Job# 28007

- Subcommittee  
 Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor.

## Minutes:

Attachments A and B

**Chairman Brandenburg:** Opened the hearing on HB1004 and HB1064.

**Representative Nathe:** Explained attachments A and B.

**Vice Chairman Boehning:** This restores funding of the \$88,000.00, what is that pertaining for?

**Joshua Gallion, State Auditor, Office of State Auditor:** The \$88,000.00 is to ensure we have the proper positions fully funded.

**Vice Chairman Boehning:** There is \$750,000.00 of salaries that we took out?

**Joshua Gallion:** Correct.

**Representative Nathe:** Made a motion to move the amendments.

**Representative Vigesaa:** Seconded the motion.

**Voice Vote made.**

**Motion Carried.**

**Representative Nathe:** Made a motion for a "Do Pass as Amended".

**Vice Chairman Boehning:** Seconded the motion.

**Roll Call Vote:** 7 Yeas 0 Nays 0 Absent

**Motion Carried.**

**Chairman Brandenburg:** Closed the hearing.

# 2017 HOUSE STANDING COMMITTEE MINUTES

**Appropriations Committee**  
Roughrider Room, State Capitol

HB 1004  
2/14/2017  
28358

- Subcommittee  
 Conference Committee

*Virginia L Moch*

To provide an appropriation for defraying the expenses of the state auditor.

**Minutes:**

[Redacted box]

**Chairman Delzer:** called the meeting to order on amendment 17.0489.01001.

**Representative Nathe:** The statement of purpose; in house changes, you see an increase of \$59,194 in the salary and wage line. He goes through the second page to show how they arrived at that number.

**Chairman Delzer:** Should not those auditors have been in our base bill?

**Rep Nathe:** The executive budget removed those 4.

**Sheila Sandness LC:** It was a separate bill that did that. It would still be in their base budget, but they removed the 4 FTES. They removed these as part of their allotment in August.

**Rep Nathe:** In order to stay beneath the 5%, we talked to the auditor's office about delaying the higher ed audit. It's done with IT and budgeted for \$450,000. We discussed delaying this with them and say said they could take a biennium off, saving us \$450,000. Past audits are just finding very small matters, so this works for them.

**Rep Sanford:** The intent of the transfer of the auditors was to get a better handle on both the external audits, but also to provide some internal auditing. The situation at Dickinson with the credits would have just jumped out at the auditors but they didn't have the resources.

**Rep Nathe:** The auditors are more than paying for themselves auditing the purchase cards that some of the schools use. They tell us the estimated cost saving is from \$2-6 million dollars per year. Some of the higher ed people dispute those findings.

**Chairman Delzer:** They still have 4? Two are vacant and have always been vacant?

**Rep Nathe:** Correct. I move the amendment 17.0489.01001 to HB 1004.

**Chairman Delzer:** Second by Representative Boehning. Discussion on the motion to amend? None. All those in favor? (ayes carry).

**Rep Nathe:** I move for a Do Pass for HB 1004 as amended.

**Chairman Delzer:** Second by Representative Brandenburg. The Governor's bill removed all 6 of those auditors, so actually putting people back in. a roll call vote was taken. Yea: 18  
Nay: 0 Absent: 3. Representative Nathe you will carry that. 11:40

2/13/17 DF  
1 of 2

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1004

Page 1, replace lines 10 through 18 with:

"Salaries and wages	\$11,655,646	\$59,194	\$11,714,840
Operating expenses	1,176,806	(40,767)	1,136,039
North Dakota university system information technology security audits	200,000	(200,000)	0
Information technology consultants	<u>250,000</u>	<u>(250,000)</u>	<u>0</u>
Total all funds	\$13,282,452	(\$431,573)	\$12,850,879
Less estimated income	<u>3,505,870</u>	<u>(91,532)</u>	<u>3,414,338</u>
Total general fund	\$9,776,582	(\$340,041)	\$9,436,541
Full-time equivalent positions	59.80	(2.00)	57.80

**SECTION 2. HEALTH INSURANCE INCREASE.** The salaries and wages line item in section 1 of this Act includes the sum of \$163,134, of which \$123,788 is from the general fund, for increases in employee health insurance premiums from \$1,130 to \$1,249 per month."

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

**House Bill No. 1004 - State Auditor - House Action**

	Base Budget	House Changes	House Version
Salaries and wages	\$11,655,646	\$59,194	\$11,714,840
Operating expenses	1,176,806	(40,767)	1,136,039
University system IT security audits	200,000	(200,000)	
Information technology consultants	250,000	(250,000)	
Total all funds	\$13,282,452	(\$431,573)	\$12,850,879
Less estimated income	<u>3,505,870</u>	<u>(91,532)</u>	<u>3,414,338</u>
General fund	\$9,776,582	(\$340,041)	\$9,436,541
FTE	59.80	(2.00)	57.80

**Department No. 117 - State Auditor - Detail of House Changes**

	Adjusts Funding for Base Payroll Changes <sup>1</sup>	Adds Funding for Health Insurance Increases <sup>2</sup>	Restores Funding for North Dakota University System Auditors <sup>3</sup>	Removes University System Auditor Positions <sup>4</sup>	Underfunds Salaries and Wages <sup>5</sup>	Adds Funding to Reclassify a Position <sup>6</sup>
Salaries and wages	(\$69,236)	\$163,134	\$611,300	(\$297,135)	(\$373,869)	\$25,000
Operating expenses			41,392	(12,500)		
University system IT security audits						
Information technology consultants						
Total all funds	(\$69,236)	\$163,134	\$652,692	(\$309,635)	(\$373,869)	\$25,000
Less estimated income	<u>30,422</u>	<u>39,346</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

2 of 2

General fund	(\$99,658)	\$123,788	\$652,692	(\$309,635)	(\$373,869)	\$25,000
FTE	0.00	0.00	0.00	(2.00)	0.00	0.00

	Adjusts Funding for Operating Expenses <sup>7</sup>	Removes Funding for University System Information Technology Security Audits <sup>8</sup>	Removes Funding for Information Technology Consultants <sup>9</sup>	Total House Changes
Salaries and wages				\$59,194
Operating expenses	(69,659)			(40,767)
University system IT security audits		(200,000)		(200,000)
Information technology consultants			(250,000)	(250,000)
<b>Total all funds</b>	<b>(\$69,659)</b>	<b>(\$200,000)</b>	<b>(\$250,000)</b>	<b>(\$431,573)</b>
Less estimated income	38,700	(200,000)	0	(91,532)
<b>General fund</b>	<b>(\$108,359)</b>	<b>\$0</b>	<b>(\$250,000)</b>	<b>(\$340,041)</b>
<b>FTE</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>(2.00)</b>

<sup>1</sup> Funding is adjusted for cost-to-continue 2015-17 biennium salaries and benefit increases and for other base payroll changes.

<sup>2</sup> Funding is added for increases in employee health insurance premiums from \$1,130 to \$1,249 per month.

<sup>3</sup> Funding for 4 University System audit FTE positions removed by the State Auditor as part of the 2015-17 biennium budget reductions is restored, including salaries and wages of \$611,300 and operating expenses of \$41,392.

<sup>4</sup> Removes 2 University System audit FTE positions, including salaries and wages of \$297,135 and operating expenses of \$12,500.

<sup>5</sup> Salaries and wages is underfunded agencywide.

<sup>6</sup> Funding is added for salaries and wages to reclassify 1 FTE auditor position to a budget specialist position.

<sup>7</sup> Operating expenses funding is adjusted.

<sup>8</sup> Funding for University System information technology security audits is removed.

<sup>9</sup> Funding for information technology consultants is removed.

A section is added identifying additional funding provided for health insurance increases.

**2017 HOUSE STANDING COMMITTEE  
 ROLL CALL VOTES  
 BILL/RESOLUTION NO. #B1064**

House Appropriations - Government Operations Division Committee

Subcommittee

Amendment LC# or Description: To restore \$88,000.00 in funding

Recommendation:  Adopt Amendment  
 Do Pass     Do Not Pass     Without Committee Recommendation  
 As Amended     Refer to Appropriations  
 Place on Consent Calendar  
 Other Actions:     Reconsider     \_\_\_\_\_

Motion Made By Rep Nathe    Seconded By Rep Vigesaa

Representatives	Yes	No	Representatives	Yes	No
Chairman Brandenburg			Representative Delmore		
Vice Chairman Boehning					
Representative Brabandt					
Representative Nathe					
Representative Kempenich					
Representative Vigesaa					
<i>Vote</i>					

Total (Yes) \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

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

*Motion Carried*



**2017 HOUSE STANDING COMMITTEE  
 ROLL CALL VOTES  
 BILL/RESOLUTION NO. HB1004**

House Appropriations - Government Operations Division Committee

Subcommittee

Amendment LC# or Description: \_\_\_\_\_

Recommendation:  Adopt Amendment  
 Do Pass     Do Not Pass     Without Committee Recommendation  
 As Amended     Rerefer to Appropriations  
 Place on Consent Calendar  
 Other Actions:     Reconsider     \_\_\_\_\_

Motion Made By Representative Nathe    Seconded By Vice Chairman Boehning

Representatives	Yes	No	Representatives	Yes	No
Chairman Brandenburg	X		Representative Delmore	X	
Vice Chairman Boehning	X				
Representative Brabandt	X				
Representative Nathe	X				
Representative Kempenich	X				
Representative Vigesaa	X				

Total    (Yes) 7    No 0

Absent 0

Floor Assignment Representative Nathe

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

Date: 2/14/2017  
 Roll Call Vote #: 1

**2017 HOUSE STANDING COMMITTEE  
 ROLL CALL VOTES  
 BILL/RESOLUTION NO. 1004**

House Appropriations Committee

Subcommittee

Amendment LC# or Description: 17.0489.01001

Recommendation:  Adopt Amendment  
 Do Pass     Do Not Pass     Without Committee Recommendation  
 As Amended     Rerefer to Appropriations  
 Place on Consent Calendar  
 Other Actions:  Reconsider     \_\_\_\_\_

Motion Made By Representative Nathe    Seconded By Representative Boehning

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer					
Representative Kempenich			Representative Streyle		
Representative: Boehning			Representative Vigesaa		
Representative: Brabandt					
Representative Brandenburg					
Representative Kading			Representative Boe		
Representative Kreidt			Representative Delmore		
Representative Martinson			Representative Holman		
Representative Meier					
Representative Monson					
Representative Nathe					
Representative J. Nelson					
Representative Pollert					
Representative Sanford					
Representative Schatz					
Representative Schmidt					

Total (Yes) \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

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

**Motion Carries**

Date: 2/14/2017  
Roll Call Vote #: 2

**2017 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. 1004**

House Appropriations Committee

Subcommittee

Amendment LC# or Description: \_\_\_\_\_

Recommendation:  Adopt Amendment  
 Do Pass  Do Not Pass  Without Committee Recommendation  
 As Amended  Rerefer to Appropriations  
 Place on Consent Calendar  
Other Actions:  Reconsider  \_\_\_\_\_

Motion Made By Representative Nathe Seconded By Representative Brandenburg

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer	X				
Representative Kempenich	X		Representative Streyle	A	
Representative: Boehning	X		Representative Vigesaa	X	
Representative: Brabandt	X				
Representative Brandenburg	X				
Representative Kading	X		Representative Boe	X	
Representative Kreidt	A		Representative Delmore	X	
Representative Martinson	X		Representative Holman	X	
Representative Meier	X				
Representative Monson	A				
Representative Nathe	X				
Representative J. Nelson	X				
Representative Pollert	X				
Representative Sanford	X				
Representative Schatz	X				
Representative Schmidt	X				

Total (Yes) 18 No 0

Absent 3

Floor Assignment Representative Nathe

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

**Motion Carries**

**REPORT OF STANDING COMMITTEE**

**HB 1004: Appropriations Committee (Rep. Delzer, Chairman)** recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (18 YEAS, 0 NAYS, 3 ABSENT AND NOT VOTING). HB 1004 was placed on the Sixth order on the calendar.

Page 1, replace lines 10 through 18 with:

"Salaries and wages	\$11,655,646	\$59,194	\$11,714,840
Operating expenses	1,176,806	(40,767)	1,136,039
North Dakota university system information technology security audits	200,000	(200,000)	0
Information technology consultants	<u>250,000</u>	<u>(250,000)</u>	<u>0</u>
Total all funds	\$13,282,452	(\$431,573)	\$12,850,879
Less estimated income	<u>3,505,870</u>	<u>(91,532)</u>	<u>3,414,338</u>
Total general fund	\$9,776,582	(\$340,041)	\$9,436,541
Full-time equivalent positions	59.80	(2.00)	57.80

**SECTION 2. HEALTH INSURANCE INCREASE.** The salaries and wages line item in section 1 of this Act includes the sum of \$163,134, of which \$123,788 is from the general fund, for increases in employee health insurance premiums from \$1,130 to \$1,249 per month."

Re-number accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

**House Bill No. 1004 - State Auditor - House Action**

	Base Budget	House Changes	House Version
Salaries and wages	\$11,655,646	\$59,194	\$11,714,840
Operating expenses	1,176,806	(40,767)	1,136,039
University system IT security audits	200,000	(200,000)	
Information technology consultants	250,000	(250,000)	
Total all funds	\$13,282,452	(\$431,573)	\$12,850,879
Less estimated income	<u>3,505,870</u>	<u>(91,532)</u>	<u>3,414,338</u>
General fund	\$9,776,582	(\$340,041)	\$9,436,541
FTE	59.80	(2.00)	57.80

**Department No. 117 - State Auditor - Detail of House Changes**

	Adjusts Funding for Base Payroll Changes <sup>1</sup>	Adds Funding for Health Insurance Increases <sup>2</sup>	Restores Funding for North Dakota University System Auditors <sup>3</sup>	Removes University System Auditor Positions <sup>4</sup>	Underfunds Salaries and Wages <sup>5</sup>	Adds Funding to Reclassify a Position <sup>6</sup>
Salaries and wages	(\$69,236)	\$163,134	\$611,300	(\$297,135)	(\$373,869)	\$25,000
Operating expenses			41,392	(12,500)		
University system IT security audits						
Information technology consultants						
Total all funds	(\$69,236)	\$163,134	\$652,692	(\$309,635)	(\$373,869)	\$25,000
Less estimated income	<u>30,422</u>	<u>39,346</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
General fund	(\$99,658)	\$123,788	\$652,692	(\$309,635)	(\$373,869)	\$25,000
FTE	0.00	0.00	0.00	(2.00)	0.00	0.00

Adjusts Funding for	Removes Funding for	Removes Funding for	Total House
---------------------	---------------------	---------------------	-------------

	Operating Expenses <sup>7</sup>	University System Information Technology Security Audits <sup>8</sup>	Information Technology Consultants <sup>9</sup>	Changes
Salaries and wages				\$59,194
Operating expenses	(69,659)			(40,767)
University system IT security audits		(200,000)		(200,000)
Information technology consultants			(250,000)	(250,000)
<b>Total all funds</b>	<b>(\$69,659)</b>	<b>(\$200,000)</b>	<b>(\$250,000)</b>	<b>(\$431,573)</b>
Less estimated income	38,700	(200,000)	0	(91,532)
<b>General fund</b>	<b>(\$108,359)</b>	<b>\$0</b>	<b>(\$250,000)</b>	<b>(\$340,041)</b>
FTE	0.00	0.00	0.00	(2.00)

<sup>1</sup> Funding is adjusted for cost-to-continue 2015-17 biennium salaries and benefit increases and for other base payroll changes.

<sup>2</sup> Funding is added for increases in employee health insurance premiums from \$1,130 to \$1,249 per month.

<sup>3</sup> Funding for 4 University System audit FTE positions removed by the State Auditor as part of the 2015-17 biennium budget reductions is restored, including salaries and wages of \$611,300 and operating expenses of \$41,392.

<sup>4</sup> Removes 2 University System audit FTE positions, including salaries and wages of \$297,135 and operating expenses of \$12,500.

<sup>5</sup> Salaries and wages is underfunded agencywide.

<sup>6</sup> Funding is added for salaries and wages to reclassify 1 FTE auditor position to a budget specialist position.

<sup>7</sup> Operating expenses funding is adjusted.

<sup>8</sup> Funding for University System information technology security audits is removed.

<sup>9</sup> Funding for information technology consultants is removed.

A section is added identifying additional funding provided for health insurance increases.

**2017 SENATE APPROPRIATIONS**

**HB 1004**

# 2017 SENATE STANDING COMMITTEE MINUTES

**Appropriations Committee**  
Harvest Room, State Capitol

HB 1004  
3/8/2017  
JOB # 28915

- Subcommittee  
 Conference Committee

Committee Clerk Signature

*monson for*

*Alice Delzer*

## Explanation or reason for introduction of bill/resolution:

A BILL for an Act to defray the expenses of the State Auditor's Office.

## Minutes:

1. Testimony of Joshua C. Gallion, State Auditor

**Chairman Holmberg:** called the Committee to order on HB 1004 at 3:00 pm. All committee members were present. Sheila M. Sandness, Legislative Council and Rachel Kmetz, OMB were also present.

**(0.01.50) Joshua C. Gallion, State Auditor,** testified in favor of HB 1004 and provided written Testimony attached # 1 which gives a short introduction to the State Auditor's office. The budget information and requests for the State Auditor's office begins with page 4. (0.05.37) He continued on page 5 of testimony – Proposed Budget Reductions to Meet 90% Budget Guideline. (0.09.49) page 6 – Optional Adjustment Requests – there were 2, but neither one was included in the Executive Recommendation. Page 7 - Changes Recommended by Governor Burgum. We would realize 8 cuts in FTE's.

**Senator Oehlke:** (0.12.06) How often do the various state agencies get audited?

**Mr. Gallion:** Every two years.

**Senator Oehlke:** How does that work, can you get the job done if half a million is cut out?

**Mr. Gallion:** If we lost three state agency auditors, we would have to evaluate whether we would be able to do all of the audits that we currently perform. With three positions removed we would have to transfer the responsibility of doing the audits to the agencies themselves.

**Senator Oehlke:** Is that in code that they must be audited every two years? Mr. Gallion said, yes, that is a statutory requirement.

**Mr. Gallion:** I can assure you that the outside CPA firms charge much more. This concludes the recommended budgets and I will continue on to page 8 - Changes made by the House.

**Senator Mathern:** I don't understand where you cut operations?

**Mr. Gallion:** On line # 4, underfund salaries, so we did reduce that, that is the continuing education that we require.

Page 9 – Changes requested to Engrossed House Bill No. 1004. We are asking for everything back. I will point out what you get for the higher education audit division - 4 auditors are enough to conduct performance audits but the complexity of those performance audits is limited by the limited number of staff. By going back to 6, we will be able to dive into more complex and difficult operations. About the allocation of resources and return of investment -- from our optional requests, we requested two additional Division of State Agency Performance Auditors. What you would get in return for that investment is the ability to conduct more than one performance audit at a time. Right now we are limited to just one. This concludes my testimony. (0.17.51)

**Chairman Holmberg:** When the change was made two years ago with the higher ed to move auditors, it was not met by the previous auditor with a lot of applause. What is your relationship with those folks? Some have been restored by the budget and by the House so you have 4 of those auditors now.

**Mr. Gallion:** I came into this role with an open mind. There is a real need for this service for Higher Ed. I do support having them, 4 is alright, 6 is better to expand the scope of these audits.

**Chairman Holmberg** reminded the committee that, last time, the auditors and attorneys were moved. The attorney move was a smooth transition but the audit was a little less smooth, in part, because no one knew exactly what we were doing.

**Senator Mathern:** Some people say it's better to have private auditors because there's less political pressures. I presume that is not the case. How is it that you maintain the independence of an auditor when there is that culture, here?

**Mr. Gallion:** Independence is critical to providing professional audits. The best way we do it is to avoid weighing into the policy side of things. We are merely here to evaluate the process. I think the auditor's office is doing a good job with that. Our goal is not "getting the contract or audit next time". Our only objective is good government. Politics stop in my office. That is how we maintain independent professional audits.

**Senator Oehlke:** Looking through century code under state auditor, it's pretty clear you have the availability to get lots of information when performing audits. But you are also prohibited from divulging information. I thought I noticed in here that when you bill some agencies, that goes into your operating account. Is that correct?

**Mr. Gallion:** The political sub auditors are allowed to bill out the cost to conduct audits for the cities and counties. That goes into their special funds and they are allowed to use that as their continuing operating cash. They are special funded.

**Senator Oehlke:** So that goes back into the state auditor's operating account?



**Mr. Gallion:** It goes into a special fund only used by the political sub auditors. It does not come back to any other area of the operation.

**Senator Oehlke:** Does it go into the general fund?

**Mr. Gallion:** No. This is their operating money. It is, in all aspects, a small business.

**Senator Oehlke:** Is that just different for the western area water supply audit?

**Mr. Gallion:** That is local government. We do bill out for some of the state agencies, that does go back to the general fund. Anything that goes back to the state auditors operating budget is political sub.

**Senator Oehlke:** If for some reason you couldn't do all the audits, I notice you can go to a committee and say that you can't get them done. If you can't get it done can you put it off for another biennium with their approval?

**Mr. Gallion:** If we could not do the audit, it would fall on the agency itself to have the audit done and they would have to pay for it out of their operating.

There was no further testimony.

**Chairman Holmberg:** We do have a subcommittee for this: Senator Oehlke, Senator Dever and Senator Mathern. (0.26.18)

# 2017 SENATE STANDING COMMITTEE MINUTES

**Appropriations Committee**  
Harvest Room, State Capitol

HB 1004  
3/27/2017  
JOB # 29730

- Subcommittee  
 Conference Committee

Committee Clerk Signature

*Alvin Decker by Sandy Brummett*

## Explanation or reason for introduction of bill/resolution:

A Subcommittee hearing for the office of the State Auditor.

## Minutes:

No testimony submitted.

**Senator Oehlke** called the Subcommittee to order on HB 1004 at 3:45 pm in the Harvest Room. Roll call was taken. Present were: Senator Oehlke, Chair; Senator Dever and Senator Mathern. Sheila M. Sandness, Legislative Council and Stephanie Gullickson, OMB were also present. The normal health insurance adjustment will be part of our amendment. In visiting with our auditor last week, you indicated that you wanted to maintain the salary budget for a particular FTE you would like to retain and the operating dollars for that.

**Josh Gallion, State Auditor:** The underfunded salaries that was part of our budget bill included 2 positions. One of those is one I would like to request, our director. His position was included in that sum of money. Since I am new, I would appreciate having maintaining someone who has been there a considerable amount of time with a lot of experience. To lose that knowledge within our office would be difficult. I lean on Ned Nagel. He has been a staple. I request to have those funds restored and the operating that goes with it. We did cut considerable operating much further than we wanted to. We were trying to save positions. A lot of this operating goes towards travel and continuing education. Most of the staff are PCAs. He has been there 38 years.

**Senator Mathern:** Is the House actually trying to designate a person they wanted to get rid of?

**Josh Gallion:** It was a plan that we had talked about. They did ask some detailed questions and we came up with a plan. They just underfunded the budget. They did not specify any position. I am asking if we could save anything that would be my number one priority.

**Senator Oehlke:** You also shared with me not having Mr. Nagel really limits the number of audits that we are able to complete on a regular basis.

**Josh Gallion:** The impact of losing Mr. Nagel would require his responsibilities to be transferred to me and other managers. Everything will flow outwards and will impact auditing.

**Senator Oehlke:** Does it affect that number you could get done?

**Josh Gallion:** We will still meet our statutory obligations. It may impact some of the scopes. Which means we may have to limit what we have to look at in certain agencies. Which I would like to avoid. We need more audits. We would shrink the size of some of the audit scopes.

**Senator Oehlke:** So they would not be as complete. So this agency is another of the non-general fund agencies? It is supported by dollars from other agencies? They pay a fee to you for that service?

**Josh Gallion:** A small component is paid but we are general funded.

**Senator Oehlke:** The fee you are charging other agencies, if you weren't doing those audits or someone needed more of a scope, then what?

**Josh Gallion:** It would be outsourced. It would be quite a bit more. Our average cost, we average just under \$100 per audit hour. Typical CPA firms that do auditing are anywhere from \$300 to \$400 an hour. So if we don't do it we are either doubling or quadrupling the overall cost or the audit that you will receive from the private entity will be greatly limited to what we provide.

**Senator Oehlke:** Now the dollar amounts you are looking for, you gave me this a salary of \$304,910 salary and benefits. Then \$26,744.00 for operating expenses for that person. That was confirmed. Well committee. Questions?

**Senator Dever:** I don't think that the Auditor is being unreasonable at all. Really what we are talking about is Mr. Nagel yes or no and \$26,000. I think we put it back together and go to conference committee.

**Senator Mathern:** I think we have a new Auditor and we need to be sure he has all the tools to be successful. He identifies having the senior expertise available. I think we need to put it in and these other requests that he has.

**Senator Mathern:** I make the motion that we include those items and move forward with the bill.

**Senator Oehlke:** Along with the health insurance increase? This was confirmed.

**Sheila M. Sandness, Legislative Council:** You are adding back dollars but not an FTE?

**Senator Dever:** The FTE was never cut. To add to this, I would say this \$462 that identified to be underfunded was 1.8 FTEs. I would say it could be listed as a reduction of .8. If the \$304,000 is restored for Mr. Nagel and the operating.

**Josh Gallion:** It could be listed as a reduction of .8, the remaining would be a .8 FTE reduction.

**Senator Oehlke:** Is that clear?

**Sheila M. Sandness:** So the dollar number was \$304,910 of salary funding/benefits. What was the operating number again? \$26,744.00 was for operating, and the health insurance. That was confirmed.

**Senator Dever:** I was pleased with the conversation I had with the new Auditor. What he is asking for now is what we need. I think this is a real positive thing. **I second the motion.**

**Senator Oehlke:** I agree. We are not done with this legislative session. There is HB1170 still out there. I don't know if that is going to pass. If it did it will put a big burden on you. Would you explain that and why this may not be enough for you?

**Josh Gallion:** I was notified about this house bill 1170 that relates to forfeitures and seizures. What this bill proposes all law agencies across North Dakota would submit their forfeitures as a seizure report to the auditor's office. We would be required to compile, collect, and organize and upload to a website that is searchable. This is the first I have heard of it. So I don't understand how broad of a scope this would be and the number of people this would require. Then conduct any annual audit of this work. I again am not sure what that means. I don't know if that is individual counties, sheriff departments, or anyone who can go out and seize property, to go out and audit and verify this supporting and actual documentation. This would be a considerable undertaking.

**Senator Oehlke:** Having us in the building can be kind of scary.

**Senator Dever:** Where is that in the process and if there is a fiscal note that appropriation committee will have to deal with it?

**Josh Gallion:** I am not aware of a fiscal note.

**Sheila M. Sandness:** The attorney general filled out the fiscal note. the one we have is dated Feb. 16, 2017. I am not sure what amendment you are looking at. If there is a senate amendment, we have not received it. So it has not been recorded out of committee so it doesn't show up until it is reported out of committee. The most recent fiscal note that was filled out on the version of the bill from the House in February. When we request fiscal notes from one agency. It is the responsibility for them to contact the other agencies that may be impacted in the fiscal note.

**Senator Oehlke:** We have an amendment incorporating the things we talked about and we have a motion from Senator Mathern and 2<sup>nd</sup> by Senator Dever. We will have the clerk call the roll.

**A Roll Call vote was taken. Yea: 3; Nay: 0; Absent: 0.**

**Senator Oehlke:** Anything else? There was no further discussion. The subcommittee hearing on 1004 was closed

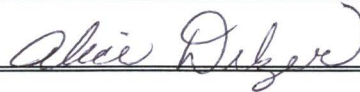
# 2017 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee  
Harvest Room, State Capitol

HB 1004  
3/28/2017  
JOB # 29738

- Subcommittee  
 Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

A DO PASS AS AMENDED on HB 1004, the State Auditor.

## Minutes:

1. Proposed Amendment # 17.0489.02001

**Chairman Holmberg:** called the Committee to order on HB 1004. All committee members were present. Chris Kadrmas, Legislative Council and Lori Laschkewitsch, OMB were also present.

**Senator Oehlke:** Submitted Amendment # 17.0489.02001 and explained the Amendment. I asked the Auditor about the ability to add one FTE, the 38-year employee, he was nervous about losing that employee and wanted to keep him. Without him they are very concerned about getting their job done, not necessarily not being able to do the audits but the level of audits that they have to do. And he expressed concern that they could not do the audits for those various agencies that they audit for and they may have to do outsourcing, and that would be far more expensive to have to do that.

**Senator Oehlke:** moved the amendment. 2<sup>nd</sup> by Senator Mathern.

**Chairman Holmberg:** Call the roll on the amendment.

**A Roll Call vote was taken on the Amendment. Yea: 14; Nay: 0. Absent: 0.**

**Senator Oehlke:** Moved a Do Pass as Amended. 2<sup>nd</sup> by Senator Dever.

**Chairman Holmberg:** Would you call the roll on a Do Pass as Amended on HB 1004?

**A Roll Call vote was taken. Yea: 14; Nay: 0; Absent: 0.**

**Senator Oehlke** will carry the bill.

The hearing was closed on HB 1004.

CJ  
 3/28-2017  
 1 of 2

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1004

Page 1, replace lines 10 through 17 with:

"Salaries and wages	\$11,655,646	\$346,975	\$12,002,621
Operating expenses	1,176,806	(14,023)	1,162,783
North Dakota university system information technology security audits	200,000	(200,000)	0
Information technology consultants	<u>250,000</u>	<u>(250,000)</u>	<u>0</u>
Total all funds	\$13,282,452	(\$117,048)	\$13,165,404
Less estimated income	<u>3,505,870</u>	<u>(94,383)</u>	<u>3,411,487</u>
Total general fund	\$9,776,582	(\$22,665)	\$9,753,917"

Page 1, line 20, replace "\$163,134" with "\$146,005"

Page 1, line 20, replace "\$123,788" with "\$109,510"

Page 1, line 21, replace "\$1,249" with "\$1,241"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1004 - State Auditor - Senate Action

	Base Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$11,655,646	\$11,714,840	\$287,781	\$12,002,621
Operating expenses	1,176,806	1,136,039	26,744	1,162,783
University system IT security audits	200,000			
Information technology consultants	250,000			
Total all funds	\$13,282,452	\$12,850,879	\$314,525	\$13,165,404
Less estimated income	<u>3,505,870</u>	<u>3,414,338</u>	<u>(2,851)</u>	<u>3,411,487</u>
General fund	\$9,776,582	\$9,436,541	\$317,376	\$9,753,917
FTE	59.80	57.80	0.00	57.80

Department No. 117 - State Auditor - Detail of Senate Changes

	Adjusts Funding for Health Insurance Increases <sup>1</sup>	Restores Salaries and Wages Underfunded <sup>2</sup>	Restores Funding for Operating Expenses <sup>3</sup>	Total Senate Changes
Salaries and wages	(\$17,129)	\$304,910		\$287,781
Operating expenses			26,744	26,744
University system IT security audits				
Information technology consultants				
Total all funds	(\$17,129)	\$304,910	\$26,744	\$314,525
Less estimated income	<u>(2,851)</u>	<u>0</u>	<u>0</u>	<u>(2,851)</u>
General fund	(\$14,278)	\$304,910	\$26,744	\$317,376
FTE	0.00	0.00	0.00	0.00

CJ  
3/28-2017  
2 of 2

---

<sup>1</sup> Funding for employee health insurance is adjusted to reflect the updated premium amount of \$1,241 per month.

<sup>2</sup> A portion of the \$462,085 of general fund salaries and wages underfunding approved by the House is restored to provide salaries and wages underfunding of \$157,175 from the general fund.

<sup>3</sup> Funding is restored for agencywide reductions in operating expenses made by the House.

---

This amendment also amends Section 2 of the bill to update the amounts appropriated for increases in employee health insurance premiums.

Date: 3-27-17

Roll Call Vote #: 1

**2017 SENATE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. HB 1004**

Senate Appropriations Committee

Subcommittee

Amendment LC# or Description: Amendment to be prepared

Recommendation:  Adopt Amendment  
 Do Pass     Do Not Pass     Without Committee Recommendation  
 As Amended     Rerefer to Appropriations  
 Place on Consent Calendar

Other Actions:  Reconsider     draft Amendment

Motion Made By Mathern Seconded By Dever

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg			Senator Mathern	✓	
Vice Chair Krebsbach			Senator Grabinger		
Vice Chair Bowman			Senator Robinson		
Senator Erbele					
Senator Wanzek					
Senator Kilzer					
Senator Lee					
Senator Dever	✓				
Senator Sorvaag					
Senator Oehlke	✓				
Senator Hogue					

Total (Yes) 3 No 0

Absent 0

Floor Assignment \_\_\_\_\_

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

*Funding for employee health insurance  
restored + funding to provide salaries + wages underfunded from general fund  
Funding restored in operating expenses*



Date: 3-28-17

Roll Call Vote #: 1

**2017 SENATE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. 1004**

Senate Appropriations Committee

Subcommittee

Amendment LC# or Description: 17.0489.02001

Recommendation:  Adopt Amendment  
 Do Pass     Do Not Pass     Without Committee Recommendation  
 As Amended     Rerefer to Appropriations  
 Place on Consent Calendar  
Other Actions:     Reconsider     \_\_\_\_\_

Motion Made By Oehlke    Seconded By Mather

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	✓		Senator Mather	✓	
Vice Chair Krebsbach	✓		Senator Grabinger	✓	
Vice Chair Bowman	✓		Senator Robinson	✓	
Senator Erbele	✓				
Senator Wanzek	✓				
Senator Kilzer	✓				
Senator Lee	✓				
Senator Dever	✓				
Senator Sorvaag	✓				
Senator Oehlke	✓				
Senator Hogue	✓				

Total (Yes) 14 No 0

Absent 0

Floor Assignment \_\_\_\_\_

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

Date: 3-28-17

Roll Call Vote #: 2

2017 SENATE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. 1004

Senate Appropriations Committee

Subcommittee

Amendment LC# or Description: \_\_\_\_\_

- Recommendation:  Adopt Amendment  
 Do Pass  Do Not Pass  Without Committee Recommendation  
 As Amended  Rerefer to Appropriations  
 Place on Consent Calendar  
Other Actions:  Reconsider  \_\_\_\_\_

Motion Made By Oehlke Seconded By Dever

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	✓		Senator Mathern	✓	
Vice Chair Krebsbach	✓		Senator Grabinger	✓	
Vice Chair Bowman	✓		Senator Robinson	✓	
Senator Erbele	✓				
Senator Wanzek	✓				
Senator Kilzer	✓				
Senator Lee	✓				
Senator Dever	✓				
Senator Sorvaag	✓				
Senator Oehlke	✓				
Senator Hogue	✓				

Total (Yes) 12 No 0

Absent 0

Floor Assignment Oehlke

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

**REPORT OF STANDING COMMITTEE**

**HB 1004, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman)** recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1004 was placed on the Sixth order on the calendar.

Page 1, replace lines 10 through 17 with:

"Salaries and wages	\$11,655,646	\$346,975	\$12,002,621
Operating expenses	1,176,806	(14,023)	1,162,783
North Dakota university system information technology security audits	200,000	(200,000)	0
Information technology consultants	250,000	(250,000)	0
Total all funds	\$13,282,452	(\$117,048)	\$13,165,404
Less estimated income	3,505,870	(94,383)	3,411,487
Total general fund	\$9,776,582	(\$22,665)	\$9,753,917"

Page 1, line 20, replace "\$163,134" with "\$146,005"

Page 1, line 20, replace "\$123,788" with "\$109,510"

Page 1, line 21, replace "\$1,249" with "\$1,241"

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

**House Bill No. 1004 - State Auditor - Senate Action**

	Base Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$11,655,646	\$11,714,840	\$287,781	\$12,002,621
Operating expenses	1,176,806	1,136,039	26,744	1,162,783
University system IT security audits	200,000			
Information technology consultants	250,000			
Total all funds	\$13,282,452	\$12,850,879	\$314,525	\$13,165,404
Less estimated income	3,505,870	3,414,338	(2,851)	3,411,487
General fund	\$9,776,582	\$9,436,541	\$317,376	\$9,753,917
FTE	59.80	57.80	0.00	57.80

**Department No. 117 - State Auditor - Detail of Senate Changes**

	Adjusts Funding for Health Insurance Increases <sup>1</sup>	Restores Salaries and Wages Underfunded <sup>2</sup>	Restores Funding for Operating Expenses <sup>3</sup>	Total Senate Changes
Salaries and wages	(\$17,129)	\$304,910		\$287,781
Operating expenses			26,744	26,744
University system IT security audits				
Information technology consultants				
Total all funds	(\$17,129)	\$304,910	\$26,744	\$314,525
Less estimated income	(2,851)	0	0	(2,851)
General fund	(\$14,278)	\$304,910	\$26,744	\$317,376
FTE	0.00	0.00	0.00	0.00

<sup>1</sup> Funding for employee health insurance is adjusted to reflect the updated premium amount of \$1,241 per month.

<sup>2</sup> A portion of the \$462,085 of general fund salaries and wages underfunding approved by the House is restored to provide salaries and wages underfunding of \$157,175 from the general fund.

<sup>3</sup> Funding is restored for agencywide reductions in operating expenses made by the House.

---

This amendment also amends Section 2 of the bill to update the amounts appropriated for increases in employee health insurance premiums.

**2017 CONFERENCE COMMITTEE**

**HB 1004**

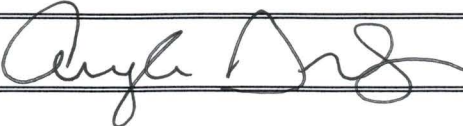
# 2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee – Government Operations Division  
Medora Room, State Capitol

HB1004  
4/11/2017  
Job 30048

- Subcommittee  
 Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor.

## Minutes:

See attachment A

**Chairman Nathe:** Opened the conference committee on HB1004.

**Senator Oehlke:** Explained the Senate changes to the budget. See attachment A.

**Chairman Nathe:** Is that the reason we see the increase of the \$304,910.00?

**Senator Oehlke:** Yes. There was operating expense in there also to cover training. The type of work that they do, they have to send these people to state association groups.

**Senator Dever:** One of the state auditor's primary concerns was the retention of a member of his staff that's been there almost 40 years.

**Joshua Gallion, State Auditor, State Auditor Department:** That \$304,910.00 was part of the larger underfunded part of the \$462,000.00. The Senate restored the funding so we could maintain a long-term member of the agency.

**Chairman Nathe:** The \$304,910.00 is to keep one FTE in top management?

**Joshua Gallion:** That's correct.

**Chairman Nathe:** The \$26,744.00 is training for other auditors?

**Joshua Gallion:** Management-level training.

**Representative Boehning:** You have a total of 59.8 FTE's in your office. How many of those are currently unfilled?

**Joshua Gallion:** We currently have one. Well, we have two unfilled in the higher ed performance audit. We do have one vacant position.

**Representative Boehning:** Out of those two, you'd still have one unfilled. You're at 56.8 at what you have currently? You have three unfilled FTE? At the end of the biennium, you'll lose the two and still have one unfunded?

**Joshua Gallion:** Yes.

**Representative Boehning:** When do you plan on filling that one?

**Joshua Gallion:** As part of this broader plan, in maintaining our management staff, is that vacant position is going to be reclassified. The underfunded part of this salary is tied to that 0.8 FTE. That 0.8 is filled, but doesn't have the skillset we need going forward.

**Senator Oehlke:** They audit state agencies at a very reasonable rate. We require audits. If this agency isn't able to accommodate the Legislature and get it done, that agency has to go outside and get the audit done. Then the cost is much more.

**Chairman Nathe:** We're looking at the changes you made and we're really talking about just one FTE. The Senate put in money for one FTE that is upper management and training.

**Joshua Gallion:** The money fully funds that position. The \$157,000.00 amount unfunded is directly tied to another FTE; that's the 0.8 FTE.

**Chairman Nathe:** The \$304,910.00 is for a position that's currently filled by one upper management personnel? That's the money you feel you need to retain him?

**Joshua Gallion:** I feel very strongly about making sure that stays. We underfunded the salaries on the House side; we didn't identify any FTE cuts.

**Chairman Nathe:** If we don't do the \$304,910.00 what will happen?

**Joshua Gallion:** We will lose 1.8 positions.

**Representative Brabandt:** This individual is retirement-eligible at this time?

**Joshua Gallion:** Yes.

**Representative Brabandt:** When you go outside for an audit, what is charged per hour?

**Joshua Gallion:** We typically see three to four times the cost. Their costs are significantly higher than ours.

**Representative Brabandt:** Our costs on a CPA are about \$100.00 per hour?

**Joshua Gallion:** Yes.

**Chairman Nathe:** I don't recall having any discussions about retaining any upper management positions. Did it just come up after it left the House?

**Josh Gallion:** When we originally talked, it was a vague plan. The tentative plan was an upper management individual and an administrative individual. My priorities have always been to maintain the audits. That is our statutory obligation.

**Senator Dever:** If the upper level management was eligible for retirement, we can expect that he will eventually be replaced by somebody at a lower cost and we'll experience the savings at that point.

**Joshua Gallion:** Yes. When that time comes, we will replace the position and typically replacements come at lower costs.

**Chairman Nathe:** Closed the conference committee.



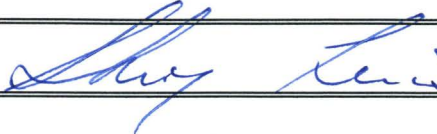
# 2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee – Government Operations Division  
Medora Room, State Capitol

HB1004  
4/12/2017  
Recording Job# 30080

- Subcommittee  
 Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor.

## Minutes:

**Chairman Nathe:** Opened the conference committee on HB1004.

**Joshua Gallion, State Auditor, State Auditor Department:** We will have about \$240,000.00 to \$250,000.00 of unexpended general funds. We would like for that to cover part of that cost. If we had to prioritize between the salary and the operating adjustments by the Senate; I would much rather have the position and we will find further operating savings within our budget. We could remove the \$26,744.00; leaving a difference of \$30,000.00.

**Senator Mathern:** I'm a little concerned. I don't know if you have authority to use those turn back dollars. Are you looking for an amendment?

**Joshua Gallion:** That's something that I've been working with Representative Nathe on.

**Senator Mathern:** You would make this part of the bill?

**Joshua Gallion:** It would be considered as part of the funding.

**Senator Dever:** We budget on the expectation that there are turn backs from the agencies. I don't know if anyone knows the answer to that.

**Senator Mathern:** That's part of the discussion in the OMB budget. There is a schedule out already about the turn back dollars that are anticipated. That's why I don't think that money will be available.

**Chairman Nathe:** I agree with you and that's some of the discussions that the auditor and I have had.

**Senator Dever:** If it's appropriate and it works out, I like it.

**Joshua Gallion:** The underfunded part of the salary line; the Senate version has \$157,000.00. It was underfunded. This money will probably directly connected to a position. That position is currently a .8 FTE; that I believe we could list as an FTE reduction.

**Chairman Nathe:** Closed the conference committee.

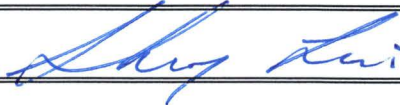
# 2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee – Government Operations Division  
Medora Room, State Capitol

HB1004  
4/17/2017  
Recording Job# 30165

Subcommittee  
 Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor.

Minutes:

Attachment A

**Chairman Nathe:** Opened the conference committee on HB1004.

**Chairman Nathe:** Explained amendment 17.0489.02003 and attachment A.

**Senator Dever:** This is not what we discussed as a conference committee; but what has been discussed between you and the auditor since. Am I correct?

**Chairman Nathe:** Correct. I had also shared our discussions with Senator Oehlke and included him in as far as what we've been talking about and where we're going.

**Representative Boehning:** Made a motion to recede from Senate amendments and amend with 17.0489.02003.

**Senator Oehlke:** Seconded the motion.

**Senator Mathern:** The House version cut general funds \$340,000.00. The Senate cut \$22,000.00; and now this conference committee is \$582,000.00. So this conference committee is going beyond the House and Senate in the cutting of general funds. Am I reading this right?

**Senator Mathern:** I'm wondering why the auditor comes into conference committee and leaves in a private conversation with even more cuts than the House or the Senate.

**Sheila Sandness, Fiscal Auditor, ND Legislative Council:** The difference would be the position. The House added back the underfunding.

**Chairman Nathe:** From talking to the auditor, he had also realized that they could find some efficiencies. They had some other needs that they wanted to do. They wanted to have four higher ed auditors and then four auditors; versus having the five and four. They

could eliminate this position to take care of any of the other FTE needs that they need to do to increase those areas.

**Senator Mathern:** So I am reading this correctly, that there are more cuts in conference committee.

**Sheila Sandness:** That's correct. The difference would be the difference between the \$582,340.00.

**Roll Call Vote:** 5 Yeas 1 Nay 0 Absent.

**Motion Carried.**

**Chairman Nathe:** Closed the conference committee.

# 2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee – Government Operations Division  
Medora Room, State Capitol

HB1004  
4/17/2017  
Recording Job# 30166

Subcommittee  
 Conference Committee

Committee Clerk Signature 

**Explanation or reason for introduction of bill/resolution:**

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor.

**Minutes:**

**Chairman Nathe:** Re-opened the conference committee on HB1004.

**Senator Oehlke:** Made a motion to reconsider their actions and withdrew his second.

**Representative Boehning:** Seconded his motion and withdrew his motion.

**Voice Vote made.**

**Motion Carried.**

**Chairman Nathe:** Closed the conference committee.

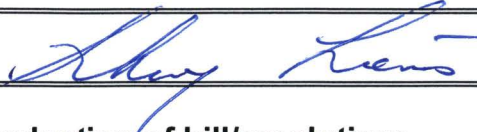
# 2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee – Government Operations Division  
Medora Room, State Capitol

HB1004  
4/18/2017  
Recording Job# 30186

Subcommittee  
 Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor.

## Minutes:

Attachment A

**Chairman Nathe:** Opened the conference committee on HB1004.

**Chairman Nathe:** Explained amendment 17.0489.02004.

**Sheila Sandness, Fiscal Analyst, ND Legislative Council:** Explained attachment A.

**Joshua Gallion, State Auditor, State Auditor Department:** With the performance audit section, in the interim, we'll look at the management structure and probably assign this to another audit manager within the agency. We'll have a slight delay in current audits; but moving forward, we'll make some positive changes. We're going restructure that .8 FTE; we going to restructure our internal operating unit and clean up some of our administrative and accounting functions.

**Senator Mathern:** Made a motion to move amendment 17.0489.02004.

**Representative Boehning:** Seconded the motion.

**Senator Dever:** I would like to point out that the auditor has been very gracious in his dealings with this bill and has expressed his desire to reorganize his agency and his willingness to accept the reductions that we're dealing with here. Next session, if he tells us what he thinks he needs to do, we should all be receptive to that.

**Chairman Nathe:** I couldn't agree more.

**Roll Call Vote:** 6 Yeas 0 Nays 0 Absent.

**Motion Carried.**

**Chairman Nathe:** Closed the conference committee.

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1004

That the Senate recede from its amendments as printed on pages 1277 and 1278 of the House Journal and pages 994 and 995 of the Senate Journal and that Engrossed House Bill No. 1004 be amended as follows:

Page 1, replace lines 10 through 18 with:

"Salaries and wages	\$11,655,646	(\$193,244)	\$11,462,402
Operating expenses	1,176,806	(34,023)	1,142,783
North Dakota university system information technology security audits	200,000	(200,000)	0
Information technology consultants	<u>250,000</u>	<u>(250,000)</u>	<u>0</u>
Total all funds	\$13,282,452	(\$677,267)	\$12,605,185
Less estimated income	<u>3,505,870</u>	<u>(94,383)</u>	<u>3,411,487</u>
Total general fund	\$9,776,582	(\$582,884)	\$9,193,698
Full-time equivalent positions	59.80	(3.80)	56.00"

Page 1, line 20, replace "\$163,134" with "\$140,696"

Page 1, line 20, replace "\$123,788" with "\$104,201"

Page 1, line 21, replace "\$1,249" with "\$1,241"

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

**House Bill No. 1004 - State Auditor - Conference Committee Action**

	Base Budget	House Version	Conference Committee Changes	Conference Committee Version	Senate Version	Comparison to Senate
Salaries and wages	\$11,655,646	\$11,714,840	(\$252,438)	\$11,462,402	\$12,002,621	(\$540,219)
Operating expenses	1,176,806	1,136,039	6,744	1,142,783	1,162,783	(20,000)
University system IT security audits	200,000					
Information technology consultants	250,000					
Total all funds	\$13,282,452	\$12,850,879	(\$245,694)	\$12,605,185	\$13,165,404	(\$560,219)
Less estimated income	<u>3,505,870</u>	<u>3,414,338</u>	<u>(2,851)</u>	<u>3,411,487</u>	<u>3,411,487</u>	<u>0</u>
General fund	\$9,776,582	\$9,436,541	(\$242,843)	\$9,193,698	\$9,753,917	(\$560,219)
FTE	59.80	57.80	(1.80)	56.00	57.80	(1.80)

**Department No. 117 - State Auditor - Detail of Conference Committee Changes**

	Adjusts Funding for Health Insurance Increases <sup>1</sup>	Removes .8 FTE Position <sup>2</sup>	Removes 1 FTE Performance Audit Manager Position <sup>3</sup>	Restores Funding for Salaries and Wages <sup>4</sup>	Restores Funding for Operating Expenses <sup>5</sup>	Total Conference Committee Changes
Salaries and wages	(\$22,438)		(\$277,191)	\$47,191		(\$252,438)
Operating expenses					6,744	6,744
University system IT security audits						
Information technology						

consultants						
Total all funds	(\$22,438)	\$0	(\$277,191)	\$47,191	\$6,744	(\$245,694)
Less estimated income	(2,851)	0	0	0	0	(2,851)
General fund	(\$19,587)	\$0	(\$277,191)	\$47,191	\$6,744	(\$242,843)
FTE	0.00	(0.80)	(1.00)	0.00	0.00	(1.80)

<sup>1</sup> Funding for employee health insurance is adjusted to reflect the updated premium amount of \$1,241 per month. Section 2 of the bill is also changed to reflect the revised premium rate, the same as the Senate version.

<sup>2</sup> Full-time equivalent positions are reduced as a result of underfunding salaries and wages. This change was not included in the House or Senate version.

<sup>3</sup> One FTE performance audit manager position (Position No. 00000510-1) and related funding for salaries and wages are removed. This change was not included in the House or Senate version.

<sup>4</sup> Funding for salaries and wages is partially restored to underfund salaries and wages by \$326,678 agencywide. The House underfunded salaries and wages by \$373,869 and the Senate underfunded salaries and wages by \$68,959.

<sup>5</sup> Funding for operating expenses is partially restored to provide for a reduction of \$20,000 agencywide. The House reduced operating expenses agencywide by \$26,744. The Senate version restored the House reduction.



4/19/17 DA  
 1082

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1004

That the Senate recede from its amendments as printed on pages 1277 and 1278 of the House Journal and pages 994 and 995 of the Senate Journal and that Engrossed House Bill No. 1004 be amended as follows:

Page 1, replace lines 10 through 18 with:

"Salaries and wages	\$11,655,646	(\$111,666)	\$11,767,312
Operating expenses	1,176,806	(34,023)	1,142,783
North Dakota university system information technology security audits	200,000	(200,000)	0
Information technology consultants	250,000	(250,000)	0
Total all funds	\$13,282,452	(\$372,357)	\$12,910,095
Less estimated income	3,505,870	(94,383)	3,411,487
Total general fund	\$9,776,582	(\$277,974)	\$9,498,608
Full-time equivalent positions	59.80	(3.80)	56.00"

Page 1, line 20, replace "\$163,134" with "\$140,696"

Page 1, line 20, replace "\$123,788" with "\$104,201"

Page 1, line 21, replace "\$1,249" with "\$1,241"

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

**House Bill No. 1004 - State Auditor - Conference Committee Action**

	Base Budget	House Version	Conference Committee Changes	Conference Committee Version	Senate Version	Comparison to Senate
Salaries and wages	\$11,655,646	\$11,714,840	\$52,472	\$11,767,312	\$12,002,621	(\$235,309)
Operating expenses	1,176,806	1,136,039	6,744	1,142,783	1,162,783	(20,000)
University system IT security audits	200,000					
Information technology consultants	250,000					
Total all funds	\$13,282,452	\$12,850,879	\$59,216	\$12,910,095	\$13,165,404	(\$255,309)
Less estimated income	3,505,870	3,414,338	(2,851)	3,411,487	3,411,487	0
General fund	\$9,776,582	\$9,436,541	\$62,067	\$9,498,608	\$9,753,917	(\$255,309)
FTE	59.80	57.80	(1.80)	56.00	57.80	(1.80)

**Department No. 117 - State Auditor - Detail of Conference Committee Changes**

	Adjusts Funding for Health Insurance Increases <sup>1</sup>	Removes .8 FTE Position <sup>2</sup>	Removes 1 FTE Performance Audit Manager Position <sup>3</sup>	Restores Funding for Salaries and Wages <sup>4</sup>	Restores Funding for Operating Expenses <sup>5</sup>	Total Conference Committee Changes
Salaries and wages	(\$22,438)		(\$277,191)	\$352,101		\$52,472
Operating expenses					6,744	6,744
University system IT security audits						

4/19/17 DA  
2 of 2

Information technology consultants						
Total all funds	(\$22,438)	\$0	(\$277,191)	\$352,101	\$6,744	\$59,216
Less estimated income	(2,851)	0	0	0	0	(2,851)
General fund	(\$19,587)	\$0	(\$277,191)	\$352,101	\$6,744	\$62,067
FTE	0.00	(0.80)	(1.00)	0.00	0.00	(1.80)

<sup>1</sup> Funding for employee health insurance is adjusted to reflect the updated premium amount of \$1,241 per month. Section 2 of the bill is also changed to reflect the revised premium rate, the same as the Senate version.

<sup>2</sup> Full-time equivalent positions are reduced as a result of underfunding salaries and wages. This change was not included in the House or Senate version.

<sup>3</sup> One FTE performance audit manager position (Position No. 00000510-1) and related funding for salaries and wages are removed. This change was not included in the House or Senate version.

<sup>4</sup> Funding for salaries and wages is restored agencywide, the same as the Senate version. The House underfunded salaries and wages by an additional \$373,869.

<sup>5</sup> Funding for operating expenses is partially restored to provide for a reduction of \$20,000 agencywide. The House reduced operating expenses agencywide by \$26,744. The Senate version restored the House reduction.

**2017 HOUSE CONFERENCE COMMITTEE  
 ROLL CALL VOTES**

BILL/RESOLUTION NO. HB1004 as (re) engrossed

**House Appropriations – Government Operations Division Committee**

- Action Taken**
- HOUSE accede to Senate Amendments
  - HOUSE accede to Senate Amendments and further amend
  - SENATE recede from Senate amendments
  - SENATE recede from Senate amendments and amend as follows
  - Unable to agree, recommends that the committee be discharged and a new committee be appointed

Motion Made by: Representative Boehning      Seconded by: Senator Oehlke

Representatives	4/11	4/12	4/17	Yes	No	Senators	4/11	4/12	4/17	Yes	No
Chairman Nathe	X	X	X	X		Senator Oehlke	X	X	X	X	
Representative Brabandt	X	X	X	X		Senator Dever	X	X	X	X	
Representative Boehning	X	X	X	X		Senator Mathern	X	X	X		X
Total Rep. Vote				3		Total Senate Vote				2	1

Vote Count      Yes: 5      No: 1      Absent: 0

House Carrier Representative Nathe      Senate Carrier Senator Oehlke

LC Number 17.0489.02003 . \_\_\_\_\_ of amendment

LC Number \_\_\_\_\_ . 04000 of engrossment

Emergency clause added or deleted

Statement of purpose of amendment

Motion Carried

**2017 HOUSE CONFERENCE COMMITTEE  
ROLL CALL VOTES**

BILL/RESOLUTION NO. HB1004 as (re) engrossed

**House Appropriations – Government Operations Division Committee**

- Action Taken**
- HOUSE accede to Senate Amendments
  - HOUSE accede to Senate Amendments and further amend
  - SENATE recede from Senate amendments
  - SENATE recede from Senate amendments and amend as follows
  - Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion Made by: Senator Oehlke Seconded by: Representative Boehning

Representatives	4/11	4/12	4/17	Yes	No	Senators	4/11	4/12	4/17	Yes	No
Chairman Nathe	X	X	X			Senator Oehlke	X	X	X		
Representative Brabandt	X	X	X			Senator Dever	X	X	X		
Representative Boehning	X	X	X			Senator Mathern	X	X	X		
Total Rep. Vote						Total Senate Vote					

Vote Count Yes: \_\_\_\_\_ No: \_\_\_\_\_ Absent: \_\_\_\_\_

House Carrier \_\_\_\_\_ Senate Carrier \_\_\_\_\_

LC Number \_\_\_\_\_ of amendment

LC Number \_\_\_\_\_ of engrossment

Emergency clause added or deleted

Statement of purpose of amendment  
Reconsider their actions.

**2017 HOUSE CONFERENCE COMMITTEE  
ROLL CALL VOTES**

BILL/RESOLUTION NO. HB1004 as (re) engrossed

**House Appropriations – Government Operations Division Committee**

- Action Taken**
- HOUSE accede to Senate Amendments
  - HOUSE accede to Senate Amendments and further amend
  - SENATE recede from Senate amendments
  - SENATE recede from Senate amendments and amend as follows
  - Unable to agree, recommends that the committee be discharged and a new committee be appointed

Motion Made by: Senator Mathern                      Seconded by: Representative Boehning

Representatives	4/18		Yes	No	Senators	4/18		Yes	No
Chairman Nathe	X		X		Senator Oehlke	X		X	
Representative Brabandt	X		X		Senator Dever	X		X	
Representative Boehning	X		X		Senator Mathern	X		X	
Total Rep. Vote			3		Total Senate Vote			3	

Vote Count            Yes: 6                      No: 0                      Absent: 0

House Carrier    Representative Nathe            Senate Carrier    Senator Oehlke

LC Number    17.0489.02004                      .                      of amendment

LC Number    ~~0300~~ 17.0489                      .                      0400                      of engrossment

Emergency clause added or deleted

Statement of purpose of amendment

Motion Carried

Insert LC: 17.0489.02004  
 House Carrier: Nathe  
 Senate Carrier: Oehlke

**REPORT OF CONFERENCE COMMITTEE**

**HB 1004, as engrossed:** Your conference committee (Sens. Oehlke, Davison, Mathern and Reps. Nathe, Brabandt, Boehning) recommends that the **SENATE RECEDE** from the Senate amendments as printed on HJ pages 1277-1278, adopt amendments as follows, and place HB 1004 on the Seventh order:

That the Senate recede from its amendments as printed on pages 1277 and 1278 of the House Journal and pages 994 and 995 of the Senate Journal and that Engrossed House Bill No. 1004 be amended as follows:

Page 1, replace lines 10 through 18 with:

"Salaries and wages	\$11,655,646	(\$111,666)	\$11,767,312
Operating expenses	1,176,806	(34,023)	1,142,783
North Dakota university system information technology security audits	200,000	(200,000)	0
Information technology consultants	<u>250,000</u>	<u>(250,000)</u>	<u>0</u>
Total all funds	\$13,282,452	(\$372,357)	\$12,910,095
Less estimated income	<u>3,505,870</u>	<u>(94,383)</u>	<u>3,411,487</u>
Total general fund	\$9,776,582	(\$277,974)	\$9,498,608
Full-time equivalent positions	59.80	(3.80)	56.00"

Page 1, line 20, replace "\$163,134" with "\$140,696"

Page 1, line 20, replace "\$123,788" with "\$104,201"

Page 1, line 21, replace "\$1,249" with "\$1,241"

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

**House Bill No. 1004 - State Auditor - Conference Committee Action**

	Base Budget	House Version	Conference Committee Changes	Conference Committee Version	Senate Version	Comparison to Senate
Salaries and wages	\$11,655,646	\$11,714,840	\$52,472	\$11,767,312	\$12,002,621	(\$235,309)
Operating expenses	1,176,806	1,136,039	6,744	1,142,783	1,162,783	(20,000)
University system IT security audits	200,000					
Information technology consultants	250,000					
Total all funds	\$13,282,452	\$12,850,879	\$59,216	\$12,910,095	\$13,165,404	(\$255,309)
Less estimated income	<u>3,505,870</u>	<u>3,414,338</u>	<u>(2,851)</u>	<u>3,411,487</u>	<u>3,411,487</u>	<u>0</u>
General fund	\$9,776,582	\$9,436,541	\$62,067	\$9,498,608	\$9,753,917	(\$255,309)
FTE	59.80	57.80	(1.80)	56.00	57.80	(1.80)

**Department No. 117 - State Auditor - Detail of Conference Committee Changes**

	Adjusts Funding for Health Insurance Increases <sup>1</sup>	Removes .8 FTE Position <sup>2</sup>	Removes 1 FTE Performance Audit Manager Position <sup>3</sup>	Restores Funding for Salaries and Wages <sup>4</sup>	Restores Funding for Operating Expenses <sup>5</sup>	Total Conference Committee Changes
Salaries and wages	(\$22,438)		(\$277,191)	\$352,101		\$52,472
Operating expenses					6,744	6,744
University system IT security audits						
Information technology consultants						
	<u>(\$22,438)</u>	<u>\$0</u>	<u>(\$277,191)</u>	<u>\$352,101</u>	<u>\$6,744</u>	<u>\$59,216</u>

Insert LC: 17.0489.02004  
 House Carrier: Nathe  
 Senate Carrier: Oehlke

Total all funds						
Less estimated income	(2,851)	0	0	0	0	(2,851)
General fund	(\$19,587)	\$0	(\$277,191)	\$352,101	\$6,744	\$62,067
FTE	0.00	(0.80)	(1.00)	0.00	0.00	(1.80)

<sup>1</sup> Funding for employee health insurance is adjusted to reflect the updated premium amount of \$1,241 per month. Section 2 of the bill is also changed to reflect the revised premium rate, the same as the Senate version.

<sup>2</sup> Full-time equivalent positions are reduced as a result of underfunding salaries and wages. This change was not included in the House or Senate version.

<sup>3</sup> One FTE performance audit manager position (Position No. 00000510-1) and related funding for salaries and wages are removed. This change was not included in the House or Senate version.

<sup>4</sup> Funding for salaries and wages is restored agencywide, the same as the Senate version. The House underfunded salaries and wages by an additional \$373,869.

<sup>5</sup> Funding for operating expenses is partially restored to provide for a reduction of \$20,000 agencywide. The House reduced operating expenses agencywide by \$26,744. The Senate version restored the House reduction.

Engrossed HB 1004 was placed on the Seventh order of business on the calendar.

**2017 TESTIMONY**

**HB 1004**



Department 117 - State Auditor  
House Bill Nos. 1004 and 1064

**Executive Budget Comparison to Prior Biennium Appropriations**

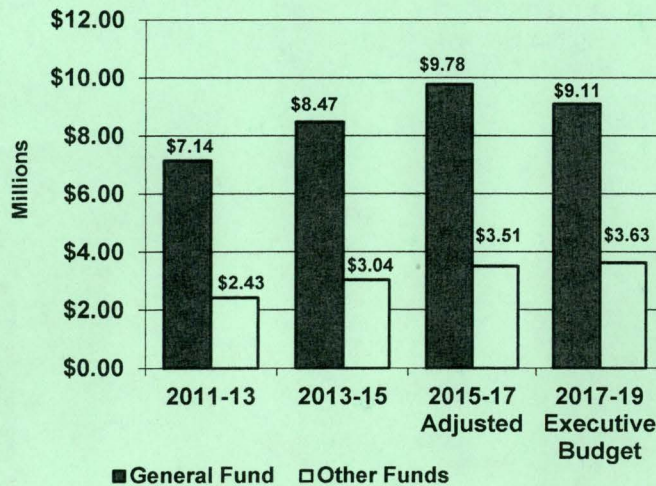
	FTE Positions	General Fund	Other Funds	Total
2017-19 Executive Budget	53.80	\$9,108,071	\$3,626,970	\$12,735,041
2015-17 Adjusted Legislative Appropriations <sup>1</sup>	59.80	9,776,582	3,505,870	13,282,452
Increase (Decrease)	(6.00)	(\$668,511)	\$121,100	(\$547,411)

<sup>1</sup>The 2015-17 biennium agency appropriation amounts reflect general fund budget reductions made in August 2016.

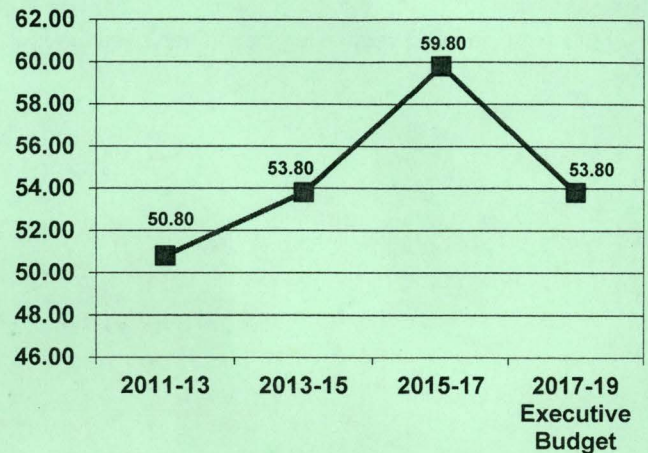
**Ongoing and One-Time General Fund Appropriations**

	Ongoing General Fund Appropriation	One-Time General Fund Appropriation	Total General Fund Appropriation
2017-19 Executive Budget	\$9,108,071	\$0	\$9,108,071
2015-17 Adjusted Legislative Appropriations	9,776,582	0	9,776,582
Increase (Decrease)	(\$668,511)	\$0	(\$668,511)

Agency Funding



FTE Positions



**Executive Budget Comparison to Base Level**

	General Fund	Other Funds	Total
2017-19 Executive Budget	\$9,108,071	\$3,626,970	\$12,735,041
2017-19 Base Level	9,776,582	3,505,870	13,282,452
Increase (Decrease)	(\$668,511)	\$121,100	(\$547,411)

**Executive Budget Highlights**

	General Fund	Other Funds	Total
1. Provides funding for state employee salary and benefit increases, of which \$52,374 is for salary increases and \$163,134 is for health insurance increases	\$163,530	\$51,978	\$215,508
2. Removes and unfunds 2 North Dakota University System (NDUS) audit FTE positions, including salary and benefit increases; unfunds an additional 2 NDUS audit FTE positions; and underfunds salaries agencywide	(\$172,978)	\$30,422	(\$142,556)
3. Removes 4 FTE positions from the Division of State Audits	(\$552,448)		(\$552,448)
4. Reduces funding for various operating expenses	(\$106,615)	\$38,700	(\$67,915)

**Other Bill Sections Recommended to be Added in the Executive Budget  
(As Detailed in House Bill No. 1064)**

**Salary of State Auditor** - Section 2 provides for the statutory changes necessary to increase the State Auditor's salary as follows:

Annual salary authorized by the 2015 Legislative Assembly:

July 1, 2015	\$102,689
July 1, 2016	\$105,770

Proposed annual salary recommended in the 2017-19 executive budget:

July 1, 2017	\$105,770
July 1, 2018	\$106,828

The executive budget includes funding for elected officials' salary increases of 1 percent effective July 1, 2018.

**Continuing Appropriations**

No continuing appropriations for this agency.

**Significant Audit Findings**

The financial audit for the State Auditor's office was conducted by Eide Bailly LLP for the biennium ended June 30, 2015, and there were no significant audit findings for this agency.

**Major Related Legislation**

At this time, no major related legislation has been introduced affecting this agency.

**State Auditor - Budget No. 117  
House Bill Nos. 1004 and 1064  
Base Level Funding Changes**

	<b>Executive Budget Recommendation</b>			
	<b>FTE Position</b>	<b>General Fund</b>	<b>Other Funds</b>	<b>Total</b>
<b>2017-19 Biennium Base Level</b>	59.80	\$9,776,582	\$3,505,870	\$13,282,452
<b>2017-19 Ongoing Funding Changes</b>				
Base payroll changes		(\$99,658)	\$30,422	(\$69,236)
Salary increase - Performance		39,742	12,632	52,374
Health insurance increase		123,788	39,346	163,134
Remove and unfund 2 NDUS audit FTE positions, including salary and benefit increases; unfund an additional 2 NDUS FTE positions; and underfund salaries agencywide	(2.00)	(73,320)		(73,320)
Reduce funding for operating expenses		(106,615)	38,700	(67,915)
Remove 4 FTE positions in Division of State Audit	(4.00)	(541,000)		(541,000)
Remove salary and benefit increases for 4 Division of State Audit FTE positions		(11,448)		(11,448)
<b>Total ongoing funding changes</b>	<b>(6.00)</b>	<b>(\$668,511)</b>	<b>\$121,100</b>	<b>(\$547,411)</b>
<b>One-time funding items</b>				
No one-time funding items				\$0
<b>Total one-time funding changes</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Total Changes to Base Level Funding</b>	<b>(6.00)</b>	<b>(\$668,511)</b>	<b>\$121,100</b>	<b>(\$547,411)</b>
<b>2017-19 Total Funding</b>	<b>53.80</b>	<b>\$9,108,071</b>	<b>\$3,626,970</b>	<b>\$12,735,041</b>

**Other Sections in State Auditor - Budget No. 117**

	<b>Executive Budget Recommendation</b>			
Salary of State Auditor				Section 2 provides the statutory changes to increase the State Auditor's salary by 1 percent effective July 1, 2018.

## Department 117 - State Auditor

## Appropriations Comparisons to the Original and Adjusted Base Budgets

### General Fund Appropriations Adjustments (As a result of the August 2016 General Fund Budget Reductions)

	Ongoing	One-Time	Total
2015-17 original general fund appropriations	\$10,461,832	\$0	\$10,461,832
General fund reductions	(685,250)		(685,250)
Adjusted 2015-17 appropriations	\$9,776,582	\$0	\$9,776,582
Executive Budget changes	(668,511)		(668,511)
2017-19 Executive Budget	\$9,108,071	\$0	\$9,108,071

### Summary of August 2016 General Fund Budget Reductions

	Ongoing	One-Time	Total
Salaries and wages savings related to a reduction in the number of auditors hired to implement the NDUS Performance Audit Division	(\$434,032)	\$0	(\$434,032)
Salaries and wages savings related to staff turnover and retirement	(232,514)		(232,514)
Operating expense savings related to reductions in travel and training	(18,704)		(18,704)
Total reductions	(\$685,250)	\$0	(\$685,250)
Percentage reduction to ongoing and one-time general fund appropriations	6.55%	0.00%	6.55%

### 2017-19 Executive Budget Changes to the Original and Adjusted Base Budgets

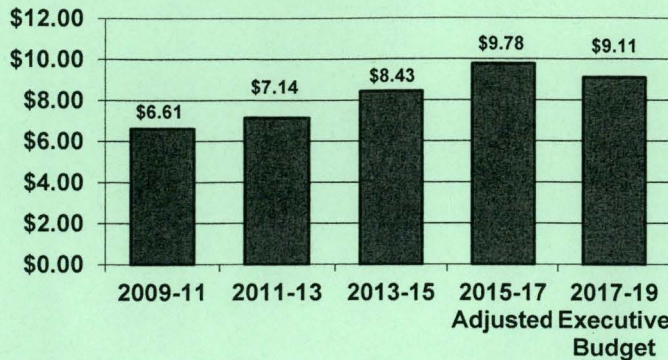
	Changes to Original Budget	Budget Reduction Adjustments	Changes to Adjusted Budget
Adds funding for recommended salary and benefit increases	\$163,530	\$0	\$163,530
Reduces funding for salaries and wages	(839,524)	666,546	(172,978)
Removes 4 FTE positions from the Division of State Audits, including salary and benefit increases	(552,448)		(552,448)
Adjust funding for various operating expenses	(125,319)	18,704	(106,615)
Total	(\$1,353,761)	\$685,250	(\$668,511)

Department 117 - State Auditor

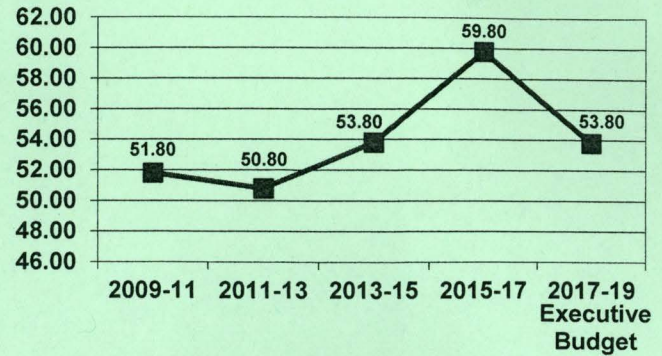
# Historical Appropriations Information

## Ongoing General Fund Appropriations Since 2009-11

Agency Funding (in Millions)



FTE Positions



Ongoing General Fund Appropriations					
	2009-11	2011-13	2013-15	2015-17 Adjusted	2017-19 Executive Budget
Ongoing general fund appropriations	\$6,612,229	\$7,143,808	\$8,428,489	\$9,776,582	\$9,108,071
Increase (decrease) from previous biennium	N/A	\$531,579	\$1,284,681	\$1,348,093	(\$668,511)
Percentage increase (decrease) from previous biennium	N/A	8.0%	18.0%	16.0%	(6.8%)
Cumulative percentage increase (decrease) from 2009-11 biennium	N/A	8.0%	27.5%	47.9%	37.7%

### Major Increases (Decreases) in Ongoing General Fund Appropriations

#### 2011-13 Biennium

1. No major changes

#### 2013-15 Biennium

1. Added 2 financial auditor FTE positions \$248,734
2. Increased funding for state information technology vulnerability testing to provide a total of \$250,000 \$100,000
3. Added funding for temporary salaries related to the *Comprehensive Annual Financial Report* \$70,000
4. Increased funding for lease costs \$100,000

#### 2015-17 Biennium (Original Amounts)

1. Added funding for 6 auditor FTE positions and related operating expenses to provide audit services to the State Board of Higher Education and its institutions (This item was affected by the 2015-17 budget reductions) \$1,221,914

#### 2017-19 Biennium (Executive Budget Recommendation)

1. Removes 4 FTE positions from the Division of State Audits (\$552,448)
2. Removes and unfunds 2 NDUS audit FTE positions, including salary and benefit increases; unfunds an additional 2 NDUS audit FTE positions; and underfunds salaries agencywide (\$172,978)

**TESTIMONY BEFORE THE  
HOUSE APROPRIATIONS COMMITTEE  
GOVERNMENT OPERATIONS DIVISION  
Representative Mike Brandenburg, Chairman**

January 12, 2017

---

H.B. No. 1004 & H.B. No. 1064

Testimony - Presented by:  
Joshua C. Gallion, State Auditor

---

**Representative Mike Brandenburg, Chairman**  
**Representative Randy Boehning, Vice Chairman**  
**Representative Roger Brabandt**  
**Representative Lois Delmore**  
**Representative Keith Kempenich**  
**Representative Mike Nathe**  
**Representative Don Vigesaa**

## Section I - Introduction

---

Mr. Chairman, members of the committee, good afternoon. My name is Joshua C. Gallion, North Dakota's 17th State Auditor and I'm here to testify on House Bills 1004 & 1064 that provide appropriations for the operation of the State Auditor's Office (SAO).

The State Auditor's Office is the public's greatest resource to promote effective and responsive government. The work accomplished by our outstanding employees, who promote transparency and continuous improvement of North Dakota's government institutions, is a value-added investment by the legislature that provides a level of assurance our government is operating as intended. My goal is to make sure this continues while also working with our clients to provide them with information on the audit processes and transform the oftentimes negative perception of auditing. Audits can be an extremely valuable tool to those responsible for and trusted with the public resources if they understand the benefits. Building this partnership can be accomplished through clear, concise communication of the work to be performed by the auditors, the expectations of the client, and emphasizing the purpose of recommendations are to help improve operations.

The State Auditor's Office has a solid foundation for the improvements we intend to make. A brief overview of major accomplishments this biennium includes:

1. A performance audit of the Department of Trust Lands identified over 60 areas for improvement, including opportunities to increase revenues and ensuring millions of dollars in royalty payments are allocated to the proper trusts.
2. The Higher Education Audit Division made recommendations relating to more effective use of purchase cards, resulting in potential estimated annual rebates and cost savings of \$2 million to \$6 million, if implemented.
3. The Single Audit performed by the State Auditor's Office is a federal mandate for the receipt of federal funding by the state of North Dakota. The growth in federal funds compared to audit hours from fiscal years 2005 and 2006 to 2015 and 2016 has been 54% and 33%, respectively. The use of electronic workpapers, as well

as being able to retain qualified and professional staff, are two factors that have made it possible for us to limit the growth of audit hours.

I believe the continuous improvement we seek in others and ourselves is clearly highlighted by these accomplishments.

As an accountant and someone who has been involved with government accounting for several years, I understand the financial issues facing our state and the difficult decisions before the Legislature. I also appreciate simplicity; to me it boils down to resource allocation to best fund the state's priorities that provides the greatest in both value to North Dakota and return on investment of public resources. The State Auditor's Office is ready and prepared to play its part in the necessary reductions to balance the budget and still meet our statutory obligations. Under current law, the audits our office performs would still be required even with reduced staffing to the State Auditor's Office, transferring this obligation to other government entities. Those entities that do not receive an audit from the State Auditor's Office will be required to hire a private CPA firm and bear the cost, which would be significantly higher than certain proposed cuts in House Bill 1064.

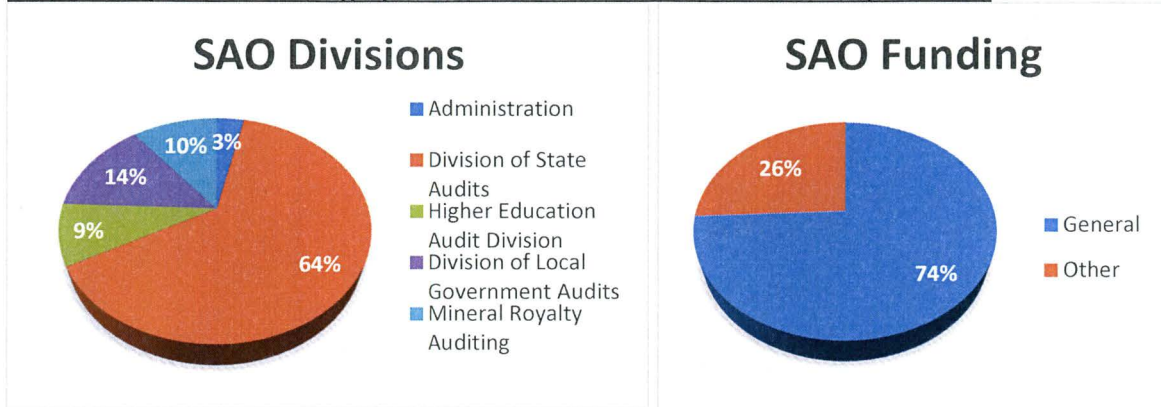
Our proposed amendment to House Bill 1004 in Section III of this testimony adjusts funding to allow our office to continue meeting our statutory requirements. We feel confident in the value the Higher Education Performance Audit Division provides but propose to eliminate 2.0 full-time employee positions that are currently vacant. It also adjusts the operating budget to better reflect estimated expenses and the current budget situation. Lastly, we are proposing a postponement of the security audits of the state and the university system next biennium but restored in the 2019-2021 biennium. Again, this amendment allows the State Auditor's Office to meet all of our statutory obligations.

Next I'll walk through the information requested in the letter from Legislative Council dated December 21, 2016.



## Section II - Items specifically requested by House Appropriations Committee

- Financial audit findings included in the most recent audit.  
None
- Major components making up the “base level” amounts for our department.



- Major ongoing funding increases approved
  - North Dakota University System Security Review - \$300,000
  - Higher Education Audit Division - \$1,200,000
- Effects of the budget reductions approved during the August 2016 special session

Line Item	Original 2015-2017	Allotments	Base Budget	%	Estimated Expenditures	Estimated Balance
Salaries & Wages	12,322,192	666,546	11,655,646	88%	11,083,596	572,050 *
Operating	1,195,510	18,704	1,176,806	9%	1,126,146	50,660
Security Audits	450,000	0	450,000	3%	431,991	18,009
<b>Total</b>	<b>13,967,702</b>	<b>685,250</b>	<b>13,282,452</b>		<b>12,641,733</b>	<b>640,719</b>

Source	Original 2015-2017	Allotments	Budget	%	Estimated Expenditures	Estimated Balance
General	10,461,832	685,250	9,776,582	74%	9,596,250	180,332
Other	3,505,870	0	3,505,870	26%	3,045,483	460,387 *
<b>Total</b>	<b>13,967,702</b>	<b>685,250</b>	<b>13,282,452</b>		<b>12,641,733</b>	<b>640,719</b>

\* Due to unfilled positions in Division of Local Government Audits and Mineral Royalty Auditing Divisions

- Proposed budget reductions to meet the Governor’s 90 percent budget request.  
State Auditor’s Office unfunded 4 positions in the Higher Education Audit Division and 1 position in the State Agency Division.
- 2017-19 budget changes recommended by the Governor to the “base level.”  
Governor eliminated 2 positions in the Higher Education Audit Division and left 2 of the remaining 4 positions unfunded. Governor eliminated an additional 4 positions in the Division of State Audit.
- Known or potential changes in the level of federal funding received.  
None.

SECTION III

TESTIMONY BEFORE THE  
HOUSE APROPRIATIONS COMMITTEE  
GOVERNMENT OPERATIONS DIVISION  
Representative Mike Brandenburg, Chairman

January 12, 2017

Requested changes to House Bill 1004

1. Adjust salaries to maintain existing operations - \$302,723
2. Adjust operating to level required – \$(52,723)
3. Postpone security audits for one biennium - \$(450,000)

\*\*\*\*\*

**PROPOSED AMENDMENTS TO HOUSE BILL NO. 1004**

- Page 1, line 10, replace "0" with "302,723"
- Page 1, line 10, replace "11,655,646" with "11,958,369"
- Page 1, line 11, replace "0" with "(52,723)"
- Page 1, line 11, replace "1,176,806" with "1,124,083"
- Page 1, line 12, replace "0" with "(200,000)"
- Page 1, line 12, replace "200,000" with "0"
- Page 1, line 14, replace "0" with "(250,000)"
- Page 1, line 14, replace "250,000" with "0"
- Page 1, line 15, replace "0" with "(200,000)"
- Page 1, line 15, replace "13,282,452" with "13,082,452"
- Page 1, line 16, replace "0" with "(200,000)"
- Page 1, line 16, replace "3,505,870" with "3,305,870"
- Page 1, line 18, replace "0" with "(2.0)"
- Page 1, line 18, replace "59.8" with "57.8"

---

## Section IV - Program Goals, Objectives, and Accomplishments

---

The activities of the Office of the State Auditor are carried out through five programs, each of which has its own goals, objectives, and strategies. The following pages provide an overview of each of these programs.

### **Program 1 - Administration**

This program includes 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.

### **Program 2 - Division of State Audits**

The Division of State Audits conducts performance, operational, information technology, and financial statement audits of state agencies. Each of these is discussed below.

#### **Performance Audits -**

During the 2015-2017 biennium the performance audit section in Bismarck completed an audit of the Department of Trust Lands. The audit resulted in 3 separate reports and included 61 recommendations. The audit included a review of:

- Energy infrastructure and impact office grants.
- Unclaimed property.
- Trust assets and department resources.

Pursuant to a request from the Legislative Audit and Fiscal Review Committee, work was started on a performance audit of the foundations at North Dakota State University and the University of North Dakota. After the scope of the audit had been established by our office, the Legislative Audit and Fiscal Review Committee passed a motion at the October 2016 meeting for our office to defer any further action on the performance audit until further direction is provided by the Committee. No work has been performed on the foundations audit since the motion by the Committee.

Pursuant to a request from the Legislative Audit and Fiscal Review Committee, work is ongoing for a performance audit of the space utilization study completed for the State Board of Higher

Education during the 2013-15 biennium. It is anticipated the results of this audit will be available for the 2017 Legislature.

A performance audit follow-up is conducted to determine the status of recommendations contained in the original performance audit report. The following two follow-up reports have been completed:

- Use of State-Supplied Vaccines by a Provider: the 5 recommendations were determined to be fully implemented.
- State Water Commission Water Appropriations Division: 23 of the 26 recommendations were determined to be fully implemented. The remaining recommendations were determined to be partially implemented.

Follow-up work is being performed related to the performance audits of Fees Charged at NDSU and UND as well as the University System Office. The two follow-up reports will be completed by the end of the 2017 Legislature. In addition, it is anticipated follow-up work will also be conducted on the Game and Fish Department performance audit. The follow-up report will be completed before June 30, 2017.

### **Operational Audits -**

Our two-year biennial audits of state agencies are conducted in accordance with performance audit standards. The objectives of these audits are to provide reliable, audited financial statements and to answer the following questions: 1) What are the highest risk areas of the agencies' operations and is internal control adequate in these areas; 2) What are the significant and high-risk areas of legislative intent applicable to the agencies and are they in compliance with significant laws and regulations; and 3) Are there areas of the agencies' operations where we can help to improve efficiency or effectiveness?

Operational improvements come from working with state agencies and using our expertise and research to offer constructive assistance and make recommendations for improvement. Our goal is to help individuals do their assigned work as efficiently and effectively as possible while giving them better control over the process.

The office has done several best practice reviews, identifying who in the United States are the leaders in the applicable fields and comparing state agency operations to those leaders and innovators. Further, we have worked on regulatory programs to ensure legislative intent is fulfilled

economically and effectively. Perhaps our most important work resulted from calls for an audit relating to a tragic death of a child in Tioga. This audit resulted in recommended improvements to the Early Childhood Services Licensing Program.

### **Information Technology Audits –**

The Office of the State Auditor performs information systems audits on individual computer applications and on the Information Technology Department (ITD). In addition, we hire a consultant once a biennium to do a security audit of ITD and the state network, and a separate consultant to do a security audit of the North Dakota University System.

During the current biennium we completed a service organization audit of ITD and conducted reviews of NDUS ConnectND Human Resource Management System and both state and NDUS ConnectND Financials. We also conducted a review of the new Medical Management Information System (MMIS) at the Department of Human Services.

The information systems auditors continue to maintain our electronic working paper system (TeamMate). Information systems auditors are also responsible for helping with computer assisted audit techniques. In March of 2016, the desktop support for the State Auditor's Office was transferred to ITD. We worked closely with ITD to ensure the success of the transition and have been satisfied with the service from ITD which has provided more time for our Information Technology Auditors to conduct and assist on audits.

### **Financial Statement Audits -**

The Office of the State Auditor performs annual financial statement audits that include the state's Comprehensive Annual Financial Report (CAFR), North Dakota University System (NDUS), State Mill and Elevator, and the North Dakota Lottery.

Timely completion of the CAFR audit continues to help the state achieve the highest possible credit rating. Additional audit work has resulted from the growth of state expenditures. In 2006 the Statement of Activities reported \$3.5 billion dollars of expenses, while the most recent Statement of Activities reported \$8 billion dollars of expenses. We continue to refine our audit process to ensure timely audits.

The statewide single audit of federal assistance received by state agencies is a type of financial statement audit. This audit is required by federal law and is performed once every two years.

The 2015-2016 single audit budget is just under 17,000 hours and will cover over \$3.7 billion of federal assistance. All colleges and universities and 32 state agencies receive and spend federal financial assistance.

The federal funds expended by the state has increased 54% from \$2.4 billion in the 2005-2006 single audit to \$3.7 billion in the 2015-2016 single audit. This increase in federal funds expended by the state, along with the increase in federal regulations relating to auditing federal funds expended by the state, has caused the audit effort for this project to increase from 12,714 hours for the 2005-2006 single audit to just under 17,000 hours for the 2015-2016 single audit.

### **Program 3 – Higher Education Audit Division**

This division was established as a result of changes made by the 2015 legislative session. The division officially commenced operations in November 2015 when the audit manager began employment with the division. The division then added three staff auditors between December 2015 and June 2016. One of these staff auditors transferred from the Division of State Audits and the other two were outside hires.

Because none of the auditors in the division had performance audit experience prior to their employment and only one of the staff auditors had more than one year of general auditing experience, much of the division's efforts in its first year focused on training, both external and on-the-job. The division also met with the University System office and the colleges and universities and developed potential audit topics.

The division has issued a performance audit of the purchasing card program at the North Dakota University System and generated recommendations to streamline the purchasing card program, improve internal controls and efficiency of the program and better utilize the purchasing cards to generate additional cash rebates and cost savings.

Furthermore, the division currently has three performance audits in progress anticipated to be issued at various dates in 2017. The first is an audit of the operations of NDSU Parking and Transportation Services. The second audit is an assessment of the emergency operations plans at the four-year regional institutions. The third is an assessment of certain elements of the strategic plan at NDSCS.

#### **Program 4 – Division of Local Government Audits**

The local government division is entirely self-funded. It operates on revenue generated from audit fees, fees charged for reviewing small government reports and private auditing firms' audit reports.

##### **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. Over a two-year period our office performs about 85 audits, with public accounting firms performing about 686 local government audits during that time.

##### **Annual Reports of Small Entities -**

Cities with less than 500 people, school districts with less than 100 enrolled students, park districts and soil conservation districts with less than \$200,000 of annual receipts, and other political subdivisions with less than \$300,000 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, school districts, rural fire protection districts and rural ambulance service districts.

##### **Review of State Subrecipient Audit Reports -**

This division also reviews audit reports of local governments receiving federal financial assistance from 10 state agencies. This service saves those agencies from having to review the reports themselves. We review about 300 audit reports for these 10 state agencies.

#### **Program 5 - Mineral Royalty Auditing**

This program was started in 1982 and in 1985 the federal government started funding the program 100%. 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 leases located within the state. Royalty payments are made on oil, gas, and coal leases. There are currently 10 states and 7 Native American tribes participating in this program with the U.S. Department of Interior, Office of Natural Resources Revenue (ONRR).

---

## Section V - History and Description of State Auditor

---

### Brief Historical Perspective

The duties and responsibilities of the State Auditor are included in Article V, § 2 of the North Dakota Constitution and Chapter 54-10 of the North Dakota Century Code. Significant events include the following:

- 1889 – North Dakota's first State Auditor took office. Much as county and city auditors function to this day, for the first 72 years of the state's existence the State Auditor functioned as a bookkeeper or accountant rather than a true "auditor."
- 1961 – The State Auditor's responsibilities were changed to performing the post audit of all financial transactions of state government. At the time this meant auditing 100 separate departments.
- 1969 – The State Auditor began performing audits of political subdivisions.
- 1971 – The Legislature gave counties the option to contract for their own audits and soon after that other political subdivisions were given the same power.
- 1973 – The State Auditor modernized operations of the office by adopting generally accepted auditing standards.
- 1975 – The State Auditor started to conduct performance audits to help improve the effectiveness and efficiency of state government.
- 1982 – The State Auditor was given the responsibility for performing royalty audits to ensure royalties are properly paid on federal oil, gas and coal leases.
- 1984 – The Single Audit Act was passed. This act combined the responsibilities for auditing government financial statements with auditing compliance with requirements relating to federal financial assistance. The State Auditor was given this responsibility, significantly increasing the auditors' work load.
- 1986 – Because of the demands associated with the Single Audit Act, performance audits were discontinued.
- 1991 – The Legislature funded additional positions for the State Auditor to establish a performance audit function.
- 1991 – The Legislature required the State Auditor to audit the state-wide financial statements. At this time biennial agency audit reports went from including financial statements prepared in accordance with generally accepted accounting principles to only including reports on internal control and compliance with laws and regulations.
- 1991 – The State Auditor's Division of Local Government Audits became self-sufficient by the establishment of an operating fund for its revenues and expenditures.
- 1997 – Biennial agency audits started to include a statement of revenues and expenditures and an appropriations statement. These statements were audited in accordance with the financial statement audit standards.
- 2000 – Biennial agency audits switched to following the performance audit standards rather than the financial statement audit standards. This change was done in consultation with the Legislative Audit and Fiscal Review Committee. The objectives for biennial agency



performance audits are to: provide reliable financial statements; identify and test controls for the most important areas of internal control; identify and test compliance for the most significant and high-risk areas of legislative intent; and determine if there are areas of agency operations where we can help to improve efficiency or effectiveness.

- 2005 – The State Auditor received funding and authority to conduct the first information technology security audit of the state.
- 2013 – The first IT security audit of the North Dakota University System.
- 2015 – The Higher Education audit division established by NDCC section 54-10-30. Desktop support of computers was taken over by ITD, which provided more time to perform Information Technology audits.

February 1, 2017

HB1004/ HB1064

Attachment A

**State Auditor - HB 1004**

**2015-2017 Base Budget**

	Salaries & Wages	Operating	Security Reviews	Total	FTE
General Funds	\$8,718,226	\$808,356	\$250,000	\$9,776,582	45.8
Special Funds	\$1,608,419	\$200,000	\$200,000	\$2,008,419	8.0
Federal Funds	\$1,329,001	\$168,450	\$0	\$1,497,451	6.0

<b>Total Base Budget/HB 1004</b>	<b>\$11,655,646</b>	<b>\$1,176,806</b>	<b>\$450,000</b>	<b>\$13,282,452</b>	<b>59.8</b>
----------------------------------	---------------------	--------------------	------------------	---------------------	-------------

**Adjustments by State Auditor**

	Salaries & Wages	Operating	Security Reviews	Total	FTE
Adjustments - General Funds	\$302,723	(\$52,723)	(\$250,000)	\$0	(2.0)
Adjustments - Special Funds	\$0	\$0	(\$200,000)	(\$200,000)	0.0
Adjustments - Heath Ins. Increase	\$173,400	\$0	\$0	\$173,400	0.0

These adjustments fund 4 of the 6 Higher Education Audit Division and eliminate the 2 remaining vacant positions. The adjustment also suspends the security reviews of the State and University System for the 2017-2019 biennium.

General Funds	\$9,152,349	\$755,633	\$0	\$9,776,582	43.8
Special Funds	\$1,632,419	\$200,000	\$0	\$1,808,419	8.0
Federal Funds	\$1,347,001	\$168,450	\$0	\$1,497,451	6.0

<b>Adjusted Totals</b>	<b>\$12,131,769</b>	<b>\$1,124,083</b>	<b>\$0</b>	<b>\$13,082,452</b>	<b>57.8</b>
------------------------	---------------------	--------------------	------------	---------------------	-------------

**Requested 5% Reduction**

	Salaries & Wages	Operating	Security Reviews	Total	FTE
Unfund Positions & Reduce Operating	(\$462,085)	(\$26,744)	\$0	(\$488,829)	0.0
Reclassification	\$25,000	\$0	\$0	\$25,000	0.0

General Funds	\$8,715,264	\$728,889	\$0	\$9,312,753	43.8
Special Funds	\$1,632,419	\$200,000	\$0	\$1,808,419	8.0
Federal Funds	\$1,347,001	\$168,450	\$0	\$1,497,451	6.0

<b>Requested 5% Totals</b>	<b>\$11,694,684</b>	<b>\$1,097,339</b>	<b>\$0</b>	<b>\$12,618,623</b>	<b>57.8</b>
----------------------------	---------------------	--------------------	------------	---------------------	-------------

February 1, 2017

HB1004/HR1064

Attachment B

**State Auditor - Budget No. 117  
House Bill No. 1004  
Base Level Funding Changes**

	Burgum Executive Budget Recommendation (Changes to Dalrymple Budget in Bold)				House Version				House Changes to Revised Executive Budget Increase (Decrease)			
	FTE	General	Other	Total	FTE	General	Other	Total	FTE	General	Other	Total
	Position	Fund	Funds		Position	Fund	Funds		Positions	Fund	Funds	
<b>2017-19 Biennium Base Level</b>	59.80	\$9,776,582	\$3,505,870	\$13,282,452	59.80	\$9,776,582	\$3,505,870	\$13,282,452	0.00	\$0	\$0	\$0
<b>2017-19 Ongoing Funding Changes</b>												
Base payroll changes		(\$99,658)	\$30,422	(\$69,236)				\$0		\$99,658	(\$30,422)	\$69,236
<b>Salary increase - Performance</b>				<b>0</b>				0				0
Health insurance increase		123,788	39,346	163,134				0		(123,788)	(39,346)	(163,134)
<b>Employee portion of health insurance</b>		<b>(64,848)</b>	<b>(20,611)</b>	<b>(85,459)</b>				0		64,848	20,611	85,459
Remove and unfund 2 NDUS audit FTE positions, including salary and benefit increases; unfund an additional 2 NDUS FTE positions; and underfund salaries agencywide	(2.00)	(73,320)		(73,320)				0	2.00	73,320		73,320
Reduce funding for operating expenses		(106,615)	38,700	(67,915)				0		106,615	(38,700)	67,915
Remove 4 FTE positions in Division of State Audit	(4.00)	(541,000)		(541,000)				0	4.00	541,000		541,000
Remove salary and benefit increases for 4 Division of State Audit FTE positions		(11,448)		(11,448)				0		11,448		11,448
<b>Reduce information technology consultants to provide an additional 1 percent budget reduction</b>		<b>(89,445)</b>		<b>(89,445)</b>				0		89,445		89,445
Total ongoing funding changes	(6.00)	(\$862,546)	\$87,857	(\$774,689)	0.00	\$0	\$0	\$0	6.00	\$862,546	(\$87,857)	\$774,689
<b>One-time funding items</b>												
No one-time funding items				\$0				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
<b>Total Changes to Base Level Funding</b>	(6.00)	(\$862,546)	\$87,857	(\$774,689)	0.00	\$0	\$0	\$0	6.00	\$862,546	(\$87,857)	\$774,689
<b>2017-19 Total Funding</b>	53.80	\$8,914,036	\$3,593,727	\$12,507,763	59.80	\$9,776,582	\$3,505,870	\$13,282,452	6.00	\$862,546 9.7%	(\$87,857) (2.4%)	\$774,689 6.2%

Other Sections in State Auditor - Budget No. 117

**Burgum Executive Budget Recommendation  
(Changes to Dalrymple Budget in Bold)**

House Version

Salary of State Auditor

Section 2 provides the statutory changes to increase the State Auditor's salary by 1 percent effective July 1, 2018. **(The Burgum budget recommendation removes this section.)**

February 7, 2017

HB1004/HB1064

Attachment A

Prepared by the Legislative Council staff  
for House Appropriations Committee -  
Government Operations  
February 1, 2017

**HOUSE BILL NO. 1004**  
**LISTING OF PROPOSED CHANGES TO BASE LEVEL**

**Department - State Auditor**

**Proposed funding changes:**

Description	FTE	General Fund	Special Funds	Total
1 Adjusts funding for base payroll changes		(\$99,658)	\$30,422	(\$69,236)
2 Adds funding for health insurance increase		123,788	39,346	163,134
3 Restores funding for 4 NDUS audit FTE positions removed by the State Auditor to submit a 90 percent budget		611,300		611,300
4 Removes 2 NDUS audit FTE and related salaries and wages	(2.00)	(297,135)		(297,135)
5 Underfunds salaries and wages agencywide		(462,085)		(462,085)
6 Restores funding for salaries and wages agencywide reduced by the State Auditor to submit a 90 percent budget		88,216		88,216
7 Adds funding for salaries and wages to reclassify 1 FTE auditor position to a budget specialist position		25,000		25,000
8 Adjusts funding for operating expenses		(106,615)	38,700	(67,915)
9 Reduces funding for operating expenses		(26,744)		(26,744)
10 Restores additional reduction made to operating expense in the executive recommendation		25,000		25,000
11 Restores funding for operating expenses related to the 4 NDUS audit FTE positions		41,392		41,392
12 Removes funding for operating expenses related to 2 NDUS audit FTE removed from the budget		(12,500)		(12,500)
13 Removes funding for NDUS information technology security audits			(200,000)	(200,000)
14 Removes funding for information technology consultants		(250,000)		(250,000)
Total proposed funding changes	(2.00)	(\$340,041)	(\$91,532)	(\$431,573)
Reduction to base level needed for a 5 percent reduction to the Dalrymple recommendation		(\$1,123,915.00)		

**Other proposed changes:**

- 1 Adds a section to identify additional funding provided for health insurance increases.

1

February 7, 2017

HB1004/HB1064

Attachment B

**State Auditor - Budget No. 117  
House Bill No. 1004  
Base Level Funding Changes**

	Burgum Executive Budget Recommendation (Changes to Dalrymple Budget in Bold)				House Version				House Changes to Revised Executive Budget Increase (Decrease)			
	FTE Position	General Fund	Other Funds	Total	FTE Position	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
<b>2017-19 Biennium Base Level</b>	59.80	\$9,776,582	\$3,505,870	\$13,282,452	59.80	\$9,776,582	\$3,505,870	\$13,282,452	0.00	\$0	\$0	\$0
<b>2017-19 Ongoing Funding Changes</b>												
Base payroll changes		(\$99,658)	\$30,422	(\$69,236)		(\$99,658)	\$30,422	(\$69,236)				\$0
<b>Salary increase - Performance</b>				<b>0</b>				<b>0</b>				<b>0</b>
Health insurance increase		123,788	39,346	163,134		123,788	39,346	163,134				0
<b>Employee portion of health insurance</b>		<b>(64,848)</b>	<b>(20,611)</b>	<b>(85,459)</b>				<b>0</b>		64,848	20,611	85,459
Remove and unfund 2 NDUS audit FTE positions, including salary and benefit increases; unfund an additional 2 NDUS FTE positions; and underfund salaries agencywide	(2.00)	(73,320)		(73,320)				<b>0</b>	2.00	73,320		73,320
Restores funding for 4 NDUS audit FTE positions				0		611,300		611,300		611,300		611,300
Removes 2 NDUS audit FTE and related salaries and wages				0	(2.00)	(297,135)		(297,135)	(2.00)	(297,135)		(297,135)
Underfunds salaries and wages agencywide				0		(462,085)		(462,085)		(462,085)		(462,085)
Restores funding for salaries and wages agencywide				0		88,216		88,216		88,216		88,216
Adds funding to reclassify a position				0		25,000		25,000		25,000		25,000
Removes 4 FTE positions in Division of State Audit	(4.00)	(541,000)		(541,000)				<b>0</b>	4.00	541,000		541,000
Removes salary and benefit increases for 4 Division of State Audit FTE positions		(11,448)		(11,448)				<b>0</b>		11,448		11,448
Adjusts funding for operating expenses		(106,615)	38,700	(67,915)		(106,615)	38,700	(67,915)				0
Reduces funding for operating expenses agencywide				0		(26,744)		(26,744)		(26,744)		(26,744)
Restores additional reduction made to operating expense in the executive recommendation				0		25,000		25,000		25,000		25,000

1

Restores funding for operating expenses related to the 4 NDUS audit FTE positions	0				41,392	41,392	41,392	41,392	41,392				
Removes funding for operating expenses related to the 2 NDUS audit FTE positions removed from the budget	0				(12,500)	(12,500)	(12,500)	(12,500)	(12,500)				
Removes funding for NDUS information technology security audits	0					(200,000)	(200,000)	(200,000)	(200,000)				
<b>Reduces information technology consultants</b>		<b>(89,445)</b>	<b>(89,445)</b>		(250,000)	(250,000)	(160,555)	(160,555)	(160,555)				
Total ongoing funding changes	(6.00)	(\$862,546)	\$87,857	(\$774,689)	(2.00)	(\$340,041)	(\$91,532)	(\$431,573)	4.00	\$522,505	(\$179,389)	\$343,116	
<b>One-time funding items</b>													
No one-time funding items				\$0				\$0				\$0	
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0	
<b>Total Changes to Base Level Funding</b>	<b>(6.00)</b>	<b>(\$862,546)</b>	<b>\$87,857</b>	<b>(\$774,689)</b>	<b>(2.00)</b>	<b>(\$340,041)</b>	<b>(\$91,532)</b>	<b>(\$431,573)</b>	<b>4.00</b>	<b>\$522,505</b>	<b>(\$179,389)</b>	<b>\$343,116</b>	
<b>2017-19 Total Funding</b>	<b>53.80</b>	<b>\$8,914,036</b>	<b>\$3,593,727</b>	<b>\$12,507,763</b>	<b>57.80</b>	<b>\$9,436,541</b>	<b>\$3,414,338</b>	<b>\$12,850,879</b>	<b>4.00</b>	<b>\$522,505</b>	<b>5.9%</b>	<b>(\$179,389)</b>	<b>\$343,116</b>
											<b>(5.0%)</b>	<b>2.7%</b>	

**Other Sections in State Auditor - Budget No. 117**

**Burgum Executive Budget Recommendation  
(Changes to Dalrymple Budget in Bold)**

**House Version**

Salary of State Auditor

Section 2 provides the statutory changes to increase the State Auditor's salary by 1 percent effective July 1, 2018. **(The Burgum budget recommendation removes this section.)**

This section is not included in the House Version.

Health insurance increase

A section is added to identify the appropriation provided to fund increases in employee health insurance premiums from \$1,130 to \$1,249 per month.

Department 117 - State Auditor  
House Bill No. 1004

**Dalrymple Executive Budget Comparison to Prior Biennium Appropriations**

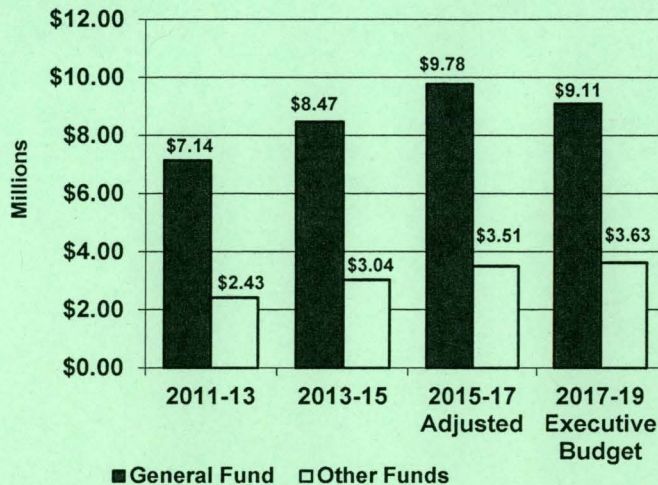
	FTE Positions	General Fund	Other Funds	Total
2017-19 Dalrymple Executive Budget	53.80	\$9,108,071	\$3,626,970	\$12,735,041
2015-17 Adjusted Legislative Appropriations <sup>1</sup>	59.80	9,776,582	3,505,870	13,282,452
Increase (Decrease)	(6.00)	(\$668,511)	\$121,100	(\$547,411)

<sup>1</sup>The 2015-17 biennium agency appropriation amounts reflect general fund budget reductions made in August 2016.

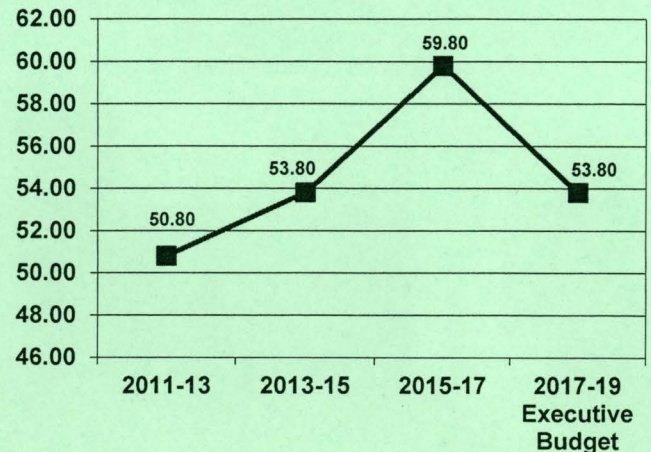
**Ongoing and One-Time General Fund Appropriations**

	Ongoing General Fund Appropriation	One-Time General Fund Appropriation	Total General Fund Appropriation
2017-19 Dalrymple Executive Budget	\$9,108,071	\$0	\$9,108,071
2015-17 Adjusted Legislative Appropriations	9,776,582	0	9,776,582
Increase (Decrease)	(\$668,511)	\$0	(\$668,511)

Agency Funding



FTE Positions



**Dalrymple Executive Budget Comparison to Base Level**

	General Fund	Other Funds	Total
2017-19 Dalrymple Executive Budget	\$9,108,071	\$3,626,970	\$12,735,041
2017-19 Base Level	9,776,582	3,505,870	13,282,452
Increase (Decrease)	(\$668,511)	\$121,100	(\$547,411)

**First House Action**

Attached is a comparison worksheet detailing first house changes to base level funding and the executive budget.

**Dalrymple and Burgum Executive Budget Highlights  
(With First House Changes in Bold)**

	General Fund	Other Funds	Total
1. Provides funding for state employee salary and benefit increases, of which \$52,374 is for salary increases and \$163,134 is for health insurance increases. (The Burgum budget removed funding for salary increases and provided for employees to pay for a portion of health insurance.) <b>The House removed funding for the salary increases.</b>	\$163,530	\$51,978	\$215,508
2. Removes and unfunds 2 FTE North Dakota University System (NDUS) audit positions, including salary and benefit increases; unfunds an additional 2 FTE NDUS audit positions; and underfunds salaries agencywide. <b>The House restored funding of \$652,692 for North Dakota University System audit FTE</b>	(\$172,978)	\$30,422	(\$142,556)



positions removed by the State Auditor as part of the 2015-17 biennium budget reductions, and removed 2 FTE auditor positions and \$309,635 of funding.

3. Removes 4 FTE positions from the Division of State Audits. The House did not remove these positions, but underfunded salaries and wages agencywide by \$373,869.	(\$552,448)		(\$552,448)
4. Reduces funding for various operating expenses.	(\$106,615)	\$38,700	(\$67,915)
5. The Burgum budget reduced funding by \$89,445 for information technology consultants. The House removed funding of \$250,000 from the general fund for information technology consultants, and \$200,000 of other funds for North Dakota University System information technology security audits.	(\$89,445)		(\$89,445)

### Other Sections in House Bill No. 1004

**Health insurance increase** - Section 2 identifies the amount included in the agency appropriations relating to increases in employee health insurance premiums from \$1,130 to \$1,249 per month.

### Continuing Appropriations

No continuing appropriations for this agency.

### Significant Audit Findings

The financial audit for the State Auditor's office was conducted by Eide Bailly LLP for the biennium ended June 30, 2015, and there were no significant audit findings for this agency.

### Major Related Legislation

**House Bill No. 1149 - Occupational and professional board audits and reports** - Amends North Dakota Century Code Section 54-10-27 to increase the annual receipts threshold from \$50,000 to \$100,000 for allowing occupational or professional boards to submit an annual report to the State Auditor's office instead of a required audit.

**State Auditor - Budget No. 117**  
**House Bill No. 1004**  
**Base Level Funding Changes**

	Burgum Executive Budget Recommendation (Changes to Dalrymple Budget in Bold)				House Version			
	FTE Position	General Fund	Other Funds	Total	FTE Position	General Fund	Other Funds	Total
<b>2017-19 Biennium Base Level</b>	59.80	\$9,776,582	\$3,505,870	\$13,282,452	59.80	\$9,776,582	\$3,505,870	\$13,282,452
<b>2017-19 Ongoing Funding Changes</b>								
Base payroll changes		(\$99,658)	\$30,422	(\$69,236)		(\$99,658)	\$30,422	(\$69,236)
<b>Salary increase - Performance</b>				<b>0</b>				<b>0</b>
Health insurance increase		123,788	39,346	163,134		123,788	39,346	163,134
<b>Employee portion of health insurance</b>		<b>(64,848)</b>	<b>(20,611)</b>	<b>(85,459)</b>				<b>0</b>
Remove and unfund 2 FTE NDUS audit positions, including salary and benefit increases, unfund an additional 2 FTE NDUS positions, and underfund salaries agencywide	(2.00)	(73,320)		(73,320)				<b>0</b>
Restores funding for 4 FTE NDUS audit positions				0		611,300		611,300
Removes 2 FTE NDUS audit and related salaries and wages				0	(2.00)	(297,135)		(297,135)
Underfunds salaries and wages agencywide				0		(462,085)		(462,085)
Restores funding for salaries and wages agencywide				0		88,216		88,216
Adds funding to reclassify a position				0		25,000		25,000
Removes 4 FTE positions in Division of State Audit	(4.00)	(541,000)		(541,000)				<b>0</b>
Removes salary and benefit increases for 4 FTE Division of State Audit positions		(11,448)		(11,448)				<b>0</b>
Adjusts funding for operating expenses		(106,615)	38,700	(67,915)		(106,615)	38,700	(67,915)
Reduces funding for operating expenses agencywide				0		(26,744)		(26,744)

u

Restores additional reduction made to operating expense in the executive recommendation	0				25,000		25,000
Restores funding for operating expenses related to the 4 FTE NDUS audit positions	0				41,392		41,392
Removes funding for operating expenses related to the 2 FTE NDUS audit positions removed from the budget	0				(12,500)		(12,500)
Removes funding for NDUS information technology security audits	0					(200,000)	(200,000)
<b>Reduces information technology consultants</b>		<b>(89,445)</b>		<b>(89,445)</b>		<b>(250,000)</b>	<b>(250,000)</b>
Total ongoing funding changes	(6.00)	(\$862,546)	\$87,857	(\$774,689)	(2.00)	(\$340,041)	(\$91,532)
<b>One-time funding items</b>							
No one-time funding items				\$0			\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0
<b>Total Changes to Base Level Funding</b>	<b>(6.00)</b>	<b>(\$862,546)</b>	<b>\$87,857</b>	<b>(\$774,689)</b>	<b>(2.00)</b>	<b>(\$340,041)</b>	<b>(\$91,532)</b>
<b>2017-19 Total Funding</b>	<b>53.80</b>	<b>\$8,914,036</b>	<b>\$3,593,727</b>	<b>\$12,507,763</b>	<b>57.80</b>	<b>\$9,436,541</b>	<b>\$3,414,338</b>

**Other Sections in State Auditor - Budget No. 117**

**Burgum Executive Budget Recommendation  
(Changes to Dalrymple Budget in Bold)**

**House Version**

Salary of State Auditor

Section 2 provides the statutory changes to increase the State Auditor's salary by 1 percent effective July 1, 2018. **(The Burgum budget recommendation removes this section.)**

This section is not included in the House Version.

Health insurance increase

A section is added to identify the appropriation provided to fund increases in employee health insurance premiums from \$1,130 to \$1,249 per month.

## Department 117 - State Auditor

## Appropriations Comparisons to the Original and Adjusted Base Budgets

### General Fund Appropriations Adjustments (As a result of the August 2016 General Fund Budget Reductions)

	Ongoing	One-Time	Total
2015-17 original general fund appropriations	\$10,461,832	\$0	\$10,461,832
General fund reductions	(685,250)		(685,250)
Adjusted 2015-17 appropriations	\$9,776,582	\$0	\$9,776,582
Dalrymple Executive Budget changes	(668,511)		(668,511)
2017-19 Dalrymple Executive Budget	\$9,108,071	\$0	\$9,108,071

### Summary of August 2016 General Fund Budget Reductions

	Ongoing	One-Time	Total
Salaries and wages savings related to a reduction in the number of auditors hired to implement the NDUS Performance Audit Division	(\$434,032)	\$0	(\$434,032)
Salaries and wages savings related to staff turnover and retirement	(232,514)		(232,514)
Operating expense savings related to reductions in travel and training	(18,704)		(18,704)
Total reductions	(\$685,250)	\$0	(\$685,250)
Percentage reduction to ongoing and one-time general fund appropriations	6.55%	0.00%	6.55%

### 2017-19 Dalrymple Executive Budget Changes to the Original and Adjusted Base Budgets

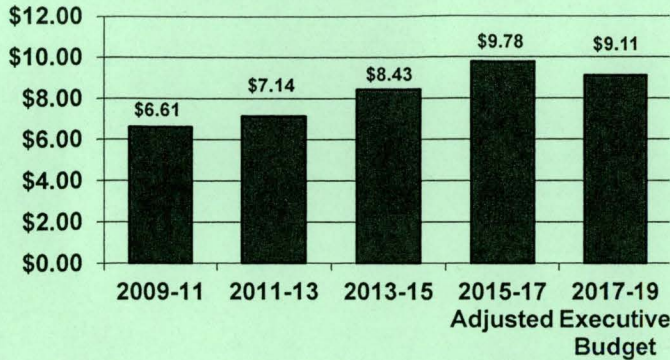
	Changes to Original Budget	Budget Reduction Adjustments	Changes to Adjusted Budget
Adds funding for recommended salary and benefit increases	\$163,530	\$0	\$163,530
Reduces funding for salaries and wages	(839,524)	666,546	(172,978)
Removes 4 FTE positions from the Division of State Audits, including salary and benefit increases	(552,448)		(552,448)
Adjust funding for various operating expenses	(125,319)	18,704	(106,615)
Total	(\$1,353,761)	\$685,250	(\$668,511)

Department 117 - State Auditor

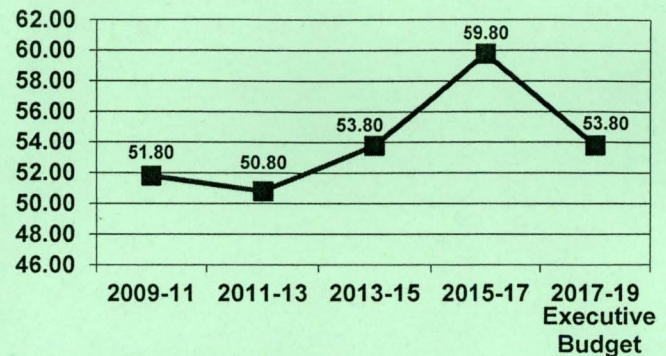
# Historical Appropriations Information

## Ongoing General Fund Appropriations Since 2009-11

Agency Funding (in Millions)



FTE Positions



Ongoing General Fund Appropriations					
	2009-11	2011-13	2013-15	2015-17 Adjusted	2017-19 Dalrymple Executive Budget
Ongoing general fund appropriations	\$6,612,229	\$7,143,808	\$8,428,489	\$9,776,582	\$9,108,071
Increase (decrease) from previous biennium	N/A	\$531,579	\$1,284,681	\$1,348,093	(\$668,511)
Percentage increase (decrease) from previous biennium	N/A	8.0%	18.0%	16.0%	(6.8%)
Cumulative percentage increase (decrease) from 2009-11 biennium	N/A	8.0%	27.5%	47.9%	37.7%

### Major Increases (Decreases) in Ongoing General Fund Appropriations

**2011-13 Biennium**

1. No major changes

**2013-15 Biennium**

- |   |           |
|---|-----------|
| 1. Added 2 FTE financial auditor positions  | \$248,734 |
| 2. Increased funding for state information technology vulnerability testing to provide a total of \$250,000 | \$100,000 |
| 3. Added funding for temporary salaries related to the <i>Comprehensive Annual Financial Report</i>         | \$70,000  |
| 4. Increased funding for lease costs  | \$100,000 |

**2015-17 Biennium (Original Amounts)**

- |   |             |
|---|-------------|
| 1. Added funding for 6 FTE auditor positions and related operating expenses to provide audit services to the State Board of Higher Education and its institutions (This item was affected by the 2015-17 budget reductions) | \$1,221,914 |
|---|-------------|

**2017-19 Biennium (Dalrymple and Burgum Executive Budget Recommendations)**

- |   |             |
|---|-------------|
| 1. Removes 4 FTE positions from the Division of State Audits. <b>The House did not remove these positions, but underfunded salaries and wages agencywide by \$373,869.</b>  | (\$552,448) |
| 2. Removes and un-funds 2 FTE NDUS audit positions, including salary and benefit increases, un-funds an additional 2 FTE NDUS audit positions, and underfunds salaries agencywide. <b>The House restored funding for NDUS audit FTE positions removed by the State Auditor as part of the 2015-17 biennium budget reductions and removed 2 FTE auditor positions and funding.</b> | (\$172,978) |
| 3. The Burgum budget reduced funding for information technology consultants. <b>The House did not provide funding for information technology consultants or for NDUS information technology security audits.</b>  | (\$89,445)  |

6

STATE AUDITOR  
JOSHUA C. GALLION



HB 1004  
3-8-17

PHONE #1  
(701) 328-2241  
FAX  
(701) 328-1406  
p1

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

**TESTIMONY BEFORE THE  
SENATE APROPRIATIONS COMMITTEE  
Senator Ray Holmberg, Chairman**

March 08, 2017

---

Engrossed House Bill No. 1004

Testimony - Presented by:  
Joshua C. Gallion, State Auditor

---

## Section I - Introduction

---

Mr. Chairman, members of the committee, good afternoon. My name is Joshua C. Gallion, the 17<sup>th</sup> State Auditor since North Dakota's statehood in 1889, and I'm here to testify on Engrossed House Bill No. 1004 that provides appropriations for the operation of the State Auditor's Office (SAO).

The State Auditor's Office is a tremendous resource relied on by both the public for transparency of government institutions and the elected decision makers who use audit recommendations to improve operations and the use of public funds. My goal is to improve the overall effectiveness and responsiveness of our government by working with Agencies and the Legislature. This is accomplished by our outstanding employees, who provide transparency and promote continuous improvement of North Dakota's government institutions, which is a value-added investment by the legislature. These dedicated auditors provide a level of assurance our government is operating as the electorate intended.

A key factor in improving audits is to develop and grow positive working relationships with our clients by providing them with clear, concise information on the audit processes, expectations, benefits, and reaffirm the purpose is to help improve operations and services.

The State Auditor's Office has developed a trusted reputation for providing independent, professional audits that provide valuable insight and actionable information such as:

1. A performance audit of the Department of Trust Lands identified over 60 areas for improvement, including opportunities to increase revenues and ensuring millions of dollars in royalty payments are allocated to the proper trusts.
2. The Higher Education Audit Division made recommendations relating to more effective use of purchase cards, resulting in potential estimated annual rebates and cost savings of \$2 million to \$6 million, if implemented.
3. The Single Audit performed by the State Auditor's Office is a federal mandate for the receipt of federal funding by the state of North Dakota. The growth in federal

funds compared to audit hours from fiscal years 2005 and 2006 to 2015 and 2016 has been 54% and 33%, respectively. The use of electronic workpapers, as well as being able to retain qualified and professional staff, are two factors that have made it possible for us to limit the need for additional auditors.

I believe the continuous improvement we seek is clearly highlighted by these aforementioned accomplishments.

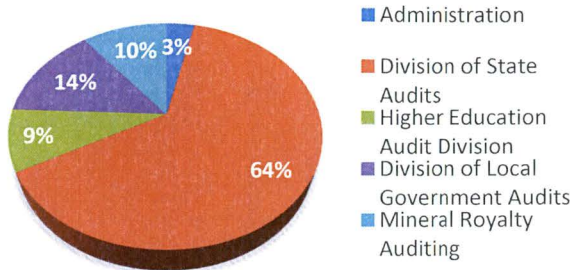
When addressing complex subjects I like to identify the key elements. The state's budget process, which certainly qualifies as complex, boils down to resource allocation to best fund the state's priorities. The Legislature strives to provide the greatest value to the citizens of the state of North Dakota and achieve the greatest return on the investment of public resources. I believe the Auditor's Office is an important investment of tax dollars, which amounts to less than a quarter of 1% of total general fund appropriations. The Auditor's Office provides assurance to the Legislature and the citizens of North Dakota that government is operating effectively as well as complying with legislative intent. It's also important to point out that under current law, the audits our office performs would still be required even with reduced staffing to the State Auditor's Office. Cuts to state agency auditors transfers this obligation to other state entities, forcing them to pay private CPA firms and bear significantly higher costs.

Next I'll walk through the information requested in the letter from Legislative Council dated February 21, 2017.

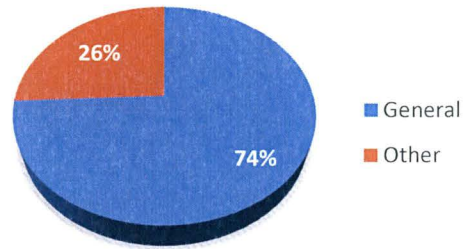


Section II - Items specifically requested by Senate Appropriations Committee

SAO Divisions



SAO Funding



Original 2015-2017 Budget, Budget Reductions and Estimated Spending

Line Item	Original 2015-2017	Allotments	Base Budget	%	Estimated Expenditures	Estimated Balance
Salaries & Wages	12,322,192	666,546	11,655,646	88%	11,083,596	572,050 *
Operating	1,195,510	18,704	1,176,806	9%	1,126,146	50,660
Security Audits	450,000	0	450,000	3%	431,991	18,009
<b>Total</b>	<b>13,967,702</b>	<b>685,250</b>	<b>13,282,452</b>		<b>12,641,733</b>	<b>640,719</b>

Source	Original 2015-2017	Allotments	Budget	%	Estimated Expenditures	Estimated Balance
General	10,461,832	685,250	9,776,582	74%	9,596,250	180,332
Other	3,505,870	0	3,505,870	26%	3,045,483	460,387 *
<b>Total</b>	<b>13,967,702</b>	<b>685,250</b>	<b>13,282,452</b>		<b>12,641,733</b>	<b>640,719</b>

\* Due to unfilled positions in Division of Local Government Audits and Mineral Royalty Auditing Divisions

- o The above table shows the 2015-2017 biennium original appropriation of \$13,967,702 (\$10,461,832 in general funds).
- o The above table shows the total of the 2 allotments. The State Auditor was able to absorb the allotments using Salaries and Wages from turnover two managers and from the startup of the Higher Education Audit Division.
- o The above table shows the estimated 2015-2017 expenditures and estimated remaining funds.

Known or potential changes in the level of federal funding received.

None.

One-Time Funding Status

The State Auditor carried \$80,000 over from the 2013-2015 biennium to complete a remodeling project of the main office on the 3<sup>rd</sup> floor of the tower. This project was completed for \$50,741 leaving \$29,259 unspent. We have no one-time funding needs for the 2017-2019 biennium.

## PROPOSED BUDGET REDUCTIONS TO MEET 90 PERCENT BUDGET GUIDELINE

### General Funds:

	State Audits			HE Audits		Gen. Fund
	Salaries	Operating	Sec. Audit	Salaries	Operating	Total
Original Budget	\$8,266,858	\$723,060	\$250,000	\$1,117,914	\$104,000	\$10,461,832
1) Base Changes	(\$43,835)	(\$101,940)	\$0	(\$55,823)	\$43,013	(\$158,585)
Base Budget	<b>\$8,223,023</b>	<b>\$621,120</b>	<b>\$250,000</b>	<b>\$1,062,091</b>	<b>\$147,013</b>	<b>\$10,303,247</b>
2) Cut 5 FTE	(\$117,118)			(\$611,300)	(\$41,392)	(\$769,810)
90% Request	<b>\$8,105,905</b>	<b>\$621,120</b>	<b>\$250,000</b>	<b>\$450,791</b>	<b>\$105,621</b>	<b>\$9,533,437</b>

1. Base Changes – Adjustments to the 2015-2017 biennium budget to fund operations for the 2017-2019 biennium:
  - Reduced Salaries by \$43,835 due to the turnover of managers.
  - Reduced Operating by \$101,940 due to finding permanent space for the Division of State Audits Performance Audit section in the capital tower rather than renting.
  - Salaries and Operating in the Higher Education Audit Division was more of a reallocation of funding. More operating was needed due to rent costs.
  
2. Cut 5 FTE – In order to meet the 90% Budget Guideline the State Auditor:
  - Eliminated funding for 4 of the 6 FTE in the Higher Education Audit Division
  - Eliminated funding for 1 FTE in the Division of State Audits.

### Other Funds:

	Local Government		Mineral Auditing		Other Funds
	Salaries	Operating	Salaries	Operating	Total
Original Budget	\$1,608,419	\$200,000	\$1,329,001	\$168,450	\$3,305,870
Base Changes	\$102,712	\$38,700	(\$32,944)		\$108,468
Budget Request	<b>\$1,711,131</b>	<b>\$238,700</b>	<b>\$1,296,057</b>	<b>\$168,450</b>	<b>\$3,414,338</b>

## OPTIONAL ADJUSTMENT REQUESTS

### General Funds:

	State Audits			HE Audits		Gen. Fund
	Salaries	Operating	Sec. Audit	Salaries	Operating	Total
90% Budget	\$8,105,905	\$621,120	\$250,000	\$450,791	\$105,621	\$9,533,437
1) Restore 5 FTE	\$117,118			\$611,300	\$41,392	\$769,810
2) Add 2 Perf. FTE	\$314,402	\$10,350				\$324,752
<b>Optional Request</b>	<b>\$8,537,425</b>	<b>\$631,470</b>	<b>\$250,000</b>	<b>\$1,062,091</b>	<b>\$147,013</b>	<b>\$10,627,999</b>

1. Restore 5 FTE – Restore funding for cuts made to meet 90% Budget Guideline
  - Restore funding for 4 FTE in the Higher Education Audit Division.
  - Restore funding for 1 FTE in the Division of State Audits.
  
2. Add 2 Division of State Audits Performance Auditors – Request to add 2 additional FTE for the Performance Audit section of the Division of State Audits.

**Neither of these Optional Adjustment Requests were included in the Executive Recommendation.**

## CHANGES RECOMMENDED BY GOVERNOR BURGUM

### General Funds:

	State Audits			HE Audits		Gen. Fund
	Salaries	Operating	Sec. Audit	Salaries	Operating	Total
90% Budget Request	\$8,105,905	\$621,120	\$250,000	\$450,791	\$105,621	\$9,533,437
1) 1% & Health Ins.	\$141,878			\$21,652		\$163,530
2) Cut FTE	(\$563,896)	(\$25,000)				(\$588,896)
3) Cut 1% Raise	(\$46,576)			(\$5,798)		(\$52,374)
4) Employee pay Health	(\$75,998)			(\$9,461)		(\$85,459)
Governor's Budget	<b>\$7,572,761</b>	<b>\$596,120</b>	<b>\$250,000</b>	<b>\$445,736</b>	<b>\$105,621</b>	<b>\$8,970,238</b>

1. Governor Burgum's budget added funding for a 1% raise and to fully fund employee health insurance – \$163,530
2. Governor Burgum's budget reduced General Fund FTE by a net of 6 FTE:
  - Accepted 5 FTE cut in the 90% base budget
  - Cut 3 additional FTE in the Division of State Audits – (\$588,896)
  - Restored 2 Higher Education Audit Division FTE with no funding
3. The 1% employee raise was later eliminated – (\$52,374)
4. Funding reduced due to employees paying for part of their health insurance – (\$85,459)

### Other Funds:

	Local Government		Mineral Auditing		Other Funds
	Salaries	Operating	Salaries	Operating	Total
Original Budget	\$1,711,131	\$238,700	\$1,296,057	\$168,450	\$3,414,338
Health Insurance	\$22,483		\$16,863		\$39,346
Governor's Budget	<b>\$1,733,614</b>	<b>\$238,700</b>	<b>\$1,312,920</b>	<b>\$168,450</b>	<b>\$3,453,684</b>

## CHANGES MADE BY THE HOUSE

### General Funds:

	State Audits			HE Audits		Gen. Fund
	Salaries	Operating	Sec. Audit	Salaries	Operating	Total
HB 1004 Start	\$8,034,344	\$704,356	\$250,000	\$683,882	\$104,000	\$9,776,582
1) Allotment Corrections	\$246,649	(\$108,236)	\$0	\$379,830	\$41,392	\$559,635
2) Cut 2 HE & Security Audit			(\$250,000)	(\$297,135)	(\$12,500)	(\$559,635)
3) Health Care Increase	\$112,535			\$11,253		\$123,788
4) Underfund Salaries	(\$462,085)	(\$26,744)				(\$488,829)
5) Reclass FTE	\$25,000					\$25,000
HB 1004 passed by House	<b>\$7,956,443</b>	<b>\$569,376</b>	<b>\$0</b>	<b>\$777,830</b>	<b>\$132,892</b>	<b>\$9,436,541</b>

- 1) Allotment Corrections – summary of base changes and allotment restoration to fully fund State Auditor operations for the 2017-2019 biennium.
- 2) Cut 2 Higher Education Audit Division FTE & Security Reviews of the State and University System  
Note: The Security Audits also included \$200,000 of Special Funds which was also eliminated.
- 3) Added the costs to fully fund employee health insurance.
- 4) Underfund Salaries – 5% additional reduction requested by House Appropriations Committee.
- 5) Reclass FTE – to improve internal operations of the Auditor’s Office.

### Other Funds:

	Local Government		Mineral Auditing		Other Funds
	Salaries	Operating	Salaries	Operating	Total
Original Budget	\$1,711,131	\$238,700	\$1,296,057	\$168,450	\$3,414,338
Health Insurance	\$22,483		\$16,863		\$39,346
HB 1004	<b>\$1,733,614</b>	<b>\$238,700</b>	<b>\$1,312,920</b>	<b>\$168,450</b>	<b>\$3,453,684</b>

SECTION III

TESTIMONY BEFORE THE  
SENATE APROPRIATIONS COMMITTEE  
Senator Ray Holmberg, Chairman

March 08, 2017

CHANGES REQUESTED TO ENGROSSED HOUSE BILL NO. 1004

Priority	Description	Funding
1	Restore 5% additional reduction requested by House Appropriations Committee	
	Salaries and Wages	\$462,085
	Operating	\$26,744
	<b>Total General Funds</b>	<b>\$488,829</b>
2	Restore 2 FTE to Higher Education Audit Division	
	Salaries and Wages	\$297,135
	Operating	\$12,500
	<b>Total General Funds</b>	<b>\$309,635</b>
3	Restore funding for security reviews of State and University System	
	General Funds	\$250,000
	Special Funds - from University System	\$200,000
	<b>Total General Funds</b>	<b>\$250,000</b>
	<b>Total Special Funds</b>	<b>\$200,000</b>

While not part of the State Auditor's request, there has been demand for more Performance Audits. The Performance Audit staff works hard to deliver timely and informative audits but is limited by staffing to how many audits can be accomplished. If the Legislature would like to see more of these audits, additional staffing would be required. Below is a summary of what we asked for in our operational package for your consideration.

Add 2 Division of State Audits Performance Auditors	
Salaries and Wages	\$314,402
Operating	\$10,350
<b>Total General Funds</b>	<b>\$324,752</b>

---

## Section IV - Program Goals, Objectives, and Accomplishments

---

The activities of the Office of the State Auditor are carried out through five programs, each of which has its own goals, objectives, and strategies. The following pages provide an overview of each of these programs.

### **Program 1 - Administration**

This program includes 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.

### **Program 2 - Division of State Audits**

The Division of State Audits conducts performance, operational, information technology, and financial statement audits of state agencies. Each of these is discussed below.

#### **Performance Audits -**

During the 2015-2017 biennium the performance audit section in Bismarck completed an audit of the Department of Trust Lands. The audit resulted in 3 separate reports and included 61 recommendations. The audit included a review of:

- Energy infrastructure and impact office grants.
- Unclaimed property.
- Trust assets and department resources.

Pursuant to a request from the Legislative Audit and Fiscal Review Committee, we completed a performance audit of the space utilization study conducted for the State Board of Higher Education during the 2013-15 biennium. We concluded the study was not complete, lacked necessary information, and included inconsistent information.

Pursuant to a request from the Legislative Audit and Fiscal Review Committee, work was started on a performance audit of the foundations at North Dakota State University and the University of North Dakota. After the scope of the audit had been established by our office, the Legislative Audit and Fiscal Review Committee passed a motion at the October 2016 meeting for our office

to defer any further action on the performance audit until further direction is provided by the Committee. No work has been performed on the foundations audit since the motion by the Committee.

A performance audit follow-up is conducted to determine the status of recommendations contained in the original performance audit report. The following two follow-up reports have been completed:

- Use of State-Supplied Vaccines by a Provider: the 5 recommendations were determined to be fully implemented.
- State Water Commission Water Appropriations Division: 23 of the 26 recommendations were determined to be fully implemented. The remaining recommendations were determined to be partially implemented.

Follow-up work is being performed related to the performance audits of Fees Charged at NDSU and UND as well as the University System Office. The two follow-up reports will be completed by the end of the biennium. In addition, follow-up work is also being conducted on the Game and Fish Department performance audit. The follow-up report will be completed before June 30, 2017.

### **Operational Audits -**

Our two-year biennial audits of state agencies are conducted in accordance with performance audit standards. The objectives of these audits are to provide reliable, audited financial statements and to answer the following questions: 1) What are the highest risk areas of the agencies' operations and is internal control adequate in these areas; 2) What are the significant and high-risk areas of legislative intent applicable to the agencies and are they in compliance with significant laws and regulations; and 3) Are there areas of the agencies' operations where we can help to improve efficiency or effectiveness?

Operational improvements come from working with state agencies and using our expertise and research to offer constructive assistance and make recommendations for improvement. Our goal is to help individuals do their assigned work as efficiently and effectively as possible while giving them better control over the process.

The office has done several best practice reviews, identifying who in the United States are the leaders in the applicable fields and comparing state agency operations to those leaders and innovators. Further, we have worked on regulatory programs to ensure legislative intent is fulfilled



economically and effectively. Perhaps our most important work resulted from calls for an audit relating to a tragic death of a child in Tioga. This audit resulted in recommended improvements to the Early Childhood Services Licensing Program.

### **Information Technology Audits –**

The Office of the State Auditor performs information systems audits on individual computer applications and on the Information Technology Department (ITD). In addition, we hire a consultant once a biennium to do a security audit of ITD and the state network, and a separate consultant to do a security audit of the North Dakota University System.

During the current biennium we completed a service organization audit of ITD and conducted reviews of NDUS ConnectND Human Resource Management System and both state and NDUS ConnectND Financials. We also conducted a review of the new Medical Management Information System (MMIS) at the Department of Human Services.

The information systems auditors continue to maintain our electronic working paper system (TeamMate). Information systems auditors are also responsible for helping with computer assisted audit techniques. In March of 2016, the desktop support for the State Auditor's Office was transferred to ITD. We worked closely with ITD to ensure the success of the transition and have been satisfied with the service from ITD which has provided more time for our Information Technology Auditors to conduct and assist on audits.

### **Financial Statement Audits -**

The Office of the State Auditor performs annual financial statement audits that include the state's Comprehensive Annual Financial Report (CAFR), North Dakota University System (NDUS), State Mill and Elevator, and the North Dakota Lottery.

Timely completion of the CAFR audit continues to help the state achieve the highest possible credit rating. Additional audit work has resulted from the growth of state expenditures. In 2006 the Statement of Activities reported \$3.5 billion dollars of expenses, while the most recent Statement of Activities reported \$8 billion dollars of expenses. We continue to refine our audit process to ensure timely audits.

The statewide single audit of federal assistance received by state agencies is a type of financial statement audit. This audit is required by federal law and is performed once every two years.

The 2015-2016 single audit budget is just under 17,000 hours and will cover over \$3.7 billion of federal assistance. All colleges and universities and 32 state agencies receive and spend federal financial assistance.

The federal funds expended by the state has increased 54% from \$2.4 billion in the 2005-2006 single audit to \$3.7 billion in the 2015-2016 single audit. This increase in federal funds expended by the state, along with the increase in federal regulations relating to auditing federal funds expended by the state, has caused the audit effort for this project to increase from 12,714 hours for the 2005-2006 single audit to just under 17,000 hours for the 2015-2016 single audit.

### **Program 3 – Higher Education Audit Division**

This division was established as a result of changes made by the 2015 legislative session. The division officially commenced operations in November 2015 when the audit manager began employment with the division. The division then added three staff auditors between December 2015 and June 2016. One of these staff auditors transferred from the Division of State Audits and the other two were outside hires.

Because none of the auditors in the division had performance audit experience prior to their employment and only one of the staff auditors had more than one year of general auditing experience, much of the division's efforts in its first year focused on training, both external and on-the-job. The division also met with the University System office and the colleges and universities and developed potential audit topics.

The division has issued a performance audit of the purchasing card program at the North Dakota University System and generated recommendations to streamline the purchasing card program, improve internal controls and efficiency of the program and better utilize the purchasing cards to generate additional cash rebates and cost savings.

Furthermore, the division currently has three performance audits in progress anticipated to be issued at various dates in 2017. The first is an audit of the operations of NDSU Parking and Transportation Services. The second audit is an assessment of the emergency operations plans at the four-year regional institutions. The third is an assessment of certain elements of the strategic plan at NDSCS.

#### **Program 4 – Division of Local Government Audits**

The local government division is entirely self-funded. It operates on revenue generated from audit fees, fees charged for reviewing small government reports and private auditing firms' audit reports.

##### **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. Over a two-year period our office performs about 85 audits, with public accounting firms performing about 686 local government audits during that time.

##### **Annual Reports of Small Entities -**

Cities with less than 500 people, school districts with less than 100 enrolled students, park districts and soil conservation districts with less than \$200,000 of annual receipts, and other political subdivisions with less than \$300,000 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, school districts, rural fire protection districts and rural ambulance service districts.

##### **Review of State Subrecipient Audit Reports -**

This division also reviews audit reports of local governments receiving federal financial assistance from 10 state agencies. This service saves those agencies from having to review the reports themselves. We review about 300 audit reports for these 10 state agencies.

#### **Program 5 - Mineral Royalty Auditing**

This program was started in 1982 and in 1985 the federal government started funding the program 100%. 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 leases located within the state. Royalty payments are made on oil, gas, and coal leases. There are currently 10 states and 7 Native American tribes participating in this program with the U.S. Department of Interior, Office of Natural Resources Revenue (ONRR).

---

## Section V - History and Description of State Auditor

---

### Brief Historical Perspective

The duties and responsibilities of the State Auditor are included in Article V, § 2 of the North Dakota Constitution and Chapter 54-10 of the North Dakota Century Code. Significant events include the following:

- 1889 – North Dakota's first State Auditor took office. Much as county and city auditors function to this day, for the first 72 years of the state's existence the State Auditor functioned as a bookkeeper or accountant rather than a true "auditor."
- 1961 – The State Auditor's responsibilities were changed to performing the post audit of all financial transactions of state government. At the time this meant auditing 100 separate departments.
- 1969 – The State Auditor began performing audits of political subdivisions.
- 1971 – The Legislature gave counties the option to contract for their own audits and soon after that other political subdivisions were given the same power.
- 1973 – The State Auditor modernized operations of the office by adopting generally accepted auditing standards.
- 1975 – The State Auditor started to conduct performance audits to help improve the effectiveness and efficiency of state government.
- 1982 – The State Auditor was given the responsibility for performing royalty audits to ensure royalties are properly paid on federal oil, gas and coal leases.
- 1984 – The Single Audit Act was passed. This act combined the responsibilities for auditing government financial statements with auditing compliance with requirements relating to federal financial assistance. The State Auditor was given this responsibility, significantly increasing the auditors' work load.
- 1986 – Because of the demands associated with the Single Audit Act, performance audits were discontinued.
- 1991 – The Legislature funded additional positions for the State Auditor to establish a performance audit function.
- 1991 – The Legislature required the State Auditor to audit the state-wide financial statements. At this time biennial agency audit reports went from including financial statements prepared in accordance with generally accepted accounting principles to only including reports on internal control and compliance with laws and regulations.
- 1991 – The State Auditor's Division of Local Government Audits became self-sufficient by the establishment of an operating fund for its revenues and expenditures.
- 1997 – Biennial agency audits started to include a statement of revenues and expenditures and an appropriations statement. These statements were audited in accordance with the financial statement audit standards.
- 2000 – Biennial agency audits switched to following the performance audit standards rather than the financial statement audit standards. This change was done in consultation with the Legislative Audit and Fiscal Review Committee. The objectives for biennial agency

performance audits are to: provide reliable financial statements; identify and test controls for the most important areas of internal control; identify and test compliance for the most significant and high-risk areas of legislative intent; and determine if there are areas of agency operations where we can help to improve efficiency or effectiveness.

- 2005 – The State Auditor received funding and authority to conduct the first information technology security audit of the state.
- 2013 – The first IT security audit of the North Dakota University System.
- 2015 – The Higher Education audit division established by N.D.C.C. section 54-10-30. Desktop support of computers was taken over by ITD, which provided more time to perform Information Technology audits.

HB 1004  
 3-28-17  
 # 1

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1004

Page 1, replace lines 10 through 17 with:

"Salaries and wages	\$11,655,646	\$346,975	\$12,002,621
Operating expenses	1,176,806	(14,023)	1,162,783
North Dakota university system information technology security audits	200,000	(200,000)	0
Information technology consultants	<u>250,000</u>	<u>(250,000)</u>	<u>0</u>
Total all funds	\$13,282,452	(\$117,048)	\$13,165,404
Less estimated income	<u>3,505,870</u>	<u>(94,383)</u>	<u>3,411,487</u>
Total general fund	\$9,776,582	(\$22,665)	\$9,753,917"

Page 1, line 20, replace "\$163,134" with "\$146,005"

Page 1, line 20, replace "\$123,788" with "\$109,510"

Page 1, line 21, replace "\$1,249" with "\$1,241"

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

**House Bill No. 1004 - State Auditor - Senate Action**

	Base Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$11,655,646	\$11,714,840	\$287,781	\$12,002,621
Operating expenses	1,176,806	1,136,039	26,744	1,162,783
University system IT security audits	200,000			
Information technology consultants	250,000			
Total all funds	\$13,282,452	\$12,850,879	\$314,525	\$13,165,404
Less estimated income	<u>3,505,870</u>	<u>3,414,338</u>	<u>(2,851)</u>	<u>3,411,487</u>
General fund	\$9,776,582	\$9,436,541	\$317,376	\$9,753,917
FTE	59.80	57.80	0.00	57.80

**Department No. 117 - State Auditor - Detail of Senate Changes**

	Adjusts Funding for Health Insurance Increases <sup>1</sup>	Restores Salaries and Wages Underfunded <sup>2</sup>	Restores Funding for Operating Expenses <sup>3</sup>	Total Senate Changes
Salaries and wages	(\$17,129)	\$304,910		\$287,781
Operating expenses			26,744	26,744
University system IT security audits				
Information technology consultants				
Total all funds	(\$17,129)	\$304,910	\$26,744	\$314,525
Less estimated income	<u>(2,851)</u>	<u>0</u>	<u>0</u>	<u>(2,851)</u>
General fund	(\$14,278)	\$304,910	\$26,744	\$317,376
FTE	0.00	0.00	0.00	0.00

---

<sup>1</sup> Funding for employee health insurance is adjusted to reflect the updated premium amount of \$1,241 per month.

<sup>2</sup> A portion of the \$462,085 of general fund salaries and wages underfunding approved by the House is restored to provide salaries and wages underfunding of \$157,175 from the general fund.

<sup>3</sup> Funding is restored for agencywide reductions in operating expenses made by the House.

---

This amendment also amends Section 2 of the bill to update the amounts appropriated for increases in employee health insurance premiums.

April 11, 2017

HB1004

Attachment A

**State Auditor - Budget No. 117  
House Bill No. 1004  
Base Level Funding Changes**

	House Version				Senate Version				Senate Changes to House Version Increase (Decrease) - House Version			
	FTE Position	General Fund	Other Funds	Total	FTE Position	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
<b>2017-19 Biennium Base Level</b>	59.80	\$9,776,582	\$3,505,870	\$13,282,452	59.80	\$9,776,582	\$3,505,870	\$13,282,452	0.00	\$0	\$0	\$0
<b>2017-19 Ongoing Funding Changes</b>												
Base payroll changes		(\$99,658)	\$30,422	(\$69,236)		(\$99,658)	\$30,422	(\$69,236)				\$0
Health insurance increase		123,788	39,346	163,134		109,510	36,495	146,005		(14,278)	(2,851)	(17,129)
Restores funding for 4 FTE NDUS audit positions		611,300		611,300		611,300		611,300				0
Removes 2 FTE NDUS audit and related salaries and wages	(2.00)	(297,135)		(297,135)	(2.00)	(297,135)		(297,135)				0
Underfunds salaries and wages agencywide		(462,085)		(462,085)		(157,175)		(157,175)		304,910		304,910
Restores funding for salaries and wages agencywide		88,216		88,216		88,216		88,216				0
Adds funding to reclassify a position		25,000		25,000		25,000		25,000				0
Adjusts funding for operating expenses		(106,615)	38,700	(67,915)		(106,615)	38,700	(67,915)				0
Reduces funding for operating expenses agencywide		(26,744)		(26,744)		0		0		26,744		26,744
Restores additional reduction made to operating expense in the executive recommendation		25,000		25,000		25,000		25,000				0
Restores funding for operating expenses related to the 4 FTE NDUS audit positions		41,392		41,392		41,392		41,392				0
Removes funding for operating expenses related to the 2 FTE NDUS audit positions removed from the budget		(12,500)		(12,500)		(12,500)		(12,500)				0
Removes funding for NDUS information technology security audits			(200,000)	(200,000)			(200,000)	(200,000)				0
Reduces information technology consultants		(250,000)		(250,000)		(250,000)		(250,000)				0
<b>Total ongoing funding changes</b>	<b>(2.00)</b>	<b>(\$340,041)</b>	<b>(\$91,532)</b>	<b>(\$431,573)</b>	<b>(2.00)</b>	<b>(\$22,665)</b>	<b>(\$94,383)</b>	<b>(\$117,048)</b>	<b>0.00</b>	<b>\$317,376</b>	<b>(\$2,851)</b>	<b>\$314,525</b>

1



**One-time funding items**

No one-time funding items				\$0					\$0					\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0		
<b>Total Changes to Base Level Funding</b>	<u>(2.00)</u>	<u>(\$340,041)</u>	<u>(\$91,532)</u>	<u>(\$431,573)</u>	<u>(2.00)</u>	<u>(\$22,665)</u>	<u>(\$94,383)</u>	<u>(\$117,048)</u>	<u>0.00</u>	<u>\$317,376</u>	<u>(\$2,851)</u>	<u>\$314,525</u>		
<b>2017-19 Total Funding</b>	<u>57.80</u>	<u>\$9,436,541</u>	<u>\$3,414,338</u>	<u>\$12,850,879</u>	<u>57.80</u>	<u>\$9,753,917</u>	<u>\$3,411,487</u>	<u>\$13,165,404</u>	<u>0.00</u>	<u>\$317,376</u>	<u>(\$2,851)</u>	<u>\$314,525</u>		

**Other Sections in State Auditor - Budget No. 117**

	<u>House Version</u>	<u>Senate Version</u>
Salary of State Auditor	This section is not included in the House Version.	This section is not included in the Senate Version.
Health insurance increase	A section is added to identify the appropriation provided to fund increases in employee health insurance premiums from \$1,130 to \$1,249 per month.	The Senate amended the section of the bill identifying the appropriation provided to fund increases in employee health insurance premiums from \$1,130 to \$1,241 per month.

April 17, 2017

H/B1004

Attachment A

**State Auditor - Budget No. 117  
House Bill No. 1004  
Base Level Funding Changes**

	House Version				Senate Version				Conference Committee Version			
	FTE Position	General Fund	Other Funds	Total	FTE Position	General Fund	Other Funds	Total	FTE Position	General Fund	Other Funds	Total
<b>2017-19 Biennium Base Level</b>	59.80	\$9,776,582	\$3,505,870	\$13,282,452	59.80	\$9,776,582	\$3,505,870	\$13,282,452	59.80	\$9,776,582	\$3,505,870	\$13,282,452
<b>2017-19 Ongoing Funding Changes</b>												
Base payroll changes		(\$99,658)	\$30,422	(\$69,236)		(\$99,658)	\$30,422	(\$69,236)		(\$99,658)	\$30,422	(\$69,236)
Health insurance increase		123,788	39,346	163,134		109,510	36,495	146,005		104,201	36,495	140,696
Removes 1 FTE performance audit manager position				0				0	(1.00)	(277,191)		(277,191)
Removes .8 FTE Position				0				0	(0.80)			0
Restores funding for 4 FTE NDUS audit positions		611,300		611,300		611,300		611,300		611,300		611,300
Removes 2 FTE NDUS audit and related salaries and wages	(2.00)	(297,135)		(297,135)	(2.00)	(297,135)		(297,135)	(2.00)	(297,135)		(297,135)
Underfunds salaries and wages agencywide		(462,085)		(462,085)		(157,175)		(157,175)		(414,894)		(414,894)
Restores funding for salaries and wages agencywide		88,216		88,216		88,216		88,216		88,216		88,216
Adds funding to reclassify a position		25,000		25,000		25,000		25,000		25,000		25,000
Adjusts funding for operating expenses		(106,615)	38,700	(67,915)		(106,615)	38,700	(67,915)		(106,615)	38,700	(67,915)
Reduces funding for operating expenses agencywide		(26,744)		(26,744)		0		0		(20,000)		(20,000)
Restores additional reduction made to operating expense in the executive recommendation		25,000		25,000		25,000		25,000		25,000		25,000
Restores funding for operating expenses related to the 4 FTE NDUS audit positions		41,392		41,392		41,392		41,392		41,392		41,392
Removes funding for operating expenses related to the 2 FTE NDUS audit positions removed from the budget		(12,500)		(12,500)		(12,500)		(12,500)		(12,500)		(12,500)
Removes funding for NDUS information technology security audits			(200,000)	(200,000)			(200,000)	(200,000)			(200,000)	(200,000)
Reduces information technology consultants		(250,000)		(250,000)		(250,000)		(250,000)		(250,000)		(250,000)
<b>Total ongoing funding changes</b>	<b>(2.00)</b>	<b>(\$340,041)</b>	<b>(\$91,532)</b>	<b>(\$431,573)</b>	<b>(2.00)</b>	<b>(\$22,665)</b>	<b>(\$94,383)</b>	<b>(\$117,048)</b>	<b>(3.80)</b>	<b>(\$582,884)</b>	<b>(\$94,383)</b>	<b>(\$677,267)</b>

/

**One-time funding items**

No one-time funding items				\$0					\$0					\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0		
<b>Total Changes to Base Level Funding</b>	<u>(2.00)</u>	<u>(\$340,041)</u>	<u>(\$91,532)</u>	<u>(\$431,573)</u>	<u>(2.00)</u>	<u>(\$22,665)</u>	<u>(\$94,383)</u>	<u>(\$117,048)</u>	<u>(3.80)</u>	<u>(\$582,884)</u>	<u>(\$94,383)</u>	<u>(\$677,267)</u>		
<b>2017-19 Total Funding</b>	<u>57.80</u>	<u>\$9,436,541</u>	<u>\$3,414,338</u>	<u>\$12,850,879</u>	<u>57.80</u>	<u>\$9,753,917</u>	<u>\$3,411,487</u>	<u>\$13,165,404</u>	<u>56.00</u>	<u>\$9,193,698</u>	<u>\$3,411,487</u>	<u>\$12,605,185</u>		

**Other Sections in State Auditor - Budget No. 117**

	<u>House Version</u>	<u>Senate Version</u>	<u>Conference Committee Version</u>
Health insurance increase	A section is added to identify the appropriation provided to fund increases in employee health insurance premiums from \$1,130 to \$1,249 per month.	The Senate amended the section of the bill identifying the appropriation provided to fund increases in employee health insurance premiums from \$1,130 to \$1,241 per month.	The Conference Committee amended the section of the bill identifying the appropriation provided to fund increases in employee health insurance premiums from \$1,130 to \$1,241 per month, the same as the Senate Version

2

April 18, 2017

HB 1004

Attachment A

**State Auditor - Budget No. 117  
House Bill No. 1004  
Base Level Funding Changes**

	House Version				Senate Version				Conference Committee Version			
	FTE Position	General Fund	Other Funds	Total	FTE Position	General Fund	Other Funds	Total	FTE Position	General Fund	Other Funds	Total
<b>2017-19 Biennium Base Level</b>	59.80	\$9,776,582	\$3,505,870	\$13,282,452	59.80	\$9,776,582	\$3,505,870	\$13,282,452	59.80	\$9,776,582	\$3,505,870	\$13,282,452
<b>2017-19 Ongoing Funding Changes</b>												
Base payroll changes		(\$99,658)	\$30,422	(\$69,236)		(\$99,658)	\$30,422	(\$69,236)		(\$99,658)	\$30,422	(\$69,236)
Health insurance increase		123,788	39,346	163,134		109,510	36,495	146,005		104,201	36,495	140,696
Removes 1 FTE performance audit manager position				0				0	(1.00)	(277,191)		(277,191)
Removes .8 FTE Position				0				0	(0.80)			0
Restores funding for 4 FTE NDUS audit positions		611,300		611,300		611,300		611,300		611,300		611,300
Removes 2 FTE NDUS audit and related salaries and wages	(2.00)	(297,135)		(297,135)	(2.00)	(297,135)		(297,135)	(2.00)	(297,135)		(297,135)
Underfunds salaries and wages agencywide		(462,085)		(462,085)		(157,175)		(157,175)		(109,984)		(109,984)
Restores funding for salaries and wages agencywide		88,216		88,216		88,216		88,216		88,216		88,216
Adds funding to reclassify a position		25,000		25,000		25,000		25,000		25,000		25,000
Adjusts funding for operating expenses		(106,615)	38,700	(67,915)		(106,615)	38,700	(67,915)		(106,615)	38,700	(67,915)
Reduces funding for operating expenses agencywide		(26,744)		(26,744)		0		0		(20,000)		(20,000)
Restores additional reduction made to operating expense in the executive recommendation		25,000		25,000		25,000		25,000		25,000		25,000
Restores funding for operating expenses related to the 4 FTE NDUS audit positions		41,392		41,392		41,392		41,392		41,392		41,392
Removes funding for operating expenses related to the 2 FTE NDUS audit positions removed from the budget		(12,500)		(12,500)		(12,500)		(12,500)		(12,500)		(12,500)
Removes funding for NDUS information technology security audits			(200,000)	(200,000)			(200,000)	(200,000)			(200,000)	(200,000)
Reduces information technology consultants		(250,000)		(250,000)		(250,000)		(250,000)		(250,000)		(250,000)
<b>Total ongoing funding changes</b>	<b>(2.00)</b>	<b>(\$340,041)</b>	<b>(\$91,532)</b>	<b>(\$431,573)</b>	<b>(2.00)</b>	<b>(\$22,665)</b>	<b>(\$94,383)</b>	<b>(\$117,048)</b>	<b>(3.80)</b>	<b>(\$277,974)</b>	<b>(\$94,383)</b>	<b>(\$372,357)</b>

**One-time funding items**

No one-time funding items				\$0					\$0					\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0		
<b>Total Changes to Base Level Funding</b>	<b>(2.00)</b>	<b>(\$340,041)</b>	<b>(\$91,532)</b>	<b>(\$431,573)</b>	<b>(2.00)</b>	<b>(\$22,665)</b>	<b>(\$94,383)</b>	<b>(\$117,048)</b>	<b>(3.80)</b>	<b>(\$277,974)</b>	<b>(\$94,383)</b>	<b>(\$372,357)</b>		
<b>2017-19 Total Funding</b>	<b>57.80</b>	<b>\$9,436,541</b>	<b>\$3,414,338</b>	<b>\$12,850,879</b>	<b>57.80</b>	<b>\$9,753,917</b>	<b>\$3,411,487</b>	<b>\$13,165,404</b>	<b>56.00</b>	<b>\$9,498,608</b>	<b>\$3,411,487</b>	<b>\$12,910,095</b>		

**Other Sections in State Auditor - Budget No. 117**

	<u>House Version</u>	<u>Senate Version</u>	<u>Conference Committee Version</u>
Health insurance increase	A section is added to identify the appropriation provided to fund increases in employee health insurance premiums from \$1,130 to \$1,249 per month.	The Senate amended the section of the bill identifying the appropriation provided to fund increases in employee health insurance premiums from \$1,130 to \$1,241 per month.	The Conference Committee amended the section of the bill identifying the appropriation provided to fund increases in employee health insurance premiums from \$1,130 to \$1,241 per month, the same as the Senate Version