

2001 HOUSE APPROPRIATIONS

HB 1004

HOUSE BILL NO. 1004

Introduced by

Appropriations Committee

(At the request of the Governor)

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

4 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

5 **SECTION 1. APPROPRIATION.** The funds provided in this section, or so much of the
6 funds as may be necessary, are hereby appropriated out of any moneys in the general fund in
7 the state treasury, not otherwise appropriated, and from special funds derived from federal
8 funds and other income, to the state auditor for the purpose of defraying the expenses of the
9 state auditor, for the biennium beginning July 1, 2001, and ending June 30, 2003, as follows:

10 Salaries and wages	\$5,716,616
11 Operating expenses	775,320
12 Equipment	<u>78,970</u>
13 Total all funds	\$6,570,906
14 Less estimated income	<u>2,145,837</u>
15 Total general fund appropriation	\$4,425,069

16 **SECTION 2. APPROPRIATION.** Section 1 of this Act includes an appropriation of up
17 to \$1,234,548 in funds generated by the state auditor from political subdivision audit service
18 fees for the period beginning July 1, 2001, and ending June 30, 2003. Any amount in excess of
19 \$1,234,548 must be deposited in the state auditor operating account and made available for
20 appropriation after June 30, 2003.

21 **SECTION 3. AMENDMENT.** Section 54-10-10 of the 1999 Supplement to the North
22 Dakota Century Code is amended and reenacted as follows:

23 **54-10-10. Salary of state auditor.** The annual salary of the state auditor is ~~forty-eight~~
24 sixty-four thousand two seven hundred sixty-two dollars through ~~June 30, 2000~~

HB
1004

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1004

House Appropriations Committee
Government Operations Division

☐ Conference Committee

Hearing Date January 10, 2001

Tape Number	Side A	Side B	Meter #
01-10-01 tape #2	-	0 - 4349	
Committee Clerk Signature <i>Patricia Hall</i>			

Minutes:

The committee was called to order, and opened the hearing on HB 1004, the appropriations budget for the State Auditor.

Robert Peterson, State Auditor: Handed out prepared written testimony. Explained that he would highlight his written testimony, and then answer questions. Here because he believes that the department uses the tax payer's dollars prudently, and to show the committee how they intend to make state funds more accountable. As the State Auditor, I have committed my office to making state government better by improving accountability. I have also expanded our work to include operational accountability, including the elements of efficiency, effectiveness, and compliance with legislative intent. On page 2 he has listed agency objectives, to provide reliable, audited financial statements, and to answer the three questions listed as a) What are the highest risk areas of the agency operations and is internal control adequate in these areas; b) What are the significant and high risk areas of legislative intent applicable to the agency and are they in

compliance; and c) Are there areas of agency operations where we can help to improve efficiency or effectiveness. The written testimony on page 2 explains each objective. On page 3 the testimony covers legislative intent, and in the blue area four areas are highlighted, and then it discusses operational improvements. I have listed five examples found in the area of operational improvements.

Rep. Koppelman: Could you explain #2 on the bottom of page 3, relating to the Labor Department.

Response, Ed Nagel, from the Audit Department: In prior audits the department had some problems with coding packages from OMB, showing fixed asset balances and additions and deletions during the year. What we did in this current audit is help them get the fixed assets in order so that it was easier for them to prepare the closing packages.

Robert Peterson: On page 4 of the written testimony, he continues by saying that the new audit approach also works for information system auditing. Have used this audit approach most recently with the DOT, on the drivers license master system audits. They found six things in the audit that were significant. For good government to work we are the intrical part of making certain that government is operating efficiently and effectively.

Chairman Byerly: Requested that Robert Peterson explain to the committee what an information system audit is, because it is different from a financial audit.

Response: An information system audit is a computer system audit. The standard before was to audit the information going to the computer, and then audit the information coming out. Now the audit is actually going in and seeing how the computer programs operate. It has been a major move, and we have trained, not just the information system auditors to do this, but also the financial auditors as well. The department only has five auditors, that are information system

auditors. Attempting to change their approach to an audit, and allowing more flexibility, based upon the entity to be audited. We can now begin to look at laws that we never audited before.

Rep. Skarphol: I have been told that there is a way to keep points from being assessed on his driving record. Is this the kind of problem you are talking about?

Response: No, not directly, but we have found similar problems, like drivers with negative points (a programming problem).

Robert Peterson: Going to pick up at the bottom of page 4 of the written testimony, and going on to page 5. As the use of computer technology increases, auditing information services is an integral part of determining compliance with legislative intent. This office is the only assurance that these systems are operating as intended. This is truly state of the art information system auditing. The department has incorporated testing of information systems into the biennial agency audits and performance audits. Continued success depends on the ability to retain experienced, trained auditors. The department did a statewide information system risk analysis report. This report identified 295 computer systems of which 25 were rated high risk, 124 were rated moderate risk, and 146 were rated low risk. We do not have the staff to run audits on lots of new systems, with current staffing it would take 6 - 12 years to complete the 25 high risk audits. You will hear different agencies who desire to build new systems, and the audit department does not have the staff to audit these plans.

Rep. Thoreson: Bob, what type of risks are we talking about?

Response, Don from the audit department: Within the risk analysis, we used several different criteria, like number of users, how old a system, the dollars going through, the regulations, confidentiality, security of information, etc.

Rep. Skarphol: Do you audit the security of a system?

Response: Yes, when we do an informational systems audit. Not all state auditors have the advantage of the centralized accounting system that we have, and they don't have the advantage of a centralized computer system, and these are both great blessings. Instead they have systems scattered throughout state government, and they have staff trying to hack into their systems for security measures.

Rep. Koppelman: When you do an audit and an agency - like the DOT - is in near violation of a policy, what happens?

Response: What we found that there were sections of the century code that were in conflict when these points were being restored, and there is legislation presented that will resolve some of this problem. We make the recommendation to fix the problems to the agency.

Robert Peterson: Continuing on page 5 there is a chart indicating the risk analysis. The risk analysis report will guide our audit efforts with the focus being on the 25 high risk systems and some of the more complex systems in the moderate risk group. With the number of important systems and the time necessary to audit each system, I can't overemphasize the importance of retaining the experienced staff. The future development of computer systems in the state, including e-government, will continue to place additional demands on this office to provide information system audits. Performance audits are an investment in better government, the savings generated from performance audits greatly exceeds the costs of the audits. While the performance audits are relatively lean, we have been able to make some important findings and recommendations in the audits we have completed. As stated on pages 5 and 6, we found that there was no requirement to solicit bids for consulting contracts. The report found that for the three year period ending June 30, 1999, there were 2,200 contracts for services with payment in excess of \$272 million. At the top of page 6 he continues talking about the contracts for services,

and the recommendations are listed in blue. As a result of performance audits legislation has been drafted for improved guidance for monitoring contracts for services. The department has been doing a lot of work in the risk analysis audits, and it is really beneficial in targeting areas to audit. Cites an example of the Child Support Enforcement Unit audit, noted at the end of page 6 and beginning page 7. Turnover has hurt our performance audit functions. The department has been working hard to find money to retain these auditors, and page 8 shows the turnover rate since 1998. The department believes they need another \$30,000 to address the continuing turnover problem. In the 1991-1993 biennium, this office had 40 FTE's in the Division of State Audit. The current biennium this same division has 36 FTE's. Even though we have lost 4 positions since then we have been managing to do more with less, due to the use of modern audit technology and innovation from the staff. Page 8 shows five examples of doing more with less.

The executive budget recommendation eliminates two of our current positions, down to 34 FTE's. Page 9 shows the breakdown. The loss of these two employees will hurt his office, and they can't continue to do more with less. The ongoing loss of FTE's cannot continue without affecting their contributions to making state government more accountable, especially when state government is changing more rapidly, becoming more complex, and continuing to grow. He requests the committee to restore the two FTE's to the office, and provide funding for these two positions in the amount of \$140,000. In addition to restoring these FTE's and the \$30,000 for turnover concerns, he is requesting an additional \$100,000 to be used to hire consultants to assist in future performance audits. Four possible audits are listed on page 10.

His proposed amendments to the bill are located in the appendix. Please turn to page 12 of the written testimony, where a number of audit finding examples are listed. Appendix 2 shows a pie chart of the executive budget recommendations, and their budget requests.

Rep. Thoreson: Going back to the high risk systems, the one that you mentioned was the Child Support Enforcement Program, the one most at risk. Do you know where some of these other 25 high risk systems are?

Response: We will make that report available to the committee.

Rep. Carlisle: What was the rationale of the executive budget to eliminate two of positions?

Response: I will defer to the OMB representative.

Response, OMB: The 2 FTE's were actually included in their budget request at -0- funding in order to meet the flat budget requirement. So they came in by reducing their staff by 2, and then turned around and requested they be reinstated through the optional package. When we looked at that and how we were handling other agencies, basically they would have had to lose two employees to stay within the recommendations. To keep the salary levels the same.

Chairman Byerly: Bob, these two FTE's actually exist on your staff at this point, don't they. They are in Bismarck, and work on financial audits?

Response: Yes they do.

Rep. Skarphol: Are you fully staffed now, although turnover has been a problem?

Response: At this point we have just completed hiring two performance auditors. They have no openings now.

Rep. Carlisle: The idea of extra money was to reduce turnover, that was the idea right?

Response: We went from 40 to 36, and he wants to stay at 36. The executive budget would move us down to 34.

Rep. Carlisle: I was talking about percentage of turnover.

Response: He would like to reduce the percentage of turnover. Anything over 20% is tough on the office. They are continually training people, and doesn't expect to keep everyone.

he would like to reduce the turnover rate. They hire in December and May, graduation dates.

They want to remain competitive. Had 43% in 1998, and it has gotten better.

Rep. Skarphol: You're asking for \$170,000 increase in salaries, with 2 additional FTE's, and \$100,000 increase in the consulting line. If it were an either-or situation, which would be more productive for you.

Response: \$140,000 for the two FTE's and an additional \$30,000 to pay mid level auditors more. If it comes to either-or, I would like to keep the auditors. The governor's budget has given us \$100,000, as we had last time. We would like an additional \$100,000 so we can do more than just one consultant.

Rep. Skarphol: Do you find it more cost-effective to use consultants for these audits.

Response: Absolutely. They are specialized and we would not have to train our staff to know what these consultants already know. The Child Support audit cost about \$98,000.

Rep. Skarphol: Have you performed an audit on collection of fines issued by judges? He was wondering how many dollars are out there uncollected.

Response: Not sure they have the authority to do so.

Rep. Carlisle: On turnover rates, how do we compare relative to other states.

Response: Everyone is experiencing some turnover. There is increased pressure on CPA's these days. The CPA's are now required to take 5 years of college, and pass all parts of the CPA exam at the same time. They also have to have computer system knowledge now.

Chairman Byerly: Are the IT auditors also CPA's?

Response: Some are. Due to proposed federal requirements in the future, the requirements are getting bigger and better.

Page 8
Government Operations Division
Bill/Resolution Number HB 1004
Hearing Date January 10, 2001

Rep. Skarphol: On page 9 there are pie charts as to your FTE's. You have 6 FTE's in royalty audit. Can you explain.

Response: The royalty audit division is paid for by the federal government. Those auditors audit the coal, oil and gas royalties from federal leases. Instead of the federal government sending its own auditors, they allow him to hire the auditors and contain them.

Rep. Skarphol: Who audits the royalties to the State of North Dakota? As to natural gas audits?

Response: The tax department and the land department. The Industrial Commission maybe regulates this.

The chairman closed the hearing on this bill.


2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1004

House Appropriations Committee
Government Operations Division

☐ Conference Committee

Hearing Date January 16, 2001

Tape Number	Side A	Side B	Meter #
01-16-01 tape #2	1823-3570		
Committee Clerk Signature 			

Minutes:

The committee was called to order, and opened committee work on HB 1004, the State Auditor's budget. Now is the time to ask questions that we have, so we can get our questions answered by LC, etc.

Chairman Byerly: The budget asks for the net of 2 fewer FTE's, unfund 2, delete 1, hire 1. The one that they are adding is an auditor, in the special fund area, because its an audit position for political subdivisions. Those are paid for by the political subdivisions. What the agency wants over and above the governor's budget is 2 FTE's back, \$140,000, \$30,000 to be put into the fund given last time for turnover, and \$100,000 more to do performance audits. There is also another sum of money for better working conditions.

(It was explained by the OMB or LC staff what was unfunded to get to the governor's budget, and then the governor's recommendation changed this some. The State Auditor did request that both FTE's be funded.)

(It was discussed by the committee the thoughts of turnover rates, and how it has gotten somewhat better. Concern is that the turnover rate is not due to wages, but due to experience and job markets. It was discussed that the money given for turnover really goes more to the senior staff, not those persons that would be leaving the agency. The committee asked for more detailed information regarding staff and the raised incomes over the last few years.)

Rep. Skarphol: Brought up the IT and data processing budget increase. This was probably due to their being off-site and the increased costs. It was also explained to the committee that agencies heavily reliant on the mainframe will save money. Agencies that rely on non-mainframe computer systems will see an increase in costs, because of the network costs.

Rep. Byerly: The other main concern we have is that what is the status of the FTE request, what was wanted, what is backed down, etc. It is being asked for almost \$300,000 - \$290,000 - enhancement to the Governor's budget, plus the 2 positions. We have some really big issues to discuss in this budget. Also concerned for the performance audit request, and performance audits are very helpful to see that money is being spent in a manner that we expect it to be done. This extra money would be to bring in extra expertise that our state office may not have. They have done some outside performance audits already in the past (ie child support).

The chairman closed the committee work on this bill.

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1004

House Appropriations Committee
Government Operations Division

☐ Conference Committee

Hearing Date January 29, 2001

Tape Number	Side A	Side B	Meter #
01-29-01 tape #1	3380 - 4735		
Committee Clerk Signature <i>Kathleen Hall</i>			

Minutes:

The committee was called to order for committee work on HB 1004.

Rep. Skarphol: Basically where they are at is that they are going to loose two FTE's as proposed, and their top priority on their wish list is to get those two FTE positions back. They said they could take \$30,000 out of their operating expenses to accommodate that. They are asking for \$140,000 for two FTE's, and if you take out \$30,000 you are at \$110,000. They have lost 10% of their workforce in the last four or five biennium's, and went from 40 FTE in 1991-1993, to 36 now. If we take out these two FTE's they go to 34. There are two spots in the special funds that are not filled, and if necessary they may be willing to negotiate them out, but we would be putting general fund positions back in.

Rep. Carlisle: They want two FTE's from the general fund, and I think they would be happy if they got one FTE. The tricky part is that when we did the raises last session, they put a fair amount of that money into employees who have been there a while. They went from 43 %

turnover rate to about 26%. Not everyone leaves for more money. They lost 5 positions to other state agencies, some for money and some because the employees didn't care for auditing. They would be able to eliminate \$30,000 out of operating funds to make this work. The two FTE's would cost \$140,000. If we take out the two political subdivision auditors, funded but not filled, it does not help with the general funding. But the \$30,000 will take us to \$110,000. The question is do we want to give them 0, 1, 2 FTE's back.

Rep. Skarphol: Couple other things to mention, 90% of their budget is salaries. If they use contract services, rather than employees, and it's bid out, they can only charge for general fund work done. If they audit an agency that is half general fund and half special fund, they can only charge for the general fund portion of the job. This creates some difficulty with contracting out their work.

Chairman Byerly: Well they are in a squeeze.

Rep. Skarphol: Reviews some of the written testimony previously presented on the differences between 1991 and now, and stated that more auditing jobs are done now than before, and more often. They also have a supplemental request for another \$100,000 for outside contract auditing.

Rep. Koppelman: Were the executive recommendations from both governors the same?

(Answer was yes). Do they give any justification for why?

Joe, LC staff: In the base budget request they have to prioritize and meet base budget. As Rep. Skarphol said, 90% of their budget is salaries. They thought the only way to meet the budget was to cut out the FTE's. They indicated that during the current biennium their salary plant had been under funded, because they assume they will have a certain amount of turnover, so their budget didn't include enough funding, if they didn't have any turnover they wouldn't be

able to pay all their employees. The budgeted one position to be unfunded to accommodate for that turnover.

Rep. Carlisle: The bottom line is that the employees are at the top. They also want some remodeling, in that they need the work spot for one employee bigger.

Rep. Koppelman: Was looking at the unfunded, vacant FTE list, noting there were two spots vacant. (The committee noted that those vacant spots were the special funds auditors). If they don't fill these special fund auditors, what happens?

Chairman Byerly: In this division, if they go out and do audits, they are reimbursed. If they lose two special fund auditors, they will not do as many political subdivision audits. Then you will start getting complaints from the other side that they can't get their audits done, from the city of whoever.

Rep. Glassheim: In this budget request, is there an extra \$100,000 request for what?

Rep. Skarphol: The \$100,000 is for contracting out special auditors with special expertise in that area. It is more cost effective than having their staff do the audit. A \$100,000 is already allowed in the executive budget. The agency wants another \$100,000.

Chairman Byerly: The priority is to restore the two FTE's, restore another \$30,000 for turnover salary funds, and then the \$100,000 for contract audits, and then \$20,000 for the remodeling need for the FTE.

Rep. Skarphol: They have \$51,000 increase in their operating budget, of that \$21,000 is IT data processing costs that they have no control over, so they are willing to forego the rest of what they asked for in travel and dues, in the interest in getting the two auditor's positions funded again.

As of February 1, all their positions will be filled.

Rep. Glassheim: What would they say if they got one of the two positions they want.

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1004

House Appropriations Committee
Government Operations Division

☐ Conference Committee

Hearing Date January 30, 2001

Tape Number	Side A	Side B	Meter #
01-30-01 tape #1	0 - 538		
Committee Clerk Signature <i>Kathleen Ladd</i>			

Minutes:

The committee was called to order, and opened committee work on HB 1004.

Rep. Skarphol: Handed out proposed amendments. What we propose doing to the state auditors office is to put back in the two FTE's, and take out \$30,000 that was in the executive budget, to accomplish the salary thing. The second portion of this amendment is a salary adjustment, where the salary adjustment was too high in this bill, so it was lowered. The third portion of the amendment it put things back in line for compensation of special funds audit.

Rep. Skarphol moves to adopt the amendment. Rep. Carlisle seconded.

Rep. Glassheim: Why are we adding in the 2 FTE's.

Rep. Skarphol: In reality we are just not cutting them by two, from the current staff. The office has 36 persons on staff right now. If we did not reinstate these two persons from the governor's recommendations, they would have to lay two persons off.

Page 2

Government Operations Division

Bill/Resolution Number HB 1004

Hearing Date January 30, 2001

Rep. Skarphol: These two persons are in the general fund audit department. The governor's recommendation had cut these two positions. Based upon the increase of the workload of the auditor's office, it isn't appropriate to cut their staff.

Rep. Koppelman: What about the two special fund auditors unstaffed.

Rep. Skarphol: Those positions are still there unfunded. If the department choses to fill those positions they can do so, and their pay comes out of special funds.

Rep. Glassheim: Did you increase the funds for the performance audit.

Rep. Skarphol: No. The only increases they are getting are two FTE's, and giving up \$30,000 to get them.

Vote on motion to adopt amendment, 7 yes, 0 no. Motion passes.

Rep. Skarphol: moves DO PASS AS AMENDED. Rep. Carlisle seconded.

Vote on motion to pass as amended, 7 yes, 0 no. Motion passes.

Rep. Skarphol is assigned to carry the bill to the full committee.

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB1004**

House Appropriations Committee

☐ Conference Committee

Hearing Date **February 7, 2001**

Tape Number	Side A	Side B	Meter #
1	x		892 - 1661
Committee Clerk Signature <i>[Signature]</i>			

Minutes:

House Appropriations Committee Action on HB1004.

Rep. Bob Skarphol: HB1004 is the auditor's budget, and in the auditor's budget basically what the committee did, we were asked by the auditor's office to fund two audit positions that had been removed in the governor's recommendation. Those positions are currently filled and they would keep their general audit division at 36 people with this amendment we felt it was important. Since 1991 the auditor's office at that time had 40 audit positions, since that time they have been asked to begin the audits of the university system to provide the university system comprehensive audit report, they have increased the audits on information systems, they have been asked to do performance audits, there federal audit requirements have been decreased from thirteen months to nine months, and they have had substantial increases in duties during this time and they thought it was imperative that they retain these two auditors, and the committee was in agreement with them on this. They needed \$140,000 to do that and they agreed to remove

\$30,000 from there operating expenses in order to accomplish this, and the sub section committee thought it was the appropriate thing to do. I basically follows the governor's recommendation. I would move the amendment. Seconded by Rep. Byerly.

Rep. Jeff Delzer: Rep. Skarphol, In Human Resources we just have been dealing with one big budget, but the question I have and I don't have a problem with anything you have done. The question I have is on these smaller budgets, my understanding is that OMB or the governor's office never put the wage increase in until after the hold even budget. Why are we seeing all these unfunded positions for a hold even budget if they didn't have to be concerned about the wage increase?

Rep. Bob Skarphol: In this particular case the positions were vacant at the time the budget was prepared for the governor's office and they were in the process of filling those positions and they actually became filled effective as of February 1st, and with regard to the salary adjustments, the only real salary adjustments that were in here were corrections and then there is \$35,000, which would be item 4. To address the entry level auditor's, that the auditor's office has. The beginning salary level is \$2050 and the private accounting firms that they are competing with has an entry salary level of \$2500 and they felt it was important that they have a little more money in their budget to compete with them.

Rep. Jeff Delzer: My question is more so, maybe the three and two for the governor's package, was that part of the 100% hold even budget or was that added after the hold even budget?

Joe Morrisette, Legislative Council: The agency submitted their hold even budget request and then on top of that OMB added the 3 and 2 salary package. I think the reason that you are seeing some of these positions that were eliminated in the base budget request is that the agency has an additional cost for next biennium to continue to fund the salary increases that were implemented

this time. Because they had to submit a whole new budget request, they have to reallocate within their existing budget to continue to fund that pay increase for the next biennium.

Rep. Jeff Delzer: Joe your talking about making up for the first year of the biennium, was that in the base, does that have to be in base, where did the increase come from that they had to adopt the funding for the two positions is what I'm trying to find out.

Joe Morrisette: Legislative Council: I think part of it is inflationary increases that they weren't allowed to request, and part of it is the fact that during this biennium they paid employees an increase for the first year and an increase for the second year, so in order to maintain that higher level of pay for two years of the next biennium they have to pay more in salaries and wages, and in order to do that they have to reallocate within their existing budget either by eliminating positions or allocating from operating to salaries.

Rep. Jeff Delzer: The reason I'm asking this is so I can compare it to what were doing in the Human Services budget.

Rep. Ole Aarsvold: Was there any discussion in sub committee about encouraging the use of private audit firms for some of the smaller agencies, and thereby reallocate then the state auditor's positions to those larger and new responsibilities you suggested earlier?

Rep. Bob Skarphol: What happens in the auditor's office if they hire an outside accounting firm is typically a higher cost than if they use their own auditor's, and if in the event there are any special funds involved they cannot bill for that special fund expenditure so they actually get a double whammy by doing that.

Rep. Rex Byerly: Rep. Aarsvold, you should also be aware that there are many agencies that the audits are performed by outside audit agencies. There are lots of audits they are performed outside, and generally speaking they are on the smaller things.

Rep. Ole Aarsvold: The comments I have heard from constituents is that, one of the larger parts of bill that they get from the state auditor's office is mileage and hours on the road and frequently I think that could be minimized by using the local audit firm in the outlying communities.

Rep. Bob Skarphol: There are three different categories of auditors in the auditor's office, the state general audits, the federal audits, and the special audits, and the special audit category is for the political subdivisions and they are paid for those audits by the political subdivisions, that is a fully funded function of the auditor's office.

Rep. Mike Timm: Any discussion? We have a motion to amend for the amendments. All those in favor of adopting the amendments .0101 say AYE. Voice vote. Motion carried and the amendments are adopted. Motion to move HB1004 as amended by Rep. Skarphol, seconded by Rep. Byerly. Any discussion on the bill. Clerk will call the roll, for DO PASS as amended. YES (19) NO (0) Absent and not voting (2). Motion passes and Rep Skarphol will carry the bill to the floor.

End of Committee action on HB1004.

FISCAL NOTE

Requested by Legislative Council

12/14/2000

Bill/Resolution No.: HB 1004

Amendment to:

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

	1999-2001 Biennium		2001-2003 Biennium		2003-2005 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures			\$14,328			
Appropriations			\$14,328			

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

1999-2001 Biennium			2001-2003 Biennium			2003-2005 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

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

The information in this fiscal note is limited to the statutory change in salary for the State Auditor only (Section 3).

This bill will increase the salary of the State Auditor in the 2001-2003 biennium by \$14,328 over the salary of the 1999-2001 biennium. The amount includes the governor's recommended salary increases.

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

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

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

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

Name:	Ed Nagel	Agency:	State Auditor's Office
Phone Number:	328-4782	Date Prepared:	12/19/2000

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1004

Page 1, line 10, replace "5,716,616" with "5,855,615"

Page 1, line 11, replace "775,320" with "745,320"

Page 1, line 13, replace "6,570,906" with "6,679,905"

Page 1, line 15, replace "4,425,069" with "4,534,068"

Page 1, line 17, replace "1,234,548" with "1,288,567"

Page 1, line 19, replace "1,234,548" with "1,288,567"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1004 - State Auditor - House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$5,716,616	\$138,999	\$5,855,615
Operating expenses	775,320	(30,000)	745,320
Equipment	78,970		78,970
Total all funds	\$6,570,906	\$108,999	\$6,679,905
Less estimated income	2,145,837		2,145,837
General fund	\$4,425,069	\$108,999	\$4,534,068
FTE	53.00	2.00	55.00

Dept. 117 - State Auditor - Detail of House Changes

	ADD 2 FTE AUDITOR I POSITIONS - TRANSFER FUNDING FROM OPERATING ¹	ADJUST MARKET EQUITY SALARY INCREASE ²	TOTAL HOUSE CHANGES
Salaries and wages	\$140,000	(\$1,001)	\$138,999
Operating expenses	(30,000)		(30,000)
Equipment			
Total all funds	\$110,000	(\$1,001)	\$108,999
Less estimated income			
General fund	\$110,000	(\$1,001)	\$108,999
FTE	2.00	0.00	2.00

¹ This amendment restores 2 FTE auditor I positions unfunded in the agency's base budget request and deleted in the Schafer and Hoeven budget recommendations. This amendment transfers \$30,000 from operating expenses to salaries and wages to partially fund the \$140,000 general fund cost of the positions.

² This amendment reduces, from \$4,402 to \$3,401, the amount provided for a market equity salary increase for the State Auditor. The amount included in the bill will provide for a monthly increase of \$162 per month for the last 18 months of the biennium.

In Section 2 of the bill, the amount of estimated income to be generated from political subdivision audit fees is increased by \$54,019, the amount of the executive budget compensation package funded from the collection of these audit fees, to match the amount appropriated in Section 1 of the bill.

Date: 1-30-01
Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1004

House Appropriations - Government Operations Division Committee

☒ Subcommittee on ~~Appropriations~~ Govt Operations
or
☐ Conference Committee

Legislative Council Amendment Number 18004.0101

Action Taken to adopt amendment

Motion Made By Rep. Skarphol Seconded By Rep. Carlisle

Representatives	Yes	No	Representatives	Yes	No
Rep. Rex R. Byerly - Chairman	✓		Rep. Eliot Glassheim	✓	
Rep. Ron Carlisle - Vice Chairman	✓		Rep. Robert Huether	✓	
Rep. Kim Koppelman	✓				
Rep. Bob Skarphol	✓				
Rep. Blair Thoreson	✓				

Total (Yes) 7 No 0

Absent 0

Floor Assignment

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

to restore the FTE's out by the executive
budget.

Date: 1-30-01
Roll Call Vote #: 2

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1004

House Appropriations - Government Operations Division Committee

☒ Subcommittee on ~~Appropriations~~ Govt Operations
or
☐ Conference Committee

Legislative Council Amendment Number 18009.0181

Action Taken	DO PASS AS AMENDED
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Motion Made By Rep Skarplow Seconded By Rep Carlisle

[illegible]

Total (Yes) 7 No 0

Absent 

Floor Assignment Leo Skarphol.

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

Date: 02-07-01
Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1004

House APPROPRIATIONS

Committee

☐ Subcommittee on _____
or
☐ Conference Committee

Legislative Council Amendment Number _____

Action Taken DO PASS AS AMENDED

Motion Made By SKARPHOL Seconded By BYERLY

Representatives	Yes	No	Representatives	Yes	No
Timm - Chairman	✓				
Wald - Vice Chairman	✓				
Rep - Aarsvold	✓		Rep - Koppelman	✓	
Rep - Boehm	✓		Rep - Martinson	✓	
Rep - Byerly	✓		Rep - Monson	✓	
Rep - Carlisle			Rep - Skarphol	✓	
Rep - Delzer	✓		Rep - Svedjan	✓	
Rep - Glassheim	✓		Rep - Thoreson		
Rep - Gulleason	✓		Rep - Warner	✓	
Rep - Huether	✓		Rep - Wentz	✓	
Rep - Kempenich	✓				
Rep - Kerzman	✓				
Rep - Kliniske	✓				

Total (Yes) 19 No 0

Absent 2

Floor Assignment SKARPHOL

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

REPORT OF STANDING COMMITTEE

HB 1004: Appropriations Committee (Rep. Timm, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (19 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). HB 1004 was placed on the Sixth order on the calendar.

Page 1, line 10, replace "5,716,616" with "5,855,615"

Page 1, line 11, replace "775,320" with "745,320"

Page 1, line 13, replace "6,570,906" with "6,679,905"

Page 1, line 15, replace "4,425,069" with "4,534,068"

Page 1, line 17, replace "51,234,548" with "51,288,567"

Page 1, line 19, replace "51,234,548" with "51,288,567"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1004 - State Auditor - House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$5,716,616	\$138,999	\$5,855,615
Operating expenses	775,320	(30,000)	745,320
Equipment	78,270		78,270
Total all funds	\$6,570,906	\$108,999	\$6,679,905
Less estimated income	2,145,837		2,145,837
General fund	\$4,425,069	\$108,999	\$4,534,068
FTE	53.00	2.00	55.00

Dept. 117 - State Auditor - Detail of House Changes

	ADD 2 FTE AUDITOR 1 POSITIONS	TRANSFER FROM OPERATING	ADJUST MARKET EQUITY SALARY INCREASE ²	TOTAL HOUSE CHANGES
Salaries and wages	\$145,000		(\$1,001)	\$143,999
Operating expenses	(18,000)		(50,000)	(68,000)
Equipment				
Total all funds	\$127,000		(\$1,001)	\$125,999
Less estimated income				
General fund	\$112,000		(\$1,001)	\$110,999
FTE	2.00		0.00	2.00

¹ The amendment requires 2 FTE Auditor 1 positions authorized in the agency's base budget request and claimed in the State and House Budget Code of the provisions.

² The amendment requires, from \$4,425 to \$4,401 the amount provided for a market equity salary increase for the State Auditor. The amount authorized in the bill will provide for a monthly increase of \$167 per month for the last 18 months of the term.

In Section 2 of the bill, the amount of estimated income to be generated from political subdivision audit fees is increased by \$54,019, the amount of the executive budget compensation package funded from the collection of these audit fees, to match the amount appropriated in Section 1 of the bill.

REPORT OF STANDING COMMITTEE

HB 1005: Appropriations Committee (Rep. Timm, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (19 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). HB 1006 was placed on the Sixth order on the calendar.

Page 1, line 3, after "insert", to provide for allocations to the multistate tax compact fund

Page 1, line 9, after "funds" insert "and other income"

Page 1, line 14, replace "12,950,176" with "12,854,202"

Page 1, line 15, replace "4,327,342" with "4,282,461"

Page 1, line 18, replace "393,729" with "393,729"

Page 1, after line 18, insert:
"Multistate tax commission"

Page 1, line 19, replace "17,956,247" with "18,131,392"

Page 1, line 20, replace "393,729" with "709,729"

Page 1, line 21, replace "17,562,518" with "17,421,663"

Page 2, line 3, replace "22,103,331" with "21,962,476"

Page 2, after line 8, insert:

"SECTION 3. MULTISTATE TAX COMMISSION FUND. Notwithstanding any other provision of law, during the 2001-03 biennium the tax commissioner shall designate up to \$316,000 of revenue from collections attributable to participation in the multistate tax compact for deposit in the multistate tax commission fund and, upon receipt of funds so designated, the state treasurer shall deposit those funds in the multistate tax commission fund. The state treasurer shall transfer any balance in the multistate tax commission fund on June 30, 2003, to the state general fund."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1006 - Summary of House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Household tax credit			
Total all funds	\$4,540,813	\$0	\$4,540,813
Less estimated income	\$4,540,813		\$4,540,813
General fund			
State Tax Commissioner	\$17,956,247	\$175,145	\$18,131,392
Total all funds	709,729	316,000	709,729
Less estimated income	\$17,562,518	(\$140,853)	\$17,421,663
General fund			
BA Total	\$22,103,331	\$175,145	\$22,278,476
Total all funds	\$22,103,331	\$175,145	\$22,278,476
Less estimated income	\$22,103,331	(\$140,853)	\$21,962,476
General fund			

House Bill No. 1006 - State Tax Commissioner - House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$12,950,176	(96,974)	\$12,854,202
Operating expenses	4,327,342	(44,881)	4,282,461
Equipment	235,000		235,000
City tax administration fees	50,000		50,000
Motor fuel, license, grant	340,729		340,729
MTC fund	393,729		393,729
Total all funds	\$17,956,247	\$175,145	\$18,131,392
Less estimated income	709,729		709,729
General fund	\$17,562,518	(\$140,853)	\$17,421,663
FTE	142.00	1.00	143.00

Dept. 127 - State Tax Commissioner - Detail of House Changes

	ADJUST MARKET EQUITY SALARY INCREASE ¹	REDUCE FUNDING FOR MULTISTATE TAX COMMISSION ²	REDUCE SPECIAL FUNDING FROM AUDIT REVENUES ³	RESTORE AN ALLOCATION POSITION ⁴	TOTAL HOUSE CHANGES
Salaries and wages	(\$17,090)	(\$78,863)			(\$95,953)
Operating expenses					
Equipment					
City tax administration fees					
Motor fuel, license, grant					

2001 SENATE APPROPRIATIONS

HB 1004

2001 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB1004

Senate Appropriations Committee

☐ Conference Committee

Hearing Date February 14, 2001

Tape Number	Side A	Side B	Meter #
Tape #1	x		27.7-54.7
Tape #1		x	0.0-.9
Committee Clerk Signature <i>James P. Peltch</i>			

Minutes:

Senator Nething opened the hearing on HB1004 - Office of the State Auditor.

Robert Peterson, State Auditor presented testimony regarding engrossed House Bill 1004.

(a copy of his written testimony is attached). Correction noted on page 8: should be 34,000 not 30,000 last sentence of first paragraph.

Senator Robinson: Page 10 -- 100 thousand for consultants? Number of consultants? Paid hourly? Paid by project? Turnover anticipated this biennium?

Robert Peterson: 100 thousand not done through contracts -- prior audits we have contracted with the TRT Company -- for 98 thousand. We do them on a bid basis -- based on requirements.

Senator Robinson: Turn back expected?

Robert Peterson: Maybe 20 thousand.

Senator Holmberg: House added 1; couple FTE? Amendment being presented?

Robert Peterson: Yes

Page 2
Senate Appropriations Committee
Bill/Resolution Number HB1004
Hearing Date February 14, 2001

Sandy Paulson, OMB Analyst: Yes, agree.

Senator Holmberg: Proposed 2 FTE's and they added?

Robert Peterson: Yes.

No additional testimony on HB1004. Hearing closed.

3-29-01 Full Committee Action (Tape #1, Side A, Meter # 0.0-7.7)

Senator Nething reopened the hearing on HB1004 -Office of the State Auditor.

Senator Kringstad Chair of the Subcommittee presented the Committee report and proposed amendments #18004.0204. Discussion.

Senator Kringstad moved the amendment -- with the correction. Section 4 be removed; Senator Tallackson seconded the adoption. Discussion; voice roll call; motion carried. Discussion on the bill, as amended. Senator Kringstad moved a DO PASS AS AMENDED; Senator Tallackson seconded the motion. Discussion; call for the vote; Roll Call Vote: 14 yes; 0 no; 0 absent and not voting.

Senator Kringstad accepted the floor assignment.

Corrected amendment #18004.0205 received.

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1004

Page 1, line 10, replace "5,855,615" with "5,802,615"

Page 1, line 11, replace "745,320" with "775,320"

Page 1, line 13, replace "6,679,905" with "6,656,905"

Page 1, line 15, replace "4,534,068" with "4,511,068"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1004 - State Auditor - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$5,718,616	\$5,855,615	(\$53,000)	\$5,802,616
Operating expenses	775,320	745,320	30,000	775,320
Equipment	78,970	78,970		78,970
Total all funds	\$6,570,906	\$6,679,905	(\$23,000)	\$6,656,905
Less estimated income	2,145,837	2,145,837		2,145,837
General fund	\$4,425,069	\$4,534,068	(\$23,000)	\$4,511,068
FTE	53.00	55.00	(1.00)	54.00

Dept. 117 - State Auditor - Detail of Senate Changes

	REMOVE FTE POSITION ADDED BY HOUSE ¹	ADD FUNDING FOR ADDITIONAL SALARY ADJUSTMENTS ²	RESTORE FUNDING FOR OPERATING EXPENSES ³	TOTAL SENATE CHANGES
Salaries and wages	(\$70,000)	\$17,000		(\$53,000)
Operating expenses			\$30,000	30,000
Equipment				
Total all funds	(\$70,000)	\$17,000	\$30,000	(\$23,000)
Less estimated income				
General fund	(\$70,000)	\$17,000	\$30,000	(\$23,000)
FTE	(1.00)	0.00	0.00	(1.00)

¹ This amendment removes one FTE auditor I position added by the House for the agency's state audit division. The agency unfunded two FTE auditor I positions in the base budget request for the 2001-03 biennium; the positions were deleted in the Schafer and Hoeven budget recommendations.

² The Schafer and Hoeven budget recommendations included \$35,000 for salary adjustments, in addition to the executive budget compensation package, to increase entry-level auditor salaries to assist in reducing agency turnover. The Senate version increases funding for this purpose by \$17,000, to provide a total of \$52,000.

³ The House reduced funding for operating expenses by \$30,000 to partially offset the cost of the two FTE positions added by the House. The Senate amendment restores the \$30,000 for operating expenses.

Date: 3-29-01

Roll Call Vote #: _____

2001 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1007

Senate Appropriations Committee

☐ Subcommittee on _____
or
☐ Conference Committee

Legislative Council Amendment Number 18007.0.205

Action Taken On Pass As Amended

Motion Made By Senator Kringstad Seconded By Senator Tallackson

Senators	Yes	No	Senators	Yes	No
Dave Nething, Chairman	✓				
Ken Solberg, Vice-Chairman	✓				
Randy A. Schobinger	✓				
Elroy N. Lindaas	✓				
Harvey Tallackson	✓				
Larry J. Robinson	✓				
Steven W. Tomac	✓				
Joel C. Heltkamp	✓				
Tony Grindberg	✓				
Russell T. Thane	✓				
Ed Kringstad	✓				
Ray Holmberg	✓				
Bill Bowman	✓				
John M. Andrist	✓				

Total Yes 14 No 0

Absent 0

Floor Assignment Senator Kringstad

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

REPORT OF STANDING COMMITTEE

HB 1004, as engrossed: Appropriations Committee (Sen. Nething, 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, line 10, replace "5,855,615" with "5,802,615"

Page 1, line 11, replace "745,320" with "775,320"

Page 1, line 13, replace "6,679,905" with "6,656,905"

Page 1, line 15, replace "4,534,068" with "4,511,068"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1004 - State Auditor - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$5,716,616	\$5,855,615	(\$53,000)	\$5,802,615
Operating expenses	775,320	745,320	30,000	775,320
Equipment	78,970	78,970		78,970
Total all funds	\$6,570,906	\$6,679,905	(\$23,000)	\$6,656,905
Less estimated income	2,145,837	2,145,837		2,145,837
General fund	\$4,425,069	\$4,534,068	(\$23,000)	\$4,511,068
FTE	53.00	55.00	(1.00)	54.00

Dept. 117 - State Auditor - Detail of Senate Changes

	REMOVE FTE POSITION ADDED BY HOUSE ¹	ADD FUNDING FOR ADDITIONAL SALARY ADJUSTMENTS ²	RESTORE FUNDING FOR OPERATING EXPENSES ³	TOTAL SENATE CHANGES
Salaries and wages	(\$70,000)	\$17,000		(\$53,000)
Operating expenses			\$30,000	30,000
Equipment				
Total all funds	(\$70,000)	\$17,000	\$30,000	(\$23,000)
Less estimated income				
General fund	(\$70,000)	\$17,000	\$30,000	(\$23,000)
FTE	(1.00)	0.00	0.00	(1.00)

¹ This amendment removes one FTE auditor I position added by the House for the agency's state audit division. The agency unfunded two FTE auditor I positions in the base budget request for the 2001-03 biennium; the positions were deleted in the Schafer and Hoeven budget recommendations.

² The Schafer and Hoeven budget recommendations included \$35,000 for salary adjustments, in addition to the executive budget compensation package, to increase entry-level auditor salaries to assist in reducing agency turnover. The Senate version increases funding for this purpose by \$17,000, to provide a total of \$52,000.

³ The House reduced funding for operating expenses by \$30,000 to partially offset the cost of the two FTE positions added by the House. The Senate amendment restores the \$30,000 for operating expenses.

2001 HOUSE APPROPRIATIONS

CONFERENCE COMMITTEE

HB 1004

2001 HOUSE CONFERENCE COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1004

House Appropriations Committee
Government Operations Division

☒ Conference Committee

Hearing Date April 11, 2001

Tape Number	Side A	Side B	Meter #
04-11-01 tape #1		0 - 1006	
Committee Clerk Signature <i>Kelle Hall</i>			

Minutes:

The conference committee was called to order. Roll call was taken.

Rep. Skarphol: Well we have a slight difference of opinion on this bill.

Sen. Kringstad: Explains the Senate amendment to remove one FTE, and added money back into the salary line, to make a salary adjustment for entry level auditors.

Rep. Skarphol: Explains the House version of the bill, and their reasoning.

Some general discussion as to the differences between the two opinions. Gordy Smith from the Auditor's office explained the number of positions in the department and the need for the FTE.)

The chairman closed the meeting on this bill.

2001 HOUSE CONFERENCE COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1004

House Appropriations Committee
Government Operations Division

☒ Conference Committee

Hearing Date April 17, 2001

Tape Number	Side A	Side B	Meter #
04-17-01 tape #1	0 - 207		
Committee Clerk Signature <i>Kathleen Hall</i>			

Minutes:

The conference committee was called to order. Everyone was present.

Sen. Schobinger: Resists putting in the amendment a table-like history of the budget from beginning to conference committee. A reason for resisting doing something like this in a conference committee report, we are not dealing with what was budgeted last time. What we are dealing with in conference committee is the difference between the House and Senate versions of the bill.

Rep. Skarphol: Will not pursue that thought any further.

Sen. Kringstad: Moves to have the Senate recede from their amendment and further amend to include an increase in the salary adjustment of \$17,000 and operating budget of \$15,000. Seconded by Rep. B. Thoreson.

Sen. Schobinger: By doing that we are effectively doing what?

Page 2

Government Operations Division

Bill/Resolution Number HB 1004

Hearing Date April 17, 2001

Rep. Skarphol: Giving the auditor's office the two FTE's that the House authorized, and put \$17,000 back into salary adjustment that the Senate wanted for low end auditors, and increasing the operating expense for training that the House had taken out earlier.

Vote on Motion : 6 yes, 0 no, 0 absent and not voting.

Rep. Skarphol will carry the report to the floor.

The chairman closed the meeting on this bill.

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1004

That the Senate recede from its amendments as printed on page 1316 of the House Journal and pages 1170 and 1171 of the Senate Journal and that Engrossed House Bill No. 1004 be amended as follows:

Page 1, line 10, replace "5,855,615" with "5,872,615"

Page 1, line 11, replace "745,320" with "760,320"

Page 1, line 13, replace "6,679,905" with "6,711,905"

Page 1, line 15, replace "4,534,068" with "4,566,068"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

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

	EXECUTIVE BUDGET	HOUSE VERSION	CONFERENCE COMMITTEE CHANGES	CONFERENCE COMMITTEE VERSION	SENATE VERSION	COMPARISON TO SENATE
Salaries and wages	\$5,716,616	\$5,855,615	\$17,000	\$5,872,615	\$5,802,615	\$70,000
Operating expenses	775,320	745,320	15,000	760,320	775,320	(15,000)
Equipment	78,970	78,970		78,970	78,970	
Total all funds	\$6,570,906	\$6,679,905	\$32,000	\$6,711,905	\$6,656,905	\$55,000
Less estimated income	2,145,837	2,145,837		2,145,837	2,145,837	
General fund	\$4,425,069	\$4,534,068	\$32,000	\$4,566,068	\$4,511,068	\$55,000
FTE	53.00	55.00	0.00	55.00	54.00	1.00

Dept. 117 - State Auditor - Detail of Conference Committee Changes

	ADD FUNDING FOR ADDITIONAL SALARY ADJUSTMENTS ¹	RESTORE FUNDING FOR OPERATING EXPENSES ²	TOTAL CONFERENCE COMMITTEE CHANGES
Salaries and wages	\$17,000		\$17,000
Operating expenses		\$15,000	15,000
Equipment			
Total all funds	\$17,000	\$15,000	\$32,000
Less estimated income			
General fund	\$17,000	\$15,000	\$32,000
FTE	0.00	0.00	0.00

¹ The Schafer and Hoeven budget recommendations included \$35,000 for salary adjustments, in addition to the executive budget compensation package, to increase entry level auditor salaries to assist in reducing agency turnover. The Conference Committee did not change the Senate recommendation to increase funding for this purpose by \$17,000, to provide a total of \$52,000.

² The House reduced funding for operating expenses by \$30,000 to partially offset the cost of the two FTE positions added by the House. The Senate restored the \$30,000 for operating expenses. The Conference Committee amendment adds \$15,000 for operating expenses, \$15,000 less than the Senate version.

The Conference Committee amendment includes funding for 55 FTE positions, two FTEs more than the Schafer and Hoeven executive recommendations. The House added the two FTE positions removed in the executive recommendation; the Senate added only one of the positions.

Date: 4-17-01
Roll Call Vote # 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1004

House Appropriations Committee

☐ Subcommittee on _____
or
☒ Conference Committee

Legislative Council Amendment Number 18204.0207

Action Taken Senate rec'd: ~~passed~~ amend to include increase

Motion Made By Sen Kringsdal Seconded By Rep. Thorsen

Representatives	Yes	No	SENATORS	Yes	No
Rep Skarphol	✓		Sen. Kringsdal	✓	
Rep Thorsen, B.	✓		Sen. Scholberg	✓	
Rep Glassheim	✓		Sen. Tallackorn	✓	

Total (Yes) 6 No 0

Absent 0

Floor Assignment Rep Skarphol

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

give 2 FTE's the house clerk.
+ salary increases; operating increases.

REPORT OF CONFERENCE COMMITTEE

HB 1004, as engrossed: Your conference committee (Sens. Kringstad, Schobinger, Tallackson and Reps. Skarphol, B. Thoreson, Glasshelm) recommends that the **SENATE RECEDE** from the Senate amendments on HJ page 1316, adopt amendments as follows, and place HB 1004 on the Seventh order:

That the Senate recede from its amendments as printed on page 1316 of the House Journal and pages 1170 and 1171 of the Senate Journal and that Engrossed House Bill No. 1004 be amended as follows:

Page 1, line 10, replace "5,855,615" with "5,872,615"

Page 1, line 11, replace "745,320" with "760,320"

Page 1, line 13, replace "6,679,905" with "6,711,905"

Page 1, line 15, replace "4,534,068" with "4,566,068"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

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

	EXECUTIVE BUDGET	HOUSE VERSION	CONFERENCE COMMITTEE CHANGES	CONFERENCE COMMITTEE VERSION	SENATE VERSION	COMPARISON TO SENATE
Salaries and wages	\$5,716,616	\$5,855,615	\$17,000	\$5,872,615	\$5,802,616	\$70,000
Operating expenses	775,320	745,320	15,000	760,320	775,320	(15,000)
Equipment	78,970	78,970		78,970	78,970	
Total all funds	\$6,570,906	\$6,679,905	\$32,000	\$6,711,905	\$6,656,905	\$55,000
Less estimated income	<u>2,145,837</u>	<u>2,145,837</u>		<u>2,145,837</u>	<u>2,145,837</u>	
General fund	\$4,425,069	\$4,534,068	\$32,000	\$4,566,068	\$4,511,068	\$55,000
FTE	53.00	55.00	0.00	55.00	54.00	1.00

Dept. 117 - State Auditor - Detail of Conference Committee Changes

	ADD FUNDING FOR ADDITIONAL SALARY ADJUSTMENTS 1	RESTORE FUNDING FOR OPERATING EXPENSES 2	TOTAL CONFERENCE COMMITTEE CHANGES
Salaries and wages	\$17,000		\$17,000
Operating expenses		\$15,000	15,000
Equipment			
Total all funds	\$17,000	\$15,000	\$32,000
Less estimated income			
General fund	\$17,000	\$15,000	\$32,000
FTE	0.00	0.00	0.00

1 The Schafer and Hoeven budget recommendations included \$35,000 for salary adjustments, in addition to the executive budget compensation package, to increase entry level auditor salaries to assist in reducing agency turnover. The Conference Committee did not change the Senate recommendation to increase funding for this purpose by \$17,000, to provide a total of \$52,000.

2 The House reduced funding for operating expenses by \$30,000 to partially offset the cost of the two FTE positions added by the House. The Senate restored the \$30,000 for operating expenses. The Conference Committee amendment adds \$15,000 for operating expenses, \$15,000 less than the Senate version.

The Conference Committee amendment includes funding for 55 FTE positions, two FTEs more than the Schafer and Hoeven executive recommendations. The House added the two FTE positions removed in the executive recommendation; the Senate added only one of the positions.

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

2001 TESTIMONY

HB 1004

Department 117 - State Auditor
House Bill No. 1004

	FTE Positions	General Fund	Other Funds	Total
2001-03 Executive Budget	53.00	\$4,425,069	\$2,145,837	\$6,570,906
1999-2001 Legislative Appropriations	55.00	4,148,630	1,962,999	6,111,629
Increase (Decrease)	(2.00)	\$276,439	\$182,838	\$459,277

The 1999-2001 appropriation amounts include \$40,265, of which \$27,787 is from the general fund, for the agency's share of the \$5.4 million funding pool appropriated to the Office of Management and Budget (OMB) for special market equity adjustments for classified employees and \$46, of which \$31 is from the general fund, for the agency's share of the \$1.4 million funding pool appropriated to OMB for assisting agencies in providing \$35 per month minimum salary increases in July 1999 and July 2000.

Major Items Affecting State Auditor 2001-03 Budget

	General Fund	Other Funds	Total
1. Provides funding for an equity salary increase of \$161.83 per month for the State Auditor effective January 1, 2002 (the amount included in the executive budget is \$1,001 more than the required amount of \$3,401).	\$4,402		\$4,402
2. Adds 1 FTE auditor II for the local government audits division.		\$74,384	\$74,384
3. Deletes the following FTE positions:			
1 FTE unclassified assistant (unfunded)	\$0		\$0
2 FTE auditor I (partially unfunded in agency base request - full funding requested in optional adjustments)	(\$21,201)		(\$21,201)
Total FTE positions deleted - 3 FTE	(\$21,201)		(\$21,201)
4. Provides \$35,000 from the general fund for salary adjustments, in addition to the executive budget compensation package, to increase entry level auditor salaries to assist in reducing agency turnover (the 1999 Legislative Assembly appropriated \$38,000 from the general fund for this purpose).	\$35,000		\$35,000
5. Increases funding for operating expenses by 15.5 percent, from \$671,056 to \$775,320, to reflect the following changes:			
Information technology - Data processing	\$20,920	\$600	\$21,520
Travel	11,930	45,453	57,383
Dues and professional development	19,737	1,050	20,787
Other	(958)	5,532	4,574
Total recommended changes	\$51,629	\$52,635	\$104,264
6. Provides \$100,000 from the general fund for consulting fees to contract for performance audits (no change from the amount appropriated for the 1999-2001 biennium).	\$0		\$0

Major Legislation Affecting the State Auditor

House Bill No. 1056 - This bill requires that all audits of regional planning councils be conducted by the State Auditor's office. The fiscal note indicates that the bill will result in additional other funds revenues and expenditures of \$45,600 for the 2001-03 biennium.

Department 117 - State Auditor
House Bill No. 1004

	FTE Positions	General Fund	Other Funds	Total
2001-03 Schafer Executive Budget	53.00	\$4,425,069	\$2,145,837	\$6,570,906
1999-2001 Legislative Appropriations	55.00	4,148,630	1,962,999	6,111,629 ¹
Increase (Decrease)	(2.00)	\$276,439	\$182,838	\$459,277

2001-03 Hoeven Executive Budget	53.00	\$4,425,069	\$2,145,837	\$6,570,906
Hoeven Increase (Decrease) to Schafer	0.00	\$0	\$0	\$0

¹ The 1999-2001 appropriation amounts include \$40,265, of which \$27,787 is from the general fund, for the agency's share of the \$5.4 million funding pool appropriated to the Office of Management and Budget (OMB) for special market equity adjustments for classified employees and \$46, of which \$31 is from the general fund, for the agency's share of the \$1.4 million funding pool appropriated to OMB for assisting agencies in providing \$35 per month minimum salary increases in July 1999 and July 2000.

Major Schafer Recommendations Affecting State Auditor 2001-03 Budget

	General Fund	Other Funds	Total
1. Provides funding for an equity salary increase of \$161.83 per month for the State Auditor effective January 1, 2002 (the amount included in the executive budget is \$1,001 more than the required amount of \$3,401).	\$4,402		\$4,402
2. Adds 1 FTE auditor II for the local government audits division.		\$74,384	\$74,384
Deletes the following FTE positions:			
1 FTE unclassified assistant (unfunded)	\$0		\$0
2 FTE auditor I (partially unfunded in agency base request - Full funding requested in optional adjustments)	(\$21,201)		(\$21,201)
Total FTE positions deleted - 3 FTE	(\$21,201)		(\$21,201)
4. Provides \$35,000 from the general fund for salary adjustments, in addition to the executive budget compensation package, to increase entry level auditor salaries to assist in reducing agency turnover (the 1999 Legislative Assembly appropriated \$38,000 from the general fund for this purpose).	\$35,000		\$35,000
5. Increases funding for operating expenses by 15.5 percent, from \$671,056 to \$775,320, to reflect the following changes:			
Information technology - Data processing	\$20,920	\$600	\$21,520
Travel	11,930	45,453	57,383
Dues and professional development	19,737	1,050	20,787
Other	(958)	5,532	4,574
Total recommended changes	\$51,629	\$52,635	\$104,264
6. Provides \$100,000 from the general fund for consulting fees to contract for performance audits (no change from the amount appropriated for the 1999-2001 biennium).	\$0		\$0

**Major Hoeven Recommendations Affecting State Auditor 2001-03 Budget
Compared to the Bill as Introduced (Schafer Budget)**

The Hoeven budget recommendation does not change the Schafer executive budget recommendation for this agency.

Major Legislation Affecting the State Auditor

House Bill No. 1056 - This bill requires that all audits of regional planning councils be conducted by the State Auditor's office. The fiscal note indicates that the bill will result in additional other funds revenues and expenditures of \$45,600 for the 2001-03 biennium.

Department 117 - State Auditor
House Bill No. 1004

	FTE Positions	General Fund	Other Funds	Total
2001-03 Schafer Executive Budget	53.00	\$4,425,069	\$2,145,837	\$6,570,906
1999-2001 Legislative Appropriations	55.00	4,148,630	1,962,999	6,111,629 ¹
Increase (Decrease)	(2.00)	\$276,439	\$182,838	\$459,277

2001-03 Hoeven Executive Budget	53.00	\$4,425,069	\$2,145,837	\$6,570,906
Hoeven Increase (Decrease) to Schafer	0.00	\$0	\$0	\$0

¹ The 1999-2001 appropriation amounts include \$40,265, of which \$27,787 is from the general fund, for the agency's share of the \$5.4 million funding pool appropriated to the Office of Management and Budget (OMB) for special market equity adjustments for classified employees and \$46, of which \$31 is from the general fund, for the agency's share of the \$1.4 million funding pool appropriated to OMB for assisting agencies in providing \$35 per month minimum salary increases in July 1999 and July 2000.

Major Schafer Recommendations Affecting State Auditor 2001-03 Budget

	General Fund	Other Funds	Total
1. Provides funding for an equity salary increase of \$161.83 per month for the State Auditor effective January 1, 2002 (the amount included in the executive budget is \$1,001 more than the required amount of \$3,401). (The House reduced this amount by \$1,001.)	\$4,402		\$4,402
2. Adds 1 FTE auditor II for the local government audits division.		\$74,384	\$74,384
3. Deletes the following FTE positions:			
1 FTE unclassified assistant (unfunded)	\$0		\$0
2 FTE auditor I (partially unfunded in agency base request - Full funding requested in optional adjustments) (The House restored these 2 FTE positions.)	(\$21,201)		(\$21,201)
Total FTE positions deleted - 3 FTE	(\$21,201)		(\$21,201)
4. Provides \$35,000 from the general fund for salary adjustments, in addition to the executive budget compensation package, to increase entry level auditor salaries to assist in reducing agency turnover (the 1999 Legislative Assembly appropriated \$38,000 from the general fund for this purpose).	\$35,000		\$35,000
5. Increases funding for operating expenses by 15.5 percent, from \$671,056 to \$775,320, to reflect the following changes:			
Information technology - Data processing	\$20,920	\$600	\$21,520
Travel	11,930	45,453	57,383
Dues and professional development	19,737	1,050	20,787
Other	(958)	5,532	4,574
Total recommended changes	\$51,629	\$52,635	\$104,264
6. Provides \$100,000 from the general fund for consulting fees to contract for performance audits (no change from the amount appropriated for the 1999-2001 biennium).	\$0		\$0

Major Hoeven Recommendations Affecting State Auditor 2001-03 Budget
Compared to the Bill as Introduced (Schafer Budget)

The Hoeven budget recommendation does not change the Schafer executive budget recommendation for this agency.

Major Legislation Affecting the State Auditor

House Bill No. 1259 - This bill allows occupational or professional licensing boards with less than \$10,000 of annual receipts to submit an annual unaudited report to the State Auditor (rather than requiring the board to have a biennial audit performed and the report submitted to the State Auditor) and allows the State Auditor to charge a fee of up to \$50 per hour for reviewing the annual report. The fiscal note indicates additional other funds revenues and expenditures of \$4,100 per biennium for the State Auditor. The bill has passed the House.

Summary of Legislative Changes to Bill as Introduced

See Statement of Purpose of Amendment (attached).

STATEMENT OF PURPOSE OF AMENDMENT:**House Bill No. 1004 - Funding Summary**

	Executive Budget	House Changes	House Version
State Auditor			
Salaries and wages	\$5,716,616	\$138,999	\$5,855,615
Operating expenses	775,320	(30,000)	745,320
Equipment	78,970		78,970
Total all funds	\$6,570,906	\$108,999	\$6,679,905
Less estimated income	2,145,837	0	2,145,837
General fund	\$4,425,069	\$108,999	\$4,534,068
FTE	53.00	2.00	55.00
Bill Total			
Total all funds	\$6,570,906	\$108,999	\$6,679,905
Less estimated income	2,145,837	0	2,145,837
General fund	\$4,425,069	\$108,999	\$4,534,068
FTE	53.00	2.00	55.00

House Bill No. 1004 - State Auditor - House Action

	Executive Budget	House Changes	House Version
Salaries and wages	\$5,716,616	\$138,999	\$5,855,615
Operating expenses	775,320	(30,000)	745,320
Equipment	78,970		78,970
Total all funds	\$6,570,906	\$108,999	\$6,679,905
Less estimated income	2,145,837	0	2,145,837
General fund	\$4,425,069	\$108,999	\$4,534,068
FTE	53.00	2.00	55.00

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

	Add 2 FTE Auditor I Positions - Transfer Funding From Operating ¹	Adjust Market Equity Salary Increase ²	Total House Changes
Salaries and wages	\$140,000	(\$1,001)	\$138,999
Operating expenses	(30,000)		(30,000)
Equipment			
Total all funds	\$110,000	(\$1,001)	\$108,999
Less estimated income	0	0	0
General fund	\$110,000	(\$1,001)	\$108,999
FTE	2.00	0.00	2.00

This amendment restores 2 FTE auditor I positions unfunded in the agency's base budget request and deleted in the Schafer and Goeven budget recommendations. This amendment transfers \$30,000 from operating expenses to salaries and wages to partially fund the \$140,000 general fund cost of the positions.

² This amendment reduces, from \$4,402 to \$3,401, the amount provided for a market equity salary increase for the State Auditor. The amount included in the bill will provide for a monthly increase of \$162 per month for the last 18 months of the biennium.

In Section 2 of the bill, the amount of estimated income to be generated from political subdivision audit fees is increased by \$54,019, the amount of the executive budget compensation package funded from the collection of these audit fees, to match the amount appropriated in Section 1 of the bill.



STATE OF NORTH CAROLINA
OFFICE OF THE STATE AUDITOR
STATE GOVERNMENT
ADDRESSES THE PEOPLE OF THE STATE OF NORTH CAROLINA
THE STATE OF NORTH CAROLINA

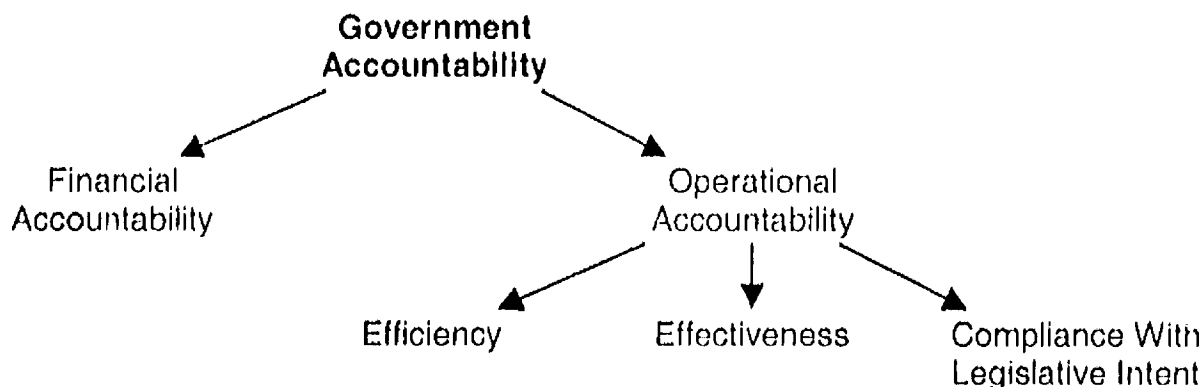
**TESTIMONY BEFORE THE
HOUSE APPROPRIATIONS COMMITTEE
GOVERNMENT OPERATIONS DIVISION**

January 10, 2001

House Bill No. 1004

Testimony – Presented By: Robert R. Peterson
State Auditor

Chairman Byerly and members of the House Appropriations Committee, for the record my name is Bob Peterson and I am the State Auditor. I stand before you for two important reasons. The first reason is to demonstrate that your faith in us is justified, in that we've used the taxpayer's dollars prudently. The second reason is to show you how we intend to continue making state government more accountable. My presentation will conclude with a discussion of the office's resource requirements.



As the State Auditor, I have committed my office to making state government better by improving accountability. While financial accountability continues to be a cornerstone, I have expanded our work to include operational accountability. As you can see from the diagram above, operational accountability includes the elements of efficiency, effectiveness, and compliance with legislative intent.

My office has helped to improve state government accountability by modifying the scope (what is included in) of biennial agency and information system audits and by continuing to improve our performance audit function. I am proud of what we have been able to accomplish and I believe you have reason to be pleased with the changes I've made.

One of the most significant changes I have made relates to modifying the scope of statutorily required biennial agency audits. In the past, these audits were done in accordance with financial statement audit standards. After discussion with the Legislative Audit and Fiscal Review Committee (LAFRC), these audits are now done in accordance with the performance audit standards. Performance audit standards have many advantages over the financial statement audit standards, when conducting individual agency audits. For example, financial statement audit standards only require auditors to test compliance with laws "noncompliance with which could have a direct and material effect on the determination of financial statement amounts." I determined, and the LAFRC agreed, that to improve operational accountability we needed to go beyond testing only laws that had a "direct and material effect on the determination of financial statement amounts."

One of the problems with following the financial statement audit standards for biennial agency audits is that they prescribe only one set objective, which is limited to determining whether financial statements are fairly stated. A major advantage of following performance audit standards is that we can customize our audit objectives. After consulting with the LAFRC, I defined our objectives as follows:

1. Provide reliable, audited financial statements.
2. Answer the following questions:
 - a. What are the highest risk areas of the agency's operations and is internal control adequate in these areas?
 - b. What are the significant and high-risk areas of legislative intent applicable to the agencies and are they in compliance with these laws?
 - c. Are there areas of agency operations where we can help to improve efficiency or effectiveness?

I would like to take a moment to briefly discuss each objective.

We provide audited consolidated financial statements of each agency from the information used to compile the state's comprehensive annual financial report. We further test these numbers using state of the art audit tools and techniques. While new audit technologies have meant significant improvements in audit efficiencies and effectiveness, they cannot be used without qualified experienced audit staff. If we are going to be able to improve government accountability, we need to limit the turnover of my professional staff to an acceptable level.

When testing the highest risk areas of internal controls, the performance audit standards allow us to target our testing at areas with the highest risks. While dollars are naturally an important criterion, there are other criteria that can be equally important. For example, privacy relating to confidential medical, tax or other citizen information maintained by the state. The performance audit standards give us the flexibility to test such areas of internal control that are beyond the scope of an audit conducted under the financial statement audit standards.

I've already discussed our expanded work in the area of legislative intent, but I would like to point out another benefit of following the performance audit standards. Under the financial audit standards, auditors don't report which laws were tested. Under performance standards, we provide a detailed listing of laws tested. This gives agency administrators, legislators, and other readers a thorough understanding of the work done in this important element of operational accountability. The following are some compliance with legislative intent problems we have found under this new audit approach, which would normally not be included in a financial statement audit:

1. For the Department of Labor we noted several discrepancies and ambiguities in the Fair Housing Act. Title 34 also appeared to be outdated in the manner in which penalties can be assessed by the Department of Labor for areas of noncompliance (the only penalties available are criminal when some administrative or civil actions appear more appropriate). We made a recommendation to address these problems.
2. A few agencies were not complying with N.D.C.C. 54-54-09 which requires certain agencies to prepare a biennial report for the governor, secretary of state, and legislative council.
3. Distribution of grant funds within statutory deadlines. (Such time deadlines would not be a material requirement under financial statement audit standards.)
4. Compensating members of various boards in excess of statutory restrictions.

Having the ability to work on operational improvements with agencies is another important advantage of following the performance audit standards for our biennial agency audits. State agencies do not consciously choose to operate ineffective or inefficient processes. More often, these deficiencies continue because state agencies do not have the time or the expertise to pursue alternatives. This is where experienced auditors can and have been of assistance. State auditors have the benefit of seeing many different agency operations and can be of assistance in developing innovative system changes. Additionally, we have the opportunity to provide training to our auditors that would not be cost effective or appropriate to offer to all state personnel.

As you can see we have made some exciting changes to our biennial agency audit process. Some of the results from working on operational improvements include the following:

1. Streamlined accounting processes (increasing efficiency of systems, promoting better and more effective controls and better access to decision making data) such as:
 - Restructuring the receipting processes for the Aeronautics Commission. The agency will go from using 5 or 6 different receipt books to using one computer system, which will greatly simplify the system and cut the time they were spending on the reconciliation process by at least 25%.
 - Helping the Labor Department develop a better, fixed asset system.
 - Assisting various agencies on how to use SAMIS for project management and federal grants management.
2. Developed a system for the Labor Department to analyze statistical data to help them allocate scarce resources, such as targeting training to where it will help the most in reducing the number of disputes.
3. Recommended the use of an imaging system to improve the efficiency of document retrieval for the Public Service Commission.

4. Recommended better uses of technology, including the Internet, to provide better and more efficient service for the Secretary of State and Department of Tourism.
5. Made several suggestions to the Secretary of State to the use of technology to streamline the processing of over 30,000 annual reports received by them from corporations and other entities.

I am quite proud of what we have accomplished with our new audit approach over the past year. I have included some examples of our findings and recommendations in Appendix I of this presentation. If you would like to see the audit reports you are welcome to visit my office's home page on the Internet (www.state.nd.us/auditor/) or contact my office for copies (328-2241).

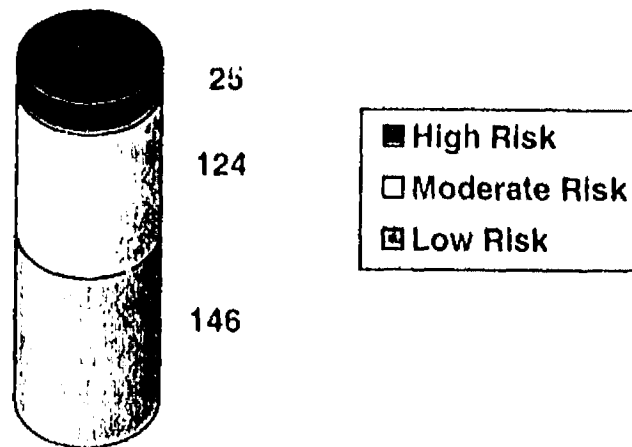
One of the pleasant surprises of implementing this new audit approach has been how well our information systems auditors have been able to adopt this audit approach for computer system audits. Under the guidance of Don LaFleur, our Information Systems Audit Manager, this new audit approach has made these audits even more important. No one else in state government is auditing these systems. In fact, no other agency has the experience or the resources to test these systems the way that we can. To show you what we have done, the "Drivers License Master System" audit identified several important findings and recommendations including:

1. Points for electronically received speeding convictions were not being recorded. For the three-year period ending June 30, 2000, there were 1,376 such convictions of which further testing showed that 8.3% of the drivers involved should have received suspensions, but did not.
2. Necessary input edit checks were not in place. Edit checks are criteria applied to data entered into a computer system; invalid data must be corrected before further processing. For example, we identified 9 instances where the actual speed was incorrectly recorded in excess of 200 mph.
3. An analytical review of driver records identified 10 drivers with point balances less than zero.
4. Improving security by limiting access to the system to only those who need access to perform their duties.
5. Only one person has sufficient knowledge about the Driver's License Master System. Without a backup person the department is vulnerable when this person is on leave or worse, if this person suddenly terminates employment with the department.
6. Point reductions for certain drivers completing suspensions were being doubled.

As the use of computer technology increases, auditing information systems is an integral part of determining compliance with legislative intent. My office is the only assurance these systems are operating as intended and in accordance with legislative intent. This is truly state of the art information system auditing and I'm very proud of what my auditors have accomplished. We have also incorporated testing of information systems into our biennial agency audits and our performance audits. The continued success of such efforts continues to depend on our ability to retain our experienced auditors in which I have invested a substantial amount of training.

To demonstrate the amount of work needed in the area of computer system audits, we did a statewide information system risk analysis report. This report identified 295 computer systems of which 25 were rated high risk, 124 were rated moderate risk, 146 were rated low risk. The Drivers License Master System, which was one of the 25 high-risk systems, took 990 hours to audit. Our best projection with current staffing is 6-12 years to complete the 25 high-risk systems.

State Information Systems



The risk analysis report will be used to guide our audit efforts with the focus being on the 25 high-risk systems and some of the more important or complex systems among the 124 moderate risk systems. Our biennial agency audits will also test some of the moderate risk systems. With the number of important systems and the time necessary to audit each system I can't over-emphasize the importance of retaining my experienced staff when it comes to auditing information systems.

The future development of computer systems in the state, including e-government, will continue to place additional demands on this office to provide information systems audits.

I would like to discuss another important function of my office, namely performance auditing. For good reason, this function receives a lot of attention from legislators. Indeed almost all states have a performance audit function. Most see the performance audit function as an indispensable part of state government, needed not only to determine if programs are operating efficiently and effectively, but also to determine if programs are accomplishing what the legislature intended them to accomplish. I feel strongly that money spent on performance auditing is an investment in better government. That is to say the savings generated from performance audits greatly exceed the costs of these audits.

While our performance audit resources are relatively lean compared to most states, we have been able to make some important findings and recommendations in the audits we have completed. As an example, I'll use our Contract for Services performance audit. We found that while a state agency is required to solicit bids for the purchase of a \$1,000 piece of equipment, there were no similar requirements, or any requirement for that matter, for a \$100,000 consulting contract. Besides the lack of guidance, the report found that for the three-year period ending June 30, 1999 there were 2,200 contracts for services with payments in excess of \$272 million.

The Contracts for Services audit examined and determined the adequacy of the laws, policies and procedures surrounding contracts for services by state agencies, colleges and universities. The audit found very few laws, rules and policies relating to contracts for services. These entities were being allowed to enter into these agreements with little or no guidance from lawmakers or the State Procurement Office.

We found significant weaknesses in the processes used to establish contracts for services. These included: instances of financial relationships with no formal contracts in place; contracts not being bid prior to being awarded; contracts not being re-bid for over 5 years; contracts lacking important and sometimes required language; and inadequate contract monitoring (making sure the State is getting what it paid for).

Significant recommendations from the Contract for Services report included:

1. The Office of Management and Budget and State Board of Higher Education should provide improved guidance to all state entities for the procurement of services and contract monitoring.
2. The Office of Management and Budget should establish an on line contract system.
3. The Office of Management and Budget and State Board of Higher Education should cooperatively purchase services to better utilize the state's purchasing power.

As a result of this performance audit, legislation has been drafted for the 57th Legislative Assembly, and there is improved guidance for monitoring of contracts for services entered into by state entities. Considering the amount of the money involved, I believe this will result in significant savings and additional safeguards for the State of North Dakota.

Another important first for my office relates to the manner in which we select performance audits. During this biennium we performed a risk analysis of the programs administered by the Department of Human Services. This type of risk analysis helps to ensure our scarce performance audit resources are spent where they can have the greatest impact. The risk analysis included the evaluation of 12 risk factors (such as complexity, dollars spent, FTE's, newness of the program and audit/review findings) for each of the Department's programs. We weighted the risk factors, and then ranked each of the Department's programs according to "risk" or rather which programs would benefit the most from a performance audit. The risk analysis report contains a listing of all of the programs ranked by risk. The report generated from that analysis contains relevant detailed information about the 8 programs that were ranked as having the most risk.

The Child Support Enforcement Program was rated as the program with the most risk, and we recently completed a comprehensive performance audit of this program. This risk assessment will continue to be used to select the programs that will be the best choices for future performance audits, ensuring the wise allocation of our scarce performance audit resources.

The Child Support Enforcement Program involves millions of dollars owed custodial parents and the State of North Dakota. The amount owed to the State results from custodial parents on public assistance (Title IV-D moneys). For the year ended September 30, 2000 the state and custodial parents were owed over \$148 million for these cases. This represents an increase of 28% from the prior year.

The performance audit found several areas where improvements should be made to the program to increase its effectiveness and efficiency. Some of these areas include sweeping changes to the program's structure and operations. These recommendations reflect national trends and some of these recommendations will result in increased federal funding while other recommendations would result in improved services to the recipients and increased collections of moneys owed to the State and custodial parents. Some of the more significant recommendations include:

1. Changing the program to a state administered program versus the current state supervised, county administered structure.
2. Taking steps to "universalize" the state's caseload meaning almost all cases will become IV-D cases and receive the services associated with this designation
3. Moving towards a more administrative process and away from the current slow and cumbersome judicial process.
4. Taking steps to improve the accuracy of the information on the Fully Automated Child Support Enforcement System.
5. Improving the enforcement process to increase collections.

This performance audit has also resulted in legislation being drafted for the 57th Legislative Assembly as well as program policies and rules that will result in substantial improvement in the efficiency and effectiveness of the Child Support Enforcement Program. If fully implemented, these recommendations will significantly alter the current structure and operations of the program and will result in better services to its recipients, improved collection of the moneys owed the State of North Dakota and custodial parents, increased federal incentive collections and increased program effectiveness and efficiency.

The Child Support Enforcement Program audit is an example of what we can do with money appropriated for hiring consultants. This audit was conducted with the assistance of TMR-Maximus, a nationally recognized consulting firm with specialists in the area of child support. There are three major benefits of utilizing consultants. We obtain the specialized knowledge of experts, we leverage expensive consultant hours with our own work and we learn from these consulting arrangements, providing our auditors excellent on-the-job training.

Turnover has hurt our performance audit function but my performance audit manager, Gordy Smith, continues to improve this important element of my office. While we have been able to retain an excellent in-charge performance auditor, his staff continues to leave for better paying jobs. Indeed, many of my auditors are hired away by other state agencies receiving sometimes significantly more money than I can pay them. I have been working hard to find money to retain these valuable experienced auditors but I need your help.

See Jeshman
M Feb 14, 2001
P 7-9

This ongoing loss of FTE cannot continue without affecting our contributions to making state government more accountable. Especially when state government is changing more rapidly, becoming more complex, and continuing to grow. I have structured my office to help state agencies do more with less. But if I am going to continue helping agencies operate more efficiently, this office cannot continue to lose auditors. Therefore, I am requesting you to restore the two FTE to my office and provide funding for these positions in the amount of \$140,000.

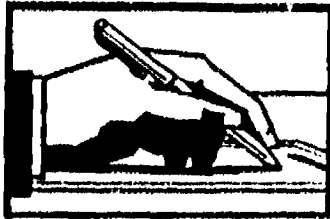
In addition to restoring the two FTE to my office at the cost of \$140,000 and the \$30,000 to address turnover problems I am requesting an additional \$100,000 to be used to hire consultants to assist with performance audits. With the additional consulting dollars we will be able to more effectively audit programs, which could include:

1. Institutional care including mental health and nursing home facilities.
2. Home health care.
3. Higher education.
4. Gaming industry controls and practices.

I am also requesting an additional \$20,000 to be used to improve training and working conditions. A proposed amendment is included in Appendix II.

I would be happy to answer any questions.

HB 1004



From the desk of Sandy Paulson
Office of Management
and Budget

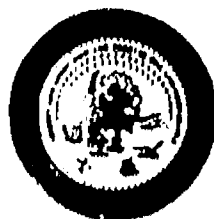
11/17/61

Into your request on the State
Auditor's Office —

I wrote "the years of service"
next to the position description.

Sandy Paulson

STATE AUDITOR'S OFFICE				SALARIES	PRIOR	INCREASE	
POS	CP	POSITION		IN	BIEN.	REC'D THIS	
#	CLASS	DESC	YRS	PAYPLAN	SALARY	BIENNIUM	PER
				6/30/01	6/30/99	7/1/99-6/30/01	CENT
33	32	Office Asst. II	1.5	\$1,900	\$1,725	\$175	10%
61	41	Admin Asst	7.2	\$2,020	\$1,708	\$312	18%
15	231	Inf.Sys.Aud I	3.105	\$2,350	\$2,100	\$250	12%
29	231	Inf.Sys.Aud I	4.405	\$2,350	\$2,100	\$250	12%
37	232	Inf.Sys.Aud II	1.140	\$2,420	\$2,100	\$320	15%
26	233	Inf.Sys.Aud III	10.8	\$3,950	\$3,600	\$350	10%
1	235	Inf.Sys.Mgr.	8.5	\$4,300	\$3,800	\$500	13%
65	241	Auditor I	1.8	\$2,150	\$2,000	\$150	8%
4	241	Auditor I	3.405	\$2,145	\$2,000	\$145	7%
18	241	Auditor I	3.405	\$2,145	\$2,000	\$145	7%
25	241	Auditor I	7.405	\$2,180	\$2,000	\$180	9%
13	241	Auditor I	10.3	\$2,150	\$2,000	\$150	8%
63	241	Auditor I	1.0	\$2,400	\$2,000	\$400	20%
5	241	Auditor I	3.405	\$0	\$2,000	\$0	0%
43	242	Auditor II	1.740	\$2,550	\$2,225	\$325	15%
24	242	Auditor II	2.3	\$2,475	\$1,950	\$525	27%
35	242	Auditor II	2.0	\$2,600	\$2,000	\$600	30%
60	242	Auditor II	1.7	\$2,500	\$1,850	\$650	35%
38	242	Auditor II	1.5	\$2,320	\$2,000	\$320	16%
36	242	Auditor II	2.2	\$2,600	\$2,200	\$400	18%
31	242	Auditor II	2.3	\$2,575	\$2,200	\$375	17%
55	242	Auditor II	VACANT	\$2,200		\$2,200	
44	242	Auditor II	5.1	\$2,370	\$2,000	\$370	19%
11	243	Auditor III	4.3	\$3,155	\$2,700	\$455	17%
48	243	Auditor III	9.5	\$3,450	\$3,200	\$250	8%
56	243	Auditor III	3.3	\$2,780	\$2,500	\$280	10%
32	243	Auditor III	13.3	\$3,305	\$2,785	\$519	19%
46	243	Auditor III	3.7	\$2,780	\$2,500	\$280	11%
47	243	Auditor III	VACANT	\$2,000		\$2,000	
56	243	Auditor III	VACANT	\$2,200		\$2,200	
40	243	Auditor III	4.7	\$3,180	\$2,800	\$380	13%
12	244	Auditor IV	9.8	\$4,030	\$3,185	\$845	27%
62	244	Auditor IV	19.2	\$3,570	\$3,345	\$225	7%
10	244	Auditor IV	20.6	\$3,915	\$3,600	\$315	9%
16	244	Auditor IV	23.6	\$3,655	\$3,400	\$255	8%
9	244	Auditor IV	12.7	\$4,030	\$3,185	\$845	27%
53	244	Auditor IV	23.6	\$3,935	\$3,700	\$235	6%
54	244	Auditor IV	9.5	\$3,300	\$2,825	\$475	17%
5	244	Auditor IV	9.5	\$3,450	\$3,200	\$250	8%
7	244	Auditor IV	13.3	\$4,025	\$3,655	\$370	10%
17	244	Auditor IV	9.9	\$4,030	\$3,100	\$930	30%
2	244	Auditor IV	9.2	\$4,020	\$3,600	\$420	12%
50	244	Auditor IV	10.1	\$3,700	\$3,440	\$260	8%
30	244	Auditor IV	18.8	\$4,285	\$4,000	\$285	7%
28	244	Auditor IV	26.7	\$4,585	\$4,225	\$360	9%
14	245	Auditor V	15.7	\$4,800	\$4,450	\$350	8%
42	245	Auditor V	22.8	\$5,050	\$4,740	\$310	7%
3	245	Auditor V	23.2	\$5,050	\$4,690	\$360	3%
39	245	Auditor V	23.2	\$5,145	\$4,690	\$455	10%
8	245	Auditor V	12.7	\$4,700	\$4,300	\$400	9%
22	245	Auditor V	18.0	\$4,800	\$4,500	\$300	7%
23	246	Director	22.2	\$5,545	\$5,125	\$420	8%
19	912	Admin Offic. II	16.9	\$2,775	\$2,550	\$225	9%
21	9001	Elected		\$5,238	\$4,760	\$478	10%
20	9004	Appointed		\$1,900	\$1,725	\$175	10%



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVE. DEPT. 117
BISMARCK, ND 58005

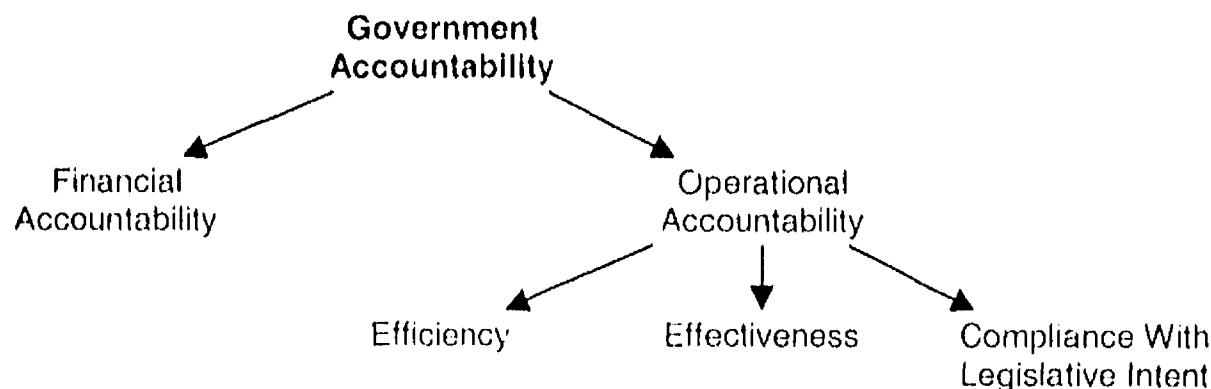
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**TESTIMONY BEFORE THE
SENATE APPROPRIATIONS COMMITTEE**
February 14, 2001

Engrossed House Bill No. 1004

Testimony – Presented By: Robert R. Peterson
State Auditor

Chairman Nething and members of the Senate Appropriations Committee, for the record my name is Bob Peterson and I am the State Auditor. I stand before you for two important reasons. The first reason is to demonstrate that your faith in us is justified, in that we've used the taxpayer's dollars prudently. The second reason is to show you how we intend to continue making state government more accountable. My presentation will conclude with a discussion of the office's resource requirements.



As the State Auditor, I have committed my office to making state government better by improving accountability. While financial accountability continues to be a cornerstone, I have expanded our work to include operational accountability. As you can see from the diagram above, operational accountability includes the elements of efficiency, effectiveness, and compliance with legislative intent.

My office has helped to improve state government accountability by modifying the scope of, or what is included in, biennial agency and information system audits and by continuing to improve our performance audit function. I am proud of what we have been able to accomplish and I believe you have reason to be pleased with the changes I've made.

One of the most significant changes I have made relates to modifying the scope of statutorily required biennial agency audits. In the past, these audits were done in accordance with financial statement audit standards. After discussion with the Legislative Audit and Fiscal Review Committee (LAFRC), these audits are now done in accordance with the performance audit standards. Performance audit standards have many advantages over the financial statement audit standards, when conducting individual agency audits. For example, financial statement audit standards only require auditors to test compliance with laws "noncompliance with which could have a direct and material effect on the determination of financial statement amounts." I determined, and the LAFRC agreed, that to improve operational accountability we needed to go beyond testing only laws that had a "direct and material effect on the determination of financial statement amounts."

One of the problems with following the financial statement audit standards for biennial agency audits is that they prescribe only one set objective, which is limited to determining whether financial statements are fairly stated. A major advantage of following performance audit standards is that we can customize our audit objectives. After consulting with the LAFRC, I defined our objectives as follows:

1. Provide reliable, audited financial statements.
2. Answer the following questions:
 - a. What are the highest risk areas of the agency's operations and is internal control adequate in these areas?
 - b. What are the significant and high-risk areas of legislative intent applicable to the agencies and are they in compliance with these laws?
 - c. Are there areas of agency operations where we can help to improve efficiency or effectiveness?

I would like to take a moment to briefly discuss each objective.

We provide audited consolidated financial statements of each agency from the information used to compile the state's comprehensive annual financial report. We further test these numbers using state of the art audit tools and techniques. While new audit technologies have meant significant improvements in audit efficiencies and effectiveness, they cannot be used without qualified experienced audit staff. If we are going to be able to improve government accountability, we need to limit the turnover of my professional staff to an acceptable level.

When testing the highest risk areas of internal controls, the performance audit standards allow us to target our testing at areas with the highest risks. While dollars are naturally an important criterion, there are other criteria that can be equally important. For example, privacy relating to confidential medical, tax or other citizen information maintained by the state. Another example are internal controls relating to important areas of compliance with legislative intent which may not have direct financial statement implications. The performance audit standards give us the flexibility to test such areas of internal control that are beyond the scope of an audit conducted under the financial statement audit standards.

I've already discussed our expanded work in the area of legislative intent, but I would like to point out another benefit of following the performance audit standards. Under the financial audit standards, auditors don't report which laws were tested. Under performance standards, we provide a detailed listing of laws tested. This gives agency administrators, legislators, and other readers a thorough understanding of the work done in this important element of operational accountability. The following are some compliance with legislative intent problems we have found under this new audit approach, which would normally not be included in a financial statement audit:

1. For the Department of Labor we noted several discrepancies and ambiguities in the Fair Housing Act. Title 34 also appeared to be outdated in the manner in which penalties can be assessed by the Department of Labor for areas of noncompliance (the only penalties available are criminal when some administrative or civil actions appear more appropriate). We made a recommendation to address these problems.
2. A few agencies were not complying with N.D.C.C. 54-54-09 which requires certain agencies to prepare a biennial report for the governor, secretary of state, and legislative council.
3. Distribution of grant funds within statutory deadlines. (Such time deadlines would not be a material requirement under financial statement audit standards.)
4. Compensating members of various boards in excess of statutory restrictions.

Perhaps as important as the errors we have encountered is the additional assurance you as Legislators get from seeing our comprehensive list of the laws we have tested in each audit report.

Having the ability to work on operational improvements with agencies is another important advantage of following the performance audit standards for our biennial agency audits. State agencies do not consciously choose to operate ineffective or inefficient processes. More often, these deficiencies continue because state agencies do not have the time or the expertise to pursue alternatives. This is where experienced auditors can and have been of assistance. State auditors have the benefit of seeing many different agency operations and can be of assistance in developing innovative system changes. Additionally, we have the opportunity to provide training to our auditors that would not be cost effective or appropriate to offer to all state personnel.

As you can see we have made some exciting changes to our biennial agency audit process. Some of the results from working on operational improvements include the following:

1. Streamlined accounting processes (increasing efficiency of systems, promoting better and more effective controls and better access to decision making data) such as:
 - Restructuring the receipting processes for the Aeronautics Commission. The agency will go from using 5 or 6 different receipt books to using one computer system, which will greatly simplify the system and cut the time they were spending on the reconciliation process by at least 25%.
 - Helping the Labor Department develop a better, fixed asset system.
 - Assisting various agencies on how to use SAMIS for project management and federal grants management.

2. Developed a system for the Labor Department to analyze statistical data to help them allocate scarce resources, such as targeting training to where it will help the most in reducing the number of disputes.
3. Recommended the use of an imaging system to improve the efficiency of document retrieval for the Public Service Commission.
4. Recommended better uses of technology, including the Internet, to provide better and more efficient service for the Secretary of State and Department of Tourism.
5. Made several suggestions to the Secretary of State on the use of technology to streamline the processing of over 30,000 annual reports received by them from corporations and other entities.

I am quite proud of what we have accomplished with our new audit approach over the past year. I have included some examples of our findings and recommendations in Appendix I of this presentation. If you would like to see the audit reports you are welcome to visit my office's home page on the Internet (www.state.nd.us/auditor/) or contact my office for copies (328-2241).

One of the pleasant surprises of implementing this new audit approach has been how well our information systems auditors have been able to adopt this audit approach for computer system audits. Under the guidance of Don LaFleur, our Information Systems Audit Manager, this new audit approach has made these audits even more important. No one else in state government is auditing these systems. In fact, no other agency has the experience or the resources to test these systems the way that we can. To show you what we have done, the "Drivers License Master System" audit identified several important findings and recommendations including:

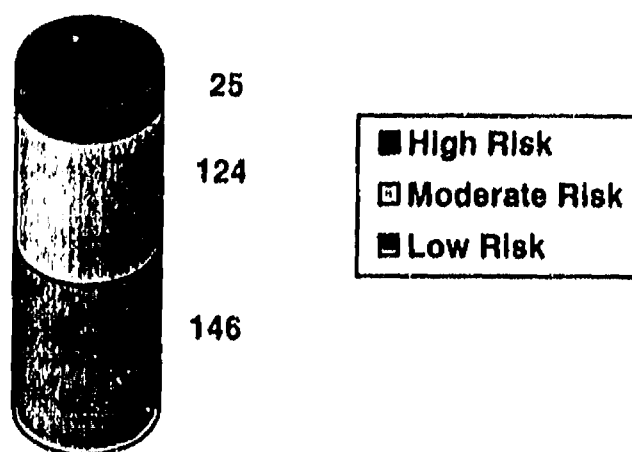
1. Points for electronically received speeding convictions were not being recorded. For the three-year period ending June 30, 2000, there were 1,376 such convictions of which further testing showed that 8.3% of the drivers involved should have received suspensions, but did not.
2. Necessary input edit checks were not in place. Edit checks are criteria applied to data entered into a computer system; invalid data must be corrected before further processing. For example, we identified 9 instances where the actual speed was incorrectly recorded in excess of 200 mph.
3. An analytical review of driver records identified 10 drivers with point balances less than zero.
4. Improving security by limiting access to the system to only those who need access to perform their duties.
5. Only one person has sufficient knowledge about the Driver's License Master System. Without a backup person the department is vulnerable when this person is on leave or worse, if this person suddenly terminates employment with the department.
6. Point reductions for certain drivers completing suspensions were being doubled.

As the use of computer technology increases, auditing information systems is an integral part of determining compliance with legislative intent. My office is the only assurance these systems are operating as intended and in accordance with legislative intent. This is truly state of the art information system auditing and I'm very proud of what my auditors have accomplished. We have also incorporated testing of information systems into our biennial agency audits and our

performance audits. The continued success of such efforts continues to depend on our ability to retain our experienced auditors in which I have invested a substantial amount of training.

To demonstrate the amount of work needed in the area of computer system audits, we did a statewide information system risk analysis report. This report identified 295 computer systems of which 25 were rated high risk, 124 were rated moderate risk, 146 were rated low risk. The Drivers License Master System, which was one of the 25 high-risk systems, took 990 hours to audit. Our best projection with current staffing is 6-12 years to complete the 25 high-risk systems.

State Information Systems



The risk analysis report will be used to guide our audit efforts with the focus being on the 25 high-risk systems and some of the more important or complex systems among the 124 moderate risk systems. Our biennial agency audits will also test some of the moderate risk systems. With the number of important systems and the time necessary to audit each system I can't over-emphasize the importance of retaining my experienced staff when it comes to auditing information systems.

The future development of computer systems in the state, including e-government, will continue to place additional demands on this office to provide information systems audits.

I would like to discuss another important function of my office, namely performance auditing. For good reason, this function receives a lot of attention from legislators. Indeed almost all states have a performance audit function. Most see the performance audit function as an indispensable part of state government, needed not only to determine if programs are operating efficiently and effectively, but also to determine if programs are accomplishing what the legislature intended them to accomplish. I feel strongly that money spent on performance auditing is an investment in better government. That is to say the savings generated from performance audits greatly exceed the costs of these audits.

While our performance audit resources are relatively lean compared to most states, we have been able to make some important findings and recommendations in the audits we have completed. As an example, I'll use our Contract for Services performance audit. We found that while a state agency is required to solicit bids for the purchase of a \$1,000 piece of equipment, there were no similar requirements, or any requirement for that matter, for a \$100,000 consulting contract. Besides the lack of guidance, the report found that for the three-year period

ending June 30, 1999 there were 2,200 contracts for services with payments in excess of \$272 million.

The Contracts for Services audit examined and determined the adequacy of the laws, policies and procedures surrounding contracts for services by state agencies, colleges and universities. The audit found very few laws, rules and policies relating to contracts for services. These entities were being allowed to enter into these agreements with little or no guidance from lawmakers or the State Procurement Office.

We found significant weaknesses in the processes used to establish contracts for services. These included: instances of financial relationships with no formal contracts in place; contracts not being bid prior to being awarded; contracts not being re-bid for over 5 years; contracts lacking important and sometimes required language; and inadequate contract monitoring (making sure the State is getting what it paid for).

Significant recommendations from the Contract for Services report included:

1. The Office of Management and Budget and State Board of Higher Education should provide improved guidance to all state entities for the procurement of services and contract monitoring.
2. The Office of Management and Budget should establish an on-line contract system.
3. The Office of Management and Budget and State Board of Higher Education should cooperatively purchase services to better utilize the state's purchasing power.

As a result of this performance audit, legislation has been drafted for the 57th Legislative Assembly, and there is improved guidance for monitoring of contracts for services entered into by state entities. Considering the amount of the money involved, I believe this will result in significant savings and additional safeguards for the State of North Dakota.

Another important first for my office relates to the manner in which we select performance audits. During this biennium we performed a risk analysis of the programs administered by the Department of Human Services. This type of risk analysis helps to ensure our scarce performance audit resources are spent where they can have the greatest impact. The risk analysis included the evaluation of 12 risk factors (such as complexity, dollars spent, FTE's, newness of the program and audit/review findings) for each of the Department's programs. We weighted the risk factors, and then ranked each of the Department's programs according to "risk" or rather which programs would benefit the most from a performance audit. The risk analysis report contains a listing of all of the programs ranked by risk. The report generated from that analysis contains relevant detailed information about the 8 programs that were ranked as having the most risk.

The Child Support Enforcement Program was rated as the program with the most risk, and we recently completed a comprehensive performance audit of this program. This risk assessment will continue to be used to select the programs that will be the best choices for future performance audits, ensuring the wise allocation of our scarce performance audit resources.

The Child Support Enforcement Program involves millions of dollars owed custodial parents and the State of North Dakota. The amount owed to the State results from custodial parents on public assistance (Title IV-D moneys). For the year ended September 30, 2000 the state and

custodial parents were owed over \$148 million for these cases. This represents an increase of 28% from the prior year.

The performance audit found several areas where improvements should be made to the program to increase its effectiveness and efficiency. Some of these areas include sweeping changes to the program's structure and operations. These recommendations reflect national trends and some of these recommendations will result in increased federal funding while other recommendations would result in improved services to the recipients and increased collections of moneys owed to the State and custodial parents. Some of the more significant recommendations include:

1. Changing the program to a state administered program versus the current state supervised, county administered structure.
2. Taking steps to "universalize" the state's caseload meaning almost all cases will become IV-D cases and receive the services associated with this designation.
3. Moving towards a more administrative process and away from the current slow and cumbersome judicial process.
4. Taking steps to improve the accuracy of the information on the Fully Automated Child Support Enforcement System.
5. Improving the enforcement process to increase collections.

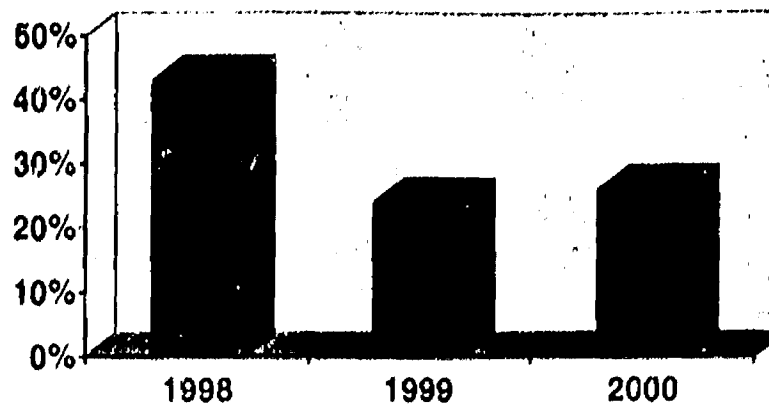
This performance audit has also resulted in legislation being drafted for the 57th Legislative Assembly as well as program policies and rules that will result in substantial improvement in the efficiency and effectiveness of the Child Support Enforcement Program. If fully implemented, these recommendations will significantly alter the current structure and operations of the program and will result in better services to its recipients, improved collection of the moneys owed the State of North Dakota and custodial parents, increased federal incentive collections and increased program effectiveness and efficiency.

The Child Support Enforcement Program audit is an example of what we can do with money appropriated for hiring consultants. This audit was conducted with the assistance of TMR-Maximus, a nationally recognized consulting firm with specialists in the area of child support. There are three major benefits of utilizing consultants. We obtain the specialized knowledge of experts, we leverage expensive consultant hours with our own work and we learn from these consulting arrangements, providing our auditors excellent on-the-job training.

Turnover has hurt our performance audit function but my performance audit manager, Gordy Smith, continues to improve this important element of my office. While we have been able to retain an excellent in-charge performance auditor, his staff continues to leave for better paying jobs. Indeed, many of my auditors are hired away by other state agencies receiving sometimes significantly more money than I can pay them. I have been working hard to find money to retain these valuable experienced auditors but I need your help.

The following page contains a graph that shows how serious our turnover problem has been and how serious it continues to be.

Division of State Audit Turnover Rates



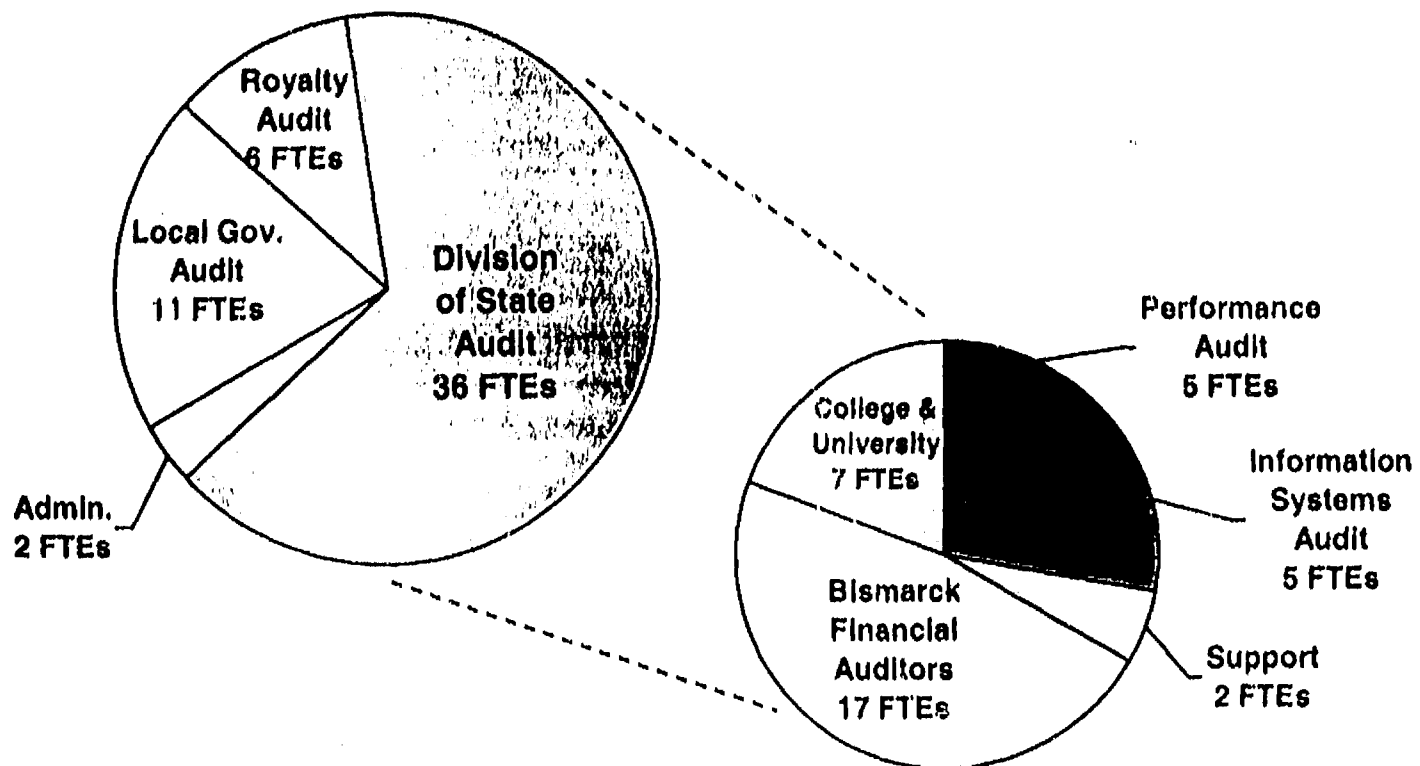
We have built up a good core of "mid-level auditors" but we need to adequately compensate them if we want them to stay. In the Bismarck office the turnover rate for state agency division auditors, as shown in the graph above, was 43%, 24% and 26% for calendar years 1998, 1999 and 2000. The improvement in the 43% turnover rate was helped by the money you added to my appropriation last session to address this serious problem. I sincerely thank you for your help. While turnover has improved we need to do better. I honestly think anything close to a 20% turnover rate is clearly unacceptable (the statewide average has been reported to be 8%). To continue the contributions my office is making to improve government accountability I need to retain my experienced auditors. I truly believe this is an investment in North Dakota and an investment in better, more efficient and effective government for the citizens of the State of North Dakota. This is why I am requesting an additional \$30,000 to address the continuing problem we are experiencing in retaining experienced auditors.

I would also like to address the issue of FTEs for the State Auditor's Office. In the 1991-1993 biennium, the office had 40 FTEs in the Division of State Audit. For the current biennium this same division has 36 FTEs. Even though we have lost four positions since the 1991-1993 biennium, we have been managing to do more with less; much of this is due to the use of the modern audit technology and innovation from my experienced auditors. The following are examples of where we have been doing more with less staff:

1. Auditing the North Dakota University System Comprehensive Annual Financial Report.
2. Auditing all colleges and universities biennially.
3. Increasing the number and scope of information system audits.
4. Performing the statewide federal single audit under new federal regulations, which include a 9-month deadline rather than the prior 13-month requirement.
5. Auditing under a new audit approach for biennial audits to better meet the needs of our stakeholders.

The executive budget recommendation eliminated two of our current positions, which would have taken our Division of State Audit down to 34 FTE. These two positions would have come from my 17 Bismarck financial audit staff, meaning a cut of nearly 12% to this function of our office. These auditors conduct the audit of the state's comprehensive annual financial report, the federal single audit (with assistance from our college and university auditors) and the biennial agency audits, which are using the new audit approach I discussed earlier.

Make-up of State Auditor's 55 FTEs



Make-up of Division of State Audit's 36 FTEs

This ongoing loss of FTE cannot continue without affecting our contributions to making state government more accountable. Especially when state government is changing more rapidly, becoming more complex, and continuing to grow. I have structured my office to help state agencies do more with less. But if I am going to continue helping agencies operate more efficiently, this office cannot continue to lose auditors. Fortunately the House agreed and restored these two positions to my budget. I hope you will also see the benefit of keeping my office at the present staffing level.

The Budget Office cut \$20,000 from the operating expense line item in my budget request. The operating expense line item was further reduced by \$30,000 by the House to help find the funding to restore the two positions to my budget. These two reductions in my operating expense line item severely hamper my efforts to secure sufficient professional training for my staff as well as to provide adequate working conditions. Many of the individuals on my staff are CPA's who are required to have a certain level of professional development each year. In addition, all of my staff require specialized training to assist them in making sound recommendations to state entities concerning operational improvements in connection with our new audit approach. If we are to be able to fully utilize our new audit approach to improve state government, we need to ensure our auditors are sufficiently trained. The 2001 Legislative

Council Report includes these comments from the Legislative Audit And Fiscal Review Committee: "committee members observed that auditors may require additional training in order to be able to make appropriate recommendations for improved agency operational efficiency." I couldn't agree more and I ask that you restore the \$50,000 cut from my budget request to be used for training and to improve working conditions.

In addition to increasing my operating line by \$50,000 and the additional \$34,000 to address turnover problems. Further, I am asking you to consider adding \$100,000 to be used to hire consultants to assist with performance audits. With the additional consulting dollars we will be able to more effectively audit programs, which could include:

1. Institutional care including mental health and nursing home facilities.
2. Home health care.
3. Higher education.
4. Gaming industry controls and practices.

A proposed amendment is included in Appendix III.

I would be happy to answer any questions.

INDEX TO APPENDIX

	<u>Page No.</u>
Appendix I – Examples of Audit Findings	12
Appendix II – Intent of Proposed Amendments to Engrossed House Bill No. 1004	23
Appendix III – Proposed Amendments to Engrossed House Bill No. 1004	24

APPENDIX I

The following are examples of audit findings under the Office of the State Auditor's new audit approach.

DEPARTMENT OF TRANSPORTATION Driver's License Master System

Zero Points Assigned for Speeding Convictions

Points for electronically received speeding convictions were not being recorded properly. Our audit identified an error in the program that processes records received electronically. The program treated convictions with speeds of 56 to 70 mph in speed zones less than 55 mph as if they had occurred in a speed zone of 55 mph and thus assigned zero points to the driver's record. There were 1,360 drivers that had these convictions for the three-year period July 1, 1997 to June 30, 2000.

To assess the impact of this error, we selected 60 of 1,360 drivers with these types of convictions recorded, and determined if the driver would have been suspended had the points been recorded correctly. We identified 5 drivers of 60 drivers tested (8.3%) that would have been suspended, but were not, had the points been recorded correctly.

Recommendation:

We recommended that procedures be implemented to ensure points are properly assigned for speeding convictions received electronically.

Disable Old Conviction Codes

The Driver's License Master System did not prevent the use of old conviction codes. Conviction codes are used to specify the type of conviction. When changes are made to the penalty for a conviction a new code is generated and the old code is retained for recording convictions prior to the change. The failure to prevent the continued use of these old conviction codes allowed for and resulted in the incorrect use of these old conviction codes.

During the 1999 legislative session, NDCC § 39-06.1-10 was changed to assign one point to a driver's record for failing to have a minor in a child restraint system or seatbelt. This change became effective August 1, 1999. Our audit disclosed 708 convictions for "No Child Restraint" since August 1, 1999 which were recorded using the old conviction code which assigned no points, instead of using the new conviction code which assigns one point according to NDCC § 39-06.1-10.

Recommendation:

We recommended that a restriction be placed into the system which would prohibit the use of obsolete conviction codes.

Inadequate Edit Checks

Some necessary input edit checks were not in place. Edit checks are criteria applied to data entered into a computer system to ensure only valid data is input. Invalid data should be corrected before further processing. Transactional data entered for processing should be subject to a variety of edit checks for accuracy, completeness, and validity. Inadequate edit checks allow for and resulted in invalid or incorrect data being processed by the system.

Missing edit checks noted in our audit included:

- Data integrity check to ensure the conviction type used for speeding convictions agrees to the actual speed less the speed limit. Our audit disclosed 925 instances where the actual speed and speed limit did not agree to the conviction type;
- Reasonableness check for the actual speed recorded for speeding convictions. Our audit disclosed nine instances where the recorded actual speed exceeded 200 mph; and
- Reasonableness checks to ensure speed limits are divisible by five. Our audit disclosed 39 instances where the speed limit was not divisible by five.

Recommendation:

We recommended that edit checks be implemented to ensure the conviction type for speeding convictions agrees to the actual speed and speed limit, that actual speeds are reasonable, and speed limits are divisible by five.

Duplicate Suspension Codes

There were unnecessary duplicate entries in the suspension code table. Suspension codes are used to specify the reason for suspensions. During our audit we noted five suspension codes for accumulating twelve or more points. While this does not result in any errors, it does make the data confusing, since an individual would have to look for five different suspension codes to identify everyone suspended for accumulating twelve or more points.

Recommendation:

We recommended that duplicate entries be eliminated from the suspension code table.

Point Reductions Doubled

Point reductions for drivers completing suspensions and who had gone three months or more without accumulating points were being doubled. When a driver was on suspension for accumulating twelve or more points, the system reduced the driver's point total to eleven after they completed the suspension per NDCC § 39-06.1-12. If the suspension was for more than three months, the system further reduced the point total two points for each three-month period during which no points were received. The system should have been removing only one point for each three-month period per NDCC § 39-06.1-13.

Recommendation:

We recommended that the system be changed to ensure points are properly reduced according to NDCC § 39-06.1-13.

SECRETARY OF STATE

Our audit of the Secretary of State identified the following areas of potential improvements to operations:

Integrated Database for Receipting Revenues

Issue:

While testing the revenue receipts, we noted that there were many clerical input errors being made on the Secretary of States computer system. These occurred primarily because employees are required to remember fees associated with a certain type of filing or look it up on a piece of paper and then enter it onto the system. This is a problem because there are hundreds of different fees.

Solution:

We recommended that the Secretary of State link the existing fees table, contained within the system, to the user interface so that when the transaction code is typed in, the system will automatically bring up the correct fee for the associated revenue type.

Result:

The Secretary of State agrees that this system improvement to their database is necessary and needed, and had already issued a workorder, which at this time has been completed.

Processing of Annual Reports

Challenge:

Review the process in which the Secretary of State handles approximately 30,000 annual reports that are submitted by corporations, limited liability companies, and nonprofit corporations.

Solution:

Based on our analyses, interviews, observations and research, we developed the following recommendation:

The Secretary of State's office should implement the use of on-line or web-based annual report filing. On-line filing would allow for a quicker and more direct form of contact with the client for obtaining answers or clearing up discrepancies. Web-based filing could allow for edit checks so that an annual report could not be submitted unless it was complete and accurate.

Processing for Business Division Registrations

Challenge:

Review the process in which the Secretary of State handles the processing of documents in the Business Division Registration Unit. This involves the handling of over 3,100 business name registrations that are submitted to the agency each year.

Solution:

Based on our analyses, interviews, observations and research, we developed the following recommendation:

The Secretary of State's Office should implement some form of on-line or web-based annual report filing.

Access to the database could be achieved through the establishment of this information on a webpage that was updated periodically or by directly accessing the Secretary of State's database on a read-only basis. If the amount of information made freely available to the public needed to be limited then a search feature could be utilized that would return results of approximate name matches via a database search.

Result:

The Secretary of State concurs with this recommendation and will attempt to implement it to the extent possible but due to the lack of resources (available staff knowledge and available funds) the agency may not be able to implement this recommendation immediately but allow for its possible implementation in a future budgeting cycle.

DEPARTMENT OF TOURISM

Our audit of the Department of Tourism identified the following areas of potential improvements to operations:

Maah Daah Hey Trail Website' s Positioning to Attract Visitors

Challenge:

In their most recent travel trends study, the Travel Industry Association of America has noted that mountain biking now ranks as the 3rd most popular outdoor vacation activity in America. The study further revealed that the people taking biking trips closely parallel the profile of today's Internet users for planning vacations. For these reasons an analysis was done of the ND Tourism' s Maah Daah Hey Trail website and its positioning to attract visitors.

Solution:

Based on our reviews, research and observations, we made the following recommendations:

We recommend that the Department of Tourism contact the applicable websites to update the information on trails available in the State of North Dakota and/or provide a direct link to the Department of Tourism's own Maah Daah Hey Trail website.

We recommend that the agency review what words are indexed within their website or specify the ' meta tags' used within their website so that their website would get selected by someone doing a search on "mountain bike trails".

Result:

The Department of Tourism concurs with this recommendation and will attempt to implement it to the extent possible but due to the lack of resources (available staff knowledge and available time) the agency may not be able to implement this recommendation immediately but will take it under consideration.

Website Analysis

Issue:

We conducted a comparative analysis of the state of North Dakota' s tourism website in relation to neighboring states in this region and a few other states with comparative tourist attractions or comparative tourism budgets.

Solution:

Based on our reviews, research and observations, we made the following recommendations:

We recommend the addition of a visual, logo-type link to the Department of Tourism' s website from the state' s portal (home page) to increase website visits to the Tourism' s website and increase the chance of persuading the traveler to visit North Dakota' s attractions.

We recommend that the main highways, interstates, and major cities be added to the Department's website map of North Dakota.

We recommend that scenic pictures be included on the Department's website, particularly on the main webpages.

We recommend that a vacation planner/itinerary be added to the Department's website.

We recommend the department consider using vacation packages and checklists for travelers not familiar with North Dakota.

Result:

The Department of Tourism concurs with these recommendations and will explore the possibility of implementation keeping in mind the restrictions imposed on the agency due to available budgeted monies to cover additional costs should it become too excessive.

AERONAUTICS COMMISSION

Our audit of the North Dakota Aeronautics Commission identified the following area of potential improvements to operations:

Cash Receipting Process

Challenge:

During testing of the revenue collection functions of the Aviation Information Management System (AIMS) and the associated cash receipting process, we noted the process was inefficient. The Aeronautics Commission receives remittances in the mail for aircraft registrations, excise tax, sprayer's licenses, and miscellaneous items. The checks are manually recorded in different receipt books for each type of fee. From the receipt books each individual transaction is manually recorded in a ledger. From the ledger a bank deposit is typed, listing every entry individually along with additional information that is not necessary for depositing purposes. The manual ledger is totaled and agreed to the receipt books, the deposit ticket is totaled and compared to the ledger.

AIMS is used to print aircraft registration cards and to track aircraft that have not yet been registered. Historical data on aircraft registrations is not maintained in AIMS after year-end.

Solution:

Based on our review and observations, we made the following recommendations:

We recommend a computerized process be used for revenue collection. Computerized records should replace the manual ledgers. Receipts, if needed, should be printed by the computer, instead of being prepared manually. Deposits should be totaled by the computer and verified by a second person that totals the remittances.

We recommend the computer be used to track historical aircraft registration data that could be queried by the Account Technician if needed. If necessary, the department should consider purchasing new computer equipment.

Agency Response:

Thank you for assisting our agency in improving the efficiency of aircraft registration process and other agency collections. In past audits, our agency has been responsive to your recommendations.

Our agency has been hesitant to make changes in ledgers or accounting without your offices concurrence. We greatly appreciate your office's recent review of computerized accounting that we can feel confident will be acceptable. The purchasing of new computer equipment is programmed every three or four years in our budget.

It is our goal to Access transition to new aircraft regulation forms, receipts etc, by January 2001 as it will be the next round of aircraft mail outs. The process shall be coordinated with your office to insure auditing practices are maintained prior to final transition.

Thank you again for your office's vision to encourage computerized accounting for our agency to eliminate the dual ledger methods.

DEPARTMENT OF LABOR

Our audit of the Department of Labor identified the following areas of current and potential improvements to operations:

Fixed Asset Inventory System

Challenge:

In the prior audit, the Department of Labor did not have a complete and accurate fixed asset listing of equipment items.

Solution:

Our office installed a copy of the Access[®] based fixed asset system on the agency's network. This is the same system that we utilize for tracking all equipment purchases, taking year-end inventory and preparing OMB's closing packages

Result:

For our audit period tested, we noted that the Department of Labor's implementation of this system helped the agency properly complete the annual inventory of equipment items and OMB's fixed asset closing package. Additionally, all items were located in our test of physical existence.

Tracking Grant and/or Program Activity

Challenge:

Based on discussions with the Department of Labor's management and accounting personnel, it was noted that the agency was operating under a misunderstanding of how certain aspects of the Statewide Accounting and Management Information System (SAMIS) work and so they were not tracking all expenditures related to a particular program or function of the agency in the most efficient manner possible.

Solution:

Based on our review and observations, we made the following recommendation:

Code all expenses relating to a particular program or activity with the appropriate cost center and use a grant number for all federal program expenses, regardless of the funding source used. The increased reporting and monitoring abilities of management will allow for more efficient control over the operations of the agency.

Result:

The Department of Labor concurs with this recommendation and will implement it accordingly.

Equal Employment Opportunity Division

Challenge:

Our office was asked to determine if operations within the Equal Employment Opportunity Division were being performed as efficiently as possible and if so...what could the agency do to keep up with the increase in cases filed so as to keep the average time spent to close a case at

a minimum amount of time. As of December 31, 1999, there were 106 cases pending in a division that employs only 1 full-time equivalent employee.

Solution:

Based on our analyses, benchmarks and observations, we developed the following recommendations:

The agency's Access database should be set up utilizing tables for storing relational information so that statistical and trend analysis could be performed on the case data.

The ND EEO division needs to pursue doing more educational seminars on discriminatory practices. The agency could use the aforementioned statistical information to determine what types of seminars could be presented in which areas of the state. More effort could be expended in contacting Chamber of Commerce's or other large state organizations to see what conferences are planned so as to solicit the opportunity to do presentations on unlawful employment discrimination.

The agency should develop brochures on all the different areas of discrimination covered by the ND EEO division. Additionally, a brochure could be developed on the ND EEO division itself that gives a synopsis of the types of discrimination covered and directs people to their web site for further information or a copy of the questionnaire for filing a complaint.

The agency should reorganize their web site so that it becomes more user-friendly and easier to navigate with more detailed information available on each of the different areas of discrimination. A tabular format would be one means of accomplishing this task.

Result:

The Department of Labor concurs with these recommendations and will attempt to implement them to the extent possible but due to the lack of resources (available staff hours and available funds) the agency may or may not be able to implement the recommendations.

Discrepancies/Ambiguities in Legislative Intent

During our review of laws and regulations affecting the Department of Labor, it was noted that there are several instances where there are discrepancies and/or ambiguities in the Fair Housing Act. Additionally, Title 34 appears to be outdated in the manner in which penalties can be assessed by the Department of Labor for areas of noncompliance. Addressing these differences will help the Department of Labor do their job more effectively and fairly.

There is a conflict in the area of discrimination based on marital status. While the Fair Housing Act includes a provision prohibiting discrimination based on marital status there is also a state statute prohibiting co-habitation. The conflict arises when a landlord evicts an unmarried couple living together. It is unclear whether this is discrimination based on marital status or adherence to the state statute prohibiting co-habitation.

There is an ambiguity in the area of discrimination based on age. The Fair Housing Act doesn't define age; therefore, the Human Rights Act prevails whereby age is defined as being greater than 40 years. The ambiguity arises in that most discrimination based on age in housing would most likely be against people less than 40 years of age.

There is duplication in that the provisions for housing discriminations are found in two separate chapters of the North Dakota Century Code (NDCC), the old provisions for Fair Housing (as found in Chapter 14-02.4 of the NDCC) and the new Fair Housing Law (Chapter 14-02.5 of the NDCC). However, it was noted that there is an omission in the new law since discrimination based on a person's status of public assistance is included under the old law but not the new law. Therefore, for every type of housing discrimination a person can seek help through the Department of Labor unless the discrimination is based on status of public assistance and then the person is left on their own to seek redress through the court system.

It was noted that for all non-compliance issues under Title 34, the only penalty options afforded the Department of Labor are criminal as opposed to administrative or civil. Criminal penalties for acts of non-compliance are no longer practical. However, without any other penal options such as punitive damages, the Department of Labor is left with no real ability to force compliance with Title 34 of the NDCC, except through the assistance of the state's attorney or local police departments.

Recommendation:

We recommend the Department of Labor introduce legislation during the next legislative session to remedy the discrepancies and/or ambiguities in the NDCC as it relates to the Fair Housing Law.

Department of Labor's Response:

The Department of Labor acknowledges the recommendation and the problems so noted. They will work on either introducing legislation or bringing the problem before the legislative body so that a solution can be found.

HISTORICAL SOCIETY

Our audit of the Historical Society identified the following area of potential improvement to operations:

Receipting Process

Issue:

During the test of receipts, it was noted that the Historical Society maintains manual registers of receipts for the Library, Glass Box and Administration remittances. The totals of these registers are transferred to a manual daily summary sheet indicating the total receipts collected for the day. The totals for the daily summary sheets are collaborated and transferred to a manual weekly summary sheet, which is used to calculate the monthly clearing checks written for each checking account. It was also noted that the Society writes individual checks for each type of receipt (Admissions, Donations, Concessions) to transfer funds to the Bank of North Dakota and the State Treasurer's Office for each of the clearing accounts. In addition, the Society maintains manual check registers for each of the clearing accounts and for credit card activity.

Solution:

We recommended that many, if not most, of the manual forms that the agency uses for recording and tracking receipts be incorporated into a spreadsheet or database application such as Microsoft Excel® or Access®. Additionally, we recommended that the various checkbook registers, manual ledgers, and credit card activity also be incorporated into a spreadsheet.

Result:

The Historical Society agrees with the above recommendation and will work on changing some of their receipting procedures or methods where they can see a benefit on time saved or additional control gained.

INTENT OF PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1004

(In order of priority)

1. Add \$34,000 to the salaries and wages line item to address excessive turnover of experienced auditors.
2. Increase the operating line item by \$50,000 to be used for training and improving working conditions for our professional employees.
3. Add \$100,000 to the \$100,000 included in the Executive Budget Recommendation to hire consultants to assist with specialized aspects of performance audits.

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1004

Page 1, line 10, replace "\$5,855,615" with "\$5,889,615"

Page 1, line 11, replace "745,320" with "895,320"

Page 1, line 13, replace "\$6,679,905" with "\$6,863,905"

Page 1, line 15, replace "\$4,534,068" with "\$4,718,068"

Renumber accordingly

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APPLICATION RISK ASSESSMENT REPORT
April 24, 2000

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RISK ANALYSIS
of the
Department of Human Services
Programs

May 25, 1999

Report No. 3015