

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1004

2005 HOUSE APPROPRIATIONS

HB 1004

#13.1). **Rep. Ken Svedjan, Chairman** asked if it was the expectation of the counties that they should pay their share of the matching funds for the HAVA bill and **Mr Jaeger** answered that the counties had no problem paying their share, but that the requirements of the monies meant that the "appropriation" for the monies needed to be shown and that some adjustment may need to be made to this bill (HB 1002) to reflect this language. **Mr Jaeger** finished his overview by reviewing the major goals and objections of the agency.

Rep. Jeff Delzer asked the Legislative Council if when the agencies spoke of "100% Budget" that that meant that it did not include the pay packages and wondered if that meant that if they dropped any FTE's would the agencies be allowed to re-allocate these monies elsewhere in their budget. **Alan, from the Legislative Council** answered that yes, each agency could do this and they would start from a slightly higher base figure than they did for the 03-05 budget.

State Auditor - Testifying was **Mr Bob Peterson** (meter #20.0) *HB 1004*

Mr Peterson pointed out that all the numbers in the variance column in handout #4-2 were negative numbers, meaning the agency was spending less monies than were appropriated for the 03-05 budget. **Mr Peterson** reviewed the variances from his handout. **Rep. Ken Svedjan, Chairman** noted that this agency was leasing one copy machine and buying the other and asked if the agency was considering moving toward buying the second machine. **Mr Peterson** answered that they were not. **Rep. Francis J. Wald** asked if "royalties" meant mineral royalties? **Mr Peterson** answered that that was correct for federal land royalties. **Mr Peterson** finished his overview by explaining

End audit
the major goal s and objections of this agency (meter #23.2) and the graph depicting State Agency Financial Auditor Turnover Percentages (page 3 of the handout).

Parks and Recreation - Testifying was Doug Prchal *HB1620*

Mr Prchal reviewed the variances from handout #4-3 (attached).

Rep. Ken Svedjan, Chairman asked if this difficiency appropriation was the one appropriated in the 03-05 Assembly or if it was being asked of this Assembly. **Mr Prchal** answered that it was appropriated in 03-05. **Rep. Ken Svedjan, Chairman** clarified that if this bill doesn't pass in the Senate (SB2145), then these FTE's will be removed. **Mr Prchal** agreed. **Rep. Ken Svedjan, Chairman** asked where the carryover that was listed cam from. **Mr Prchal** clarified that the work at Lake Sakakawea would continue and funding would come from projects that were scheduled but not done. The projects will carryover into the next biennium, but the monies would not. **Mr Prchal** finished his overview by asking the representatives to read through the section concerning the goals and objectives of the agency.

HB1806
Tax Commissioner - Testifying was Mr Rick Clayburgh (meter #41.4)

Mr Clayburgh reviewed the negative variances dipicted on handout #4-4 (attached).

Rep. Ken Svedjan, Chairman asked if the increase in spending in the budget was part of the Governor's recommended budget that reflected how the governor wants to change the Homestead Tax Credit program? **Mr Clayburgh** answered yes and stated that a bill regarding eligibility would be forthcoming. In response to a statement regarding the difficulty in hiring qualified employees, **Rep. Mike Timm, Vice Chairman** asked how state agencies could be competing for employees if all positions were

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1004

House Government Performance Division

☐ Conference Committee

Hearing Date January 12, 2005

Tape Number	Side A	Side B	Meter #
1	X		1-End
		X	1-1105

Committee Clerk Signature

Stephan N Thomas

Minutes: **Chairman Carlson** opened the hearing on HB 1004 relating to the salary of the state auditor.

Robert Peterson, State Auditor, in support of this bill. (SEE ATTACHED TESTIMONY)

Rep. Skarphol: HB 1074 which we will hear later does apply for you folks doing some additional auditing. The funding that your requiring in bullet #5, is that the funding that will actually be associated with HB 1074?

Robert: Yes.

Rep. Skarphol: So the dollars are actually in your budget as opposed to in your bill?

Robert: Correct.

Rep Skarphol: Bullet #4 the two additional information systems auditors, is that simply because you do feel that there is not adequate personnel available to do all the audits that you think is appropriate?

Robert: Absolutely, we've identified all the IP systems in the state of North Dakota.

Chair Carlson: How much of your services are contracted today to outside auditors?

Robert: Twenty a year to the privates.

Chair Carlson: How many are done by your agency and your auditors, and how many are you hiring out?

Robert: 80% internal, and 20% hired out.

Chair Carlson: The reason for the 20% is that you don't have the people with expertise in that area?

Robert: I just don't have the people.

Rep. Monson: If you get all the auditors your requesting, what kind of savings do you think your going to be able to show us?

Robert: We cannot always demonstrate a clear cost benefit.

Chair Carlson: How many unfilled positions?

Robert: Six out of the fifteen agency auditors, I have four open. I have four people that I need to fill for auditing.

Rep. Skarphol: What is the situation with regard to state government and other states surrounding us?

Robert: South Dakota does compile a report that we can make available to this committee that does demonstrate what the salaries are in the surrounding area. Were close to the bottom as far as other states are concerned, as far as starting salaries.

Rep. Skarphol: Is the turnover in the private sector somewhat similar as in your office, and is it similar in other states, as it is in your office?

Ed Nagel, State Auditor: Turnover in private is no where close to what it is in our sector.

Surrounding states, as well as nationwide, state auditor shops are having the same predicament as we are.

Rep. Monson: When you give higher starting salaries, do you think your turnover rate of veteran employees might be do to this?

Ed: Most turnovers is with newer employees who have only been employed 1 to 3 years.

Rep. Glassheim: You have 55 positions, 6 are on fill, and your asking for 4 additional?

Ed: Correct

Rep. Glassheim: We allowed you the positions, but didn't give you the money for them?

Ed: Correct

Rep. Glassheim: The lottery you mentioned is an added work load, would they not pay for their own audit, or not?

Ed: We've only audited them once, and didn't charge them this time. We have the ability to not charge or reduce the charge to those agencies that receive an expend general funds.

Rep. Glassheim: Do you not charge Federal Agencies at all?

Ed: Nothing or very little.

Rep. Glassheim: Do to the trouble hiring, maybe we need to have somebody do a system look into the retention problem, or problem filling new positions.

Chair Carlson: I know the Governor has created an equity pool of about 5 million dollars.

Rep. Skarpohl: Has he said in there what agencies are going to receive these dollars?

Joe, OMB: It's going to be determined by OMB, they like to give these increases to positions who are below what they should be getting paid.

Rep. Skarphol: Have your folks been advised of this, and have you made an analysis of your agency to see what kind of affect it would have?

Ed: No, we have not.

Rep. Skarphol: Could you do that for us in a relatively brief period of time?

Ed: Yes, we could.

Chair Carlson: Where is your legislative authority to take unfilled positions, and move salaries to other positions?

Ed: The vacancies we have had open the longest are in the local government area, those are 100% special funds. If those positions are not filled there is no money available to give to anybody else.

Chair Carlson: Where did you get the money to fund increases if you were given a 0 and 0?

Ed: We used the money that was saved during the period of time those positions were vacant, to fund our increases.

Chair Carlson: Where was your authority to do that?

Ed: There is no specific statutory authority, however elected officials have broad authority as far as what increases they can give their staff as long as they stay within the range of the classified positions.

Chair Carlson: So you have the ability to move line items like some agencies have?

Ed: No, we do not.

Rep. Monson: What happens if you don't get that money put in for these two FTE's now?

Robert: I have four open positions, and four auditors to fill, if the money is not restored, I won't hire them.

Rep. Monson: How long can you keep doing this?

Robert: Cycle will stop, I'm not going to dig myself in a hole that your talking about.

Chair Carlson: Would you say that the money used went to raise positions that were below the average, or did they go to existing employees?

Ed: Part of that money was used to increase starting salaries, and part of it was used to increase our lower and mid-level people.

Rep. Skarphol: What did you mean when you said you give raises to people as long as they stayed within the same pay grade range?

Ed: The state auditor has the discretion of making increases to his employees as long as their salary doesn't exceed the pay grade they are in.

Rep. Monson: Your getting your compression due to the raising of lower to mid-level people but not the higher ones, is this correct?

Ed: That sounds good in theory, except we can't keep our new people for very long. They never get to the top of their pay grade before they leave.

Rep. Monson: Those raises your giving to the lower and mid-level people aren't really substantial in your mind?

Ed: Not anywhere close.

Rep. Skarphol: What does it take to change grade?

Ed: It is based on experience and length of time with our office.

Rep. Skarphol: So its not those requirements that are giving you difficulty, It's merely the lack of dollars to retain the employees?

Ed: Correct.

Chair Carlson: I want to make a request from you folks, I want to see where your people are at , and I want to see where you believe they should be for retention purposes.

Rep. Monson: Are you asking them for what part of the 5 million dollars in the Governors budget for equity pay they feel they need?

Chair Carlson: No, I want them to tell me what they need, than we can relate that when we review the 5 million dollars.

Chair Carlson: Why isn't it cheaper to contract services?

Robert: We will attempt to get those numbers from the privates, their kind of reluctant.

Gordy Smith, Audit Manager: If nothing gets done here, and we don't fund those two positions, we won't be able to do the work were doing now. The quality and quantity of work we get from the staff is going to suffer. If we go to a private entity it will cost more.

Rep. Glassheim: Quality versus money saved, are we getting money results from the money put in? If we give you x dollars, and it's not enough for what you want to do, who prioritizes? Is there any way to report savings per dollar invested?

Chair Carlson: Are you not statutorily required to do many things that you don't have any choice?

Robert: Correct, I have to audit all state agencies within a two year period.

Chair Carlson: How about performance audits, is that statutory as well?

Robert: No, we could opt out of the performance audits. When you want to see a dollar return, performance audits is the area I can give you the best dollar return. Auditing is not necessarily about saving money, that's more in the consulting area, or the performance audits. We want to

understand those computer systems. Our whole function is to support those financial audits that they do.

Rep. Skarphol: It's not so much about being optional as it is about being supportive?

Don: They couldn't do those financial audits, if we weren't doing the IT audits for them.

Rep. Skarphol: Your lease expenses went up for whatever reason, I'm curious what that's about.

Ed: They went up quite a bit, because we increased our office space in the Fargo office in the State Agency Division. They also went up more in Bismarck and our local government division because we doubled the size of our office space in Bismarck for our local government section.

Rep. Skarphol: You get special and federal funds, the federal funds are for the federal audits that you do on federal oil mineral leases?

Ed: Correct.

Rep. Skarphol: Of the 55 people that you have in your office, how many of them were federal and local auditors?

Ed: We have 11 FTE's that are local auditors, 6 that are federal auditors.

Rep. Skarphol: So in essence you have 38, is that the right number that are general funded?

Ed: We have 38 people that are general funded.

Rep. Skarphol: Is there a requirement in the statute that the lottery be audited?

Ed: Yes, the requirement is that it be an annual audit.

Rep. Skarphol: There is a determination made by the AG's office and the lottery director how much is going to be deposited in the general fund, it's not a mandated number?

Ed: Correct.

Chair Carlson: There are five bills out there that some repeal something you do and most of them ask you to do more than your doing. I need to have an understanding of what affect that will have on your workload, and your budget.

Rep. Skarphol: Can you get an estimate of what it would cost for the state auditors office to do all of the audits that are being done by the private sector, as opposed to what the current cost is?

Robert: We can come up with that information.

Rep. Glassheim: Salary and wages is up 535,000, of that, how much is just the 4 and 4, or is it all 4 and 4?

Robert: That is the Governor's executive recommendation for the increase. That is all just the 4 and 4.

Rep. Glassheim: How many performance audits did you do in this biennium?

Gordan Smith, State Auditor: In the first 18 months we completed three.

Chair Carlson: Are you reporting to those appropriations committees as there doing the budget on those performance reports?

Gordan: The DOCR one I have to the Senate and I will to the House, and that's required right in the code.

Chair Carlson: Do you report, or do you just hand them the paper?

Gordan: I actually gave a report for about an hour and 20 minutes on Monday.

Chair Carlson: Did you do all three of those?

Gordan: We haven't been asked by the other two, and there is nothing in statute requiring us to do it.

Rep. Glassheim: Out of your department, did you pay for the performance audit done on workforce safety?

Gordan: When I bid it for workforce safety, they have to pay the contractor.

Rep. Glassheim: On section 4 we allow you to keep money over the 1.4 million anticipated from the local audits, why do you have to deposit it and not use it in this biennium?

Ed: I'm not sure the reason, but we are required by statute to deposit the fees that we collect on our local governments into our operating fund, and they stay there, they cannot be spent, unless there's legislative appropriation authority to spend them.

Chair Carlson: So if you have extra funds over the 1.4 or 41970, where does it go?

Ed: It stays in that account in the state treasurer's office. It stays in our operating account.

Rep. Carlson: Do you have a little history of that account for us?

Ed: Sure.

Rep. Glassheim: If you had additional income, what would happen if we allowed you to spend the money in this biennium in which it was collected?

Ed: We need a cushion in there in case we lose some of our jobs, just to keep these people employed until we can gain the jobs back.

Rep. Skarphol: Can you charge more than your costs on this?

Ed: The law provides that we charge for our costs.

Chair Carlson: A large portion of our budget is for IT information technology, I just need to have a better understanding of the services, the IT costs, the services provided to you, how the services are working, how we can do better. Can someone get this for us?

Ed: Sure.

*Govt Performance
1004*

General Discussion

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

Date January 21, 2005

Tape Number

1

Side A

X

B Side

Meter #

680-3600

Committee Clerk Signature

Minutes: **Rep. Skarphol** open General Discussion hearing on HB1004.

Don Lafleur, State Auditors Office: (SEE WRITTEN TESTIMONY)

Rep. Skarphol: Remind me again about the two additional FTE's you were talking about with regard to Additional Information Systems Work?

Don: What those are going to be for, is last session there was a bill passed which gave the State Auditor additional duties for compliance audits. That's related to the IT standards that are being passed by the Enterprise Architecture.

Rep. Skarphol: When your agency does a financial audit, do you glance it all at the IT thing to make a decision about whether or not you think there's additional scrutiny required?

1004

Don: Our financial auditors will look at significant computer systems, related to the audit, and they do some work on those computer systems.

Rep. Monson: On H1, the handout, I see the differences in hours. Are you thinking that if we were to do more in-house audits, you could save money?

Paul Welk, State Auditor's Office: What we are showing, is what would it take our office to take back all the audits that are currently contracted to CPA firms. H1 what your seeing, is that a lot of them contracts expire after the 2005 audit, those are the hours that we would require to do the audits that expire after 2005.

Rep. Monson: You need two more FTE's. If we were to give you five FTE's, and not give you the two more your requesting, would you be able to do all these audits, plus take care of your two that your needing now, or are they two different job descriptions that won't mesh right?

Paul: We need the two people back, just to do what we're currently doing. Just to get the audits done that we currently do.

Rep. Monson: Would three work?

Paul: What were trying to say there, is had these audits been spread out, and weren't all coming do at the same time, we could do the audits with three people.

Rep. Monson: What I'm getting at is, so if we gave you three auditors, you'd still have to do some out of house?

Paul: Correct. We could probably do 60 % to 70% of those audits.

Rep. Glassheim: Your paying outside contractors 340,000 dollars, so with five you certainly could do them, but with three you might be able to do them. If you could do them with three, would there be a savings to the state?

Paul: With three, we probably couldn't get them all done, because of the time period when they would have to get done.

Rep. Monson: It looks to me like it would still cost us a little more money, because it seems to me like I'm seeing 340,000 that your paying out, and 400,000 is what your estimating it would cost if you had them in house.

Paul: The hours we show is what we think it will take to do a good quality audit. Now we certainly could do the audits using less hours like the privates do, you'd get the same product you'd get from the privates, and you could probably do more audits doing it that way. But we feel to do a consistent audit, this is the number of hours it would require.

Rep. Monson: If you had 6 months of those five FTE's, do you think you could find a return of over 60,000 dollars?

Gordy Smith, State Auditor's Office: One of the things asked for is how performance audits have come back to save us money. The first one we have is the Department of Corrections, deals with DOCR has prisoners down in a private prison in Wisconsin. There plan was to have the prisoners come back in Dec. 05, we've determined they would be able to bring those back earlier. Every month they come back early saves us 40,000 dollars. The next, is in New England they want to increase the rate their charging the state to house the female inmates. We took a look at their medical side, and they weren't getting their medical costs through the Medicaid rates. We discussed this, and their now going to be able to get their medical costs from Dickinson, at a Medicaid rate for the female inmates. Just to name a few.

Rep. Monson: What would you expect would be the two more performance audits that you do? What agencies would you maybe look at?

Gordy: There could be a wide variety, we usually try to take a list to the LAFRC. There's a laundry list.

Rep. Glassheim: Are you saying that you have a 6 month window for doing the financial audits?

Paul: We do audits throughout the entire year. Almost any entity that we currently audit, has a June 30 fiscal year end.

Rep. Glassheim: Can't we demonstrate that this can be done within the 400,000 we were already spending, and bringing it in house with three more auditors?

Paul: It would be great if we had 2,000 billable hours per employee, but we really don't, because we have to factor in holidays, vacations, sick, and continuing professional education for all employees.

Rep. Monson: Are you talking three of these five, plus your two, or are you talking three total?

Gordy: The two that we have, plus three additional.

Rep. Skarphol: Do I have a motion on an amendment to this budget, to put the 135,000 back in, and add the 100,000 for the costs associated with HB 1074.

Rep. Monson: I move that we do that, do number 1 and 5 on page 13, Mr. Peterson's testimony.

Rep. Glassheim: I second the motion.

Rep. Skarphol: HB 1004 is amended, do we have a motion on the amended bill?

Rep. Monson: I would move do pass on HB 1004 as amended.

Rep. Glassheim: I second it.

HB 1004 carried by Rep. Skarphol.

Closed General Discussion Hearing.

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB1004

State Auditor

House Appropriations Full Committee

☐ Conference Committee

Hearing Date February 15, 2005

Tape Number

2

Side A

Side B

X

Meter #

#18.6 - #29.0

Committee Clerk Signature

Chris Alexander

Minutes:

Rep. Ken Svedjan, Chairman opened the discussion on HB1004.

Rep. Bob Skarphol explained that this bill had an amendment #0103 which makes the necessary changes to the pay package. We added \$135,500 for two authorized positions that the were not funded in the Governor's recommendation because the moneys were used to give raises to other positions for the sake of employee retention. We added \$100,000 for the security testing that is required by HB1275. The total added to this budget is \$209,903.

Rep. Bob Skarphol moved to adopt amendment #0103 to HB1004.

Rep. David Monson seconded.

Rep. Ken Svedjan, Chairman called for a voice vote on the motion to adopt amendment #0103 to HB1003. Motion carried.

Rep. Bob Skarphol continued to explained that there was some discussion to add more auditors to the staff but the committee decided it was not necessary.

Rep. Bob Skarphol moved a Do Pass As Amended motion on HB1004.

Rep. David Monson seconded.

Rep. Ole Aarsvold asked if the \$135,000 was to be included in the compensation increase.

(meter Tape #2, side B, #22.8)

Rep. Bob Skarphol commented that this money is for new positions because the money approved for these positions were used for other raises in order to keep their employees since they have a 33% turnover rate in their office.

Rep. Ken Svedjan, Chairman answered that this was in addition to the 2% merit part of the compensation changes.

Rep. Ron Carlisle asked if this was in effect equity as it is money over and above the merit raises.

Rep. Bob Skarphol explained that these were rolled up dollars in this biennium that were used as employee retention raises. The Governor's office chose not to fund these positions again in this biennium. Our committee thought it necessary for the State Auditor to have these positions in order for them to complete their work. Rep Skarphol discussed position raises from federal funds in other agencies. If these funds are not sustainable then the position drops or it switches to the general fund.

Rep. Ron Carlisle related this issue to the Attorney General's budget HB1003.

Rep. Ken Svedjan, Chairman called for a roll call vote on the Do Pass As Amended motion for HB1004. Motion carried with a vote of 15 yeas, 5 neas, and 3 absences. Rep Skarphol will carry the bill to the house floor.

Rep. Ken Svedjan, Chairman closed the discussion on HB1004.

January 24, 2005

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1004

Page 1, line 17, replace "535,249" with "670,749"

Page 1, line 18, replace "58,524" with "158,524"

Page 1, line 20, replace "603,773" with "839,273"

Page 1, line 22, replace "294,759" with "530,259"

Page 2, line 4, replace "6,516,686" with "6,652,186"

Page 2, line 5, replace "776,295" with "876,295"

Page 2, line 7, replace "7,302,981" with "7,538,481"

Page 2, line 9, replace "4,875,991" with "5,111,491"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1004 - State Auditor - House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$6,516,686	\$135,500	\$6,652,186
Operating expenses	776,295	100,000	876,295
Capital assets	<u>10,000</u>		<u>10,000</u>
Total all funds	\$7,302,981	\$235,500	\$7,538,481
Less estimated income	<u>2,426,990</u>		<u>2,426,990</u>
General fund	\$4,875,991	\$235,500	\$5,111,491
FTE	55.00	0.00	55.00

Dept. 117 - State Auditor - Detail of House Changes

	ADD SALART FUNDING ¹	ADDS IT SECURITY TESTING FUNDING ²	TOTAL HOUSE CHANGES
Salaries and wages	\$135,500		\$135,000
Operating expenses		\$100,000	100,000
Capital assets			
Total all funds	\$135,500	\$100,000	\$235,500
Less estimated income			
General fund	\$135,500	\$100,000	\$235,500
FTE	0.00	0.00	0.00

¹ The salaries and wages line item is increased by \$135,500 from the general fund to provide full funding of the agency's pay plan.

² The operating expenses line item is increased by \$100,000 from the general fund to provide funding for the state auditor's office to hire consultants to test information technology system security in the Information Technology Department.

Date: Jan 21, 2005
Roll Call Vote #:

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB1004

House Government Performance.

Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken DO Pass As Amended

Motion Made By Rep. Monson Seconded By Rep. Glassheim

Representatives	Yes	No	Representatives	Yes	No
Chairman Carlson			Rep. Glassheim	X	
Vice Chairman Skarphol	X				
Rep. Monson	X				

Total (Yes) 3 No 0

Absent 1

Floor Assignment Rep. Skarphol

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

Date: **February 15, 2005**
Roll Call Vote #: **1**

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB1004

House Appropriations - Full Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number **58027.0103**

Action Taken **DO PASS AS AMENDED**

Motion Made By **Rep Skarphol** Seconded By **Rep Monson**

Representatives	Yes	No	Representatives	Yes	No
Rep. Ken Svedjan, Chairman	X		Rep. Bob Skarphol	X	
Rep. Mike Timm, Vice Chairman	X		Rep. David Monson	X	
Rep. Bob Martinson	X		Rep. Eliot Glassheim	X	
Rep. Tom Brusegaard	X		Rep. Jeff Delzer		X
Rep. Earl Rennerfeldt	X		Rep. Chet Pollert	X	
Rep. Francis J. Wald	X		Rep. Larry Bellew		X
Rep. Ole Aarsvold		X	Rep. Alon C. Wieland		X
Rep. Pam Guleson	AB		Rep. James Kerzman		X
Rep. Ron Carlisle	X		Rep. Ralph Metcalf	X	
Rep. Keith Kempenich	X				
Rep. Blair Thoreson	AB				
Rep. Joe Kroeber	AB				
Rep. Clark Williams	X				
Rep. Al Carlson	X				

Total Yes **15** No **5**

Absent **3**

Floor Assignment **Rep Skarphol**

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

REPORT OF STANDING COMMITTEE

HB 1004: Appropriations Committee (Rep. Svedjan, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (15 YEAS, 5 NAYS, 3 ABSENT AND NOT VOTING). HB 1004 was placed on the Sixth order on the calendar.

Page 1, line 17, replace "535,249" with "645,152"

Page 1, line 18, replace "58,524" with "158,524"

Page 1, line 20, replace "603,773" with "813,676"

Page 1, line 21, replace "309,014" with "301,913"

Page 1, line 22, replace "294,759" with "511,763"

Page 2, line 4, replace "6,516,686" with "6,626,589"

Page 2, line 5, replace "776,295" with "876,295"

Page 2, line 7, replace "7,302,981" with "7,512,884"

Page 2, line 8, replace "2,426,990" with "2,419,889"

Page 2, line 9, replace "4,875,991" with "5,092,995"

Page 2, line 18, overstrike "seven hundred" and replace "thirty-nine" with "fifty-nine"

Page 2, line 19, replace "and may not exceed seventy-three" with "seventy-two" and replace "five" with "eight"

Page 2, line 20, replace "sixty-nine" with "sixty-one"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1004 - State Auditor - House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$6,516,686	\$109,903	\$6,626,589
Operating expenses	776,295	100,000	876,295
Capital assets	<u>10,000</u>		<u>10,000</u>
Total all funds	\$7,302,981	\$209,903	\$7,512,884
Less estimated income	<u>2,426,990</u>	<u>(7,101)</u>	<u>2,419,889</u>
General fund	\$4,875,991	\$217,004	\$5,092,995
FTE	55.00	0.00	55.00

Dept. 117 - State Auditor - Detail of House Changes

REDUCES COMPENSATION PACKAGE TO 3/4	ADDS SALARY FUNDING 1	ADDS IT SECURITY TESTING FUNDING 2	TOTAL HOUSE CHANGES
---	--------------------------	--	---------------------------

REPORT OF STANDING COMMITTEE (410)
February 16, 2005 10:07 a.m.

Module No: HR-31-3110
Carrier: Skarphol
Insert LC: 58027.0104 Title: .0200

Salaries and wages	(25,597)	\$135,500		\$109,903
Operating expenses			\$100,000	100,000
Capital assets				
Total all funds	(25,597)	\$135,500	\$100,000	\$209,903
Less estimated income	(7,101)			(7,101)
General fund	(18,496)	\$135,500	\$100,000	\$217,004
FTE	0.00	0.00	0.00	0.00

¹ The salaries and wages line item is increased by \$135,500 from the general fund to provide full funding of the agency's pay plan.

² The operating expenses line item is increased by \$100,000 from the general fund to provide funding for the State Auditor's office to hire consultants to test information technology system security in the Information Technology Department.

2005 SENATE APPROPRIATIONS

HB 1004

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 1004

Senate Appropriations Committee

☐ Conference Committee

Hearing Date February 25, 2005

Tape Number	Side A	Side B	Meter #
1	a	b	4,210

Committee Clerk Signature



Minutes:

Chairman Holmberg called the hearing on HB 1004 to order.

Robert Peterson, State Auditor, distributed written testimony and testified in support of HB 1004. He highlighted segments of his written testimony. He discussed the IT audits, the Connect ND, the financial statement audits, the help given to agencies. On page 7 of the testimony he indicated the department has done more with less money, they now have 36 FTE's, they added the lottery, and additional information system duties. There is need to reduce the turnover rate which is at 33 percent, one method is increase wages. They perform local government audits, federal audits on coal and gas leases and there are new accounting requirements. An auditor cannot do audits and consult at the same time. With HB 1004 the department is requesting an increase in general funds to reduce turnover, adding two FTEs and funding additional performance auditors, and to repeal section 54-10-28 of the NDCC. In addition there is a request to add proposed amendments to engrossed HB 1004.

Page 2

Senate Appropriations Committee

Bill/Resolution Number 1004

Hearing Date February 25, 2005

Questions raised included clarification of the FTE's, the items on page 12, audit of the medical school, were some audits not noteworthy.

No further questions were asked.

Chairman Holmberg closed the hearing on HB 1004.

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 1004

Senate Appropriations Committee

☐ Conference Committee

Hearing Date March 24, 2005

Tape Number

1

Side A

a

Side B

Meter #

1,624 - 2601

Committee Clerk Signature

Minutes:

Chairman Holmberg opened the hearing on HB 1004.

Senator Kilzer distributed amendments, describing what the changes were.

Senator Kilzer moved to approve the amendments, **Senator Fischer** seconded. Discussion was held. A voice vote was taken. The motion carried.

Senator Mathern moved to approve an amendment on a 4/4 salary rate increase, **Senator Krauter** seconded. A roll call vote was taken with 5 yes, 8 no, 1 absent. The motion failed.

Senator Fischer moved a DO PASS with AMENDMENT, **Senator Christmann** seconded.

No further discussion. A roll call vote was taken with 14 yes, 1 absent. The motion carried.

Senator Kilzer will carry the bill.

Chairman Holmberg closed the discussion on HB 1004.

Date

Roll Call Vote #:

3/24/05
1

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 1004

Senate SENATE APPROPRIATIONS

Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken

Do Pass

4/4 amend

Motion Made By

Mather Seconded By

Krauter

Senators	Yes	No	Senators	Yes	No
CHAIRMAN HOLMBERG		✓	SENATOR KRAUTER	✓	
VICE CHAIRMAN BOWMAN		✓	SENATOR LINDAAS	✓	
VICE CHAIRMAN GRINDBERG		✓	SENATOR MATHERN	✓	
SENATOR ANDRIST		✓	SENATOR ROBINSON	✓	
SENATOR CHRISTMANN		✓	SEN. TALLACKSON	✓	
SENATOR FISCHER		✓			
SENATOR KILZER		✓			
SENATOR KRINGSTAD		✓			
SENATOR SCHOBINGER		✓			
SENATOR THANE		✓			

Total (Yes)

5

No

8

Absent

1

Floor Assignment

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

fail

Date
Roll Call Vote #:

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 1004

Senate **SENATE APPROPRIATIONS**

Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken

Do Pass

Motion Made By

Fischer

Seconded By

Christmann

Senators	Yes	No	Senators	Yes	No
CHAIRMAN HOLMBERG	✓		SENATOR KRAUTER	✓	
VICE CHAIRMAN BOWMAN	✓		SENATOR LINDAAS	✓	
VICE CHAIRMAN GRINDBERG	✓		SENATOR MATHERN	✓	
SENATOR ANDRIST	✓		SENATOR ROBINSON	✓	
SENATOR CHRISTMANN	✓		SEN. TALLACKSON	✓	
SENATOR FISCHER					
SENATOR KILZER	✓				
SENATOR KRINGSTAD					
SENATOR SCHOBINGER	✓				
SENATOR THANE	✓				

Total (Yes)

No

Absent

Floor Assignment

Hilzer

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

REPORT OF STANDING COMMITTEE

HB 1004, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (14 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). Engrossed HB 1004 was placed on the Sixth order on the calendar.

Page 1, line 17, replace "645,152" with "638,288"

Page 1, line 20, replace "813,676" with "806,812"

Page 1, line 21, replace "301,913" with "299,791"

Page 1, line 22, replace "511,763" with "507,021"

Page 2, line 4, replace "6,626,589" with "6,619,725"

Page 2, line 7, replace "7,512,884" with "7,506,020"

Page 2, line 8, replace "2,419,889" with "2,417,767"

Page 2, line 9, replace "5,092,995" with "5,088,253"

Renumber accordingly

2005 HOUSE APPROPRIATIONS

CONFERENCE COMMITTEE

HB 1004

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB1004

House Government Performance Division

☒ Conference Committee

Hearing Date April 6, 2005

Tape Number	Side A	Side B	Meter #
1	X		1-1624

Committee Clerk Signature



Minutes: **Chair Skarphol** opened conference committee hearing on HB 1004.

Chair Skarphol: Brief discussion that got overlooked on the viability of maybe increasing the number of employees in the Auditor's Office, and what the results of doing that would be. We could conceivably add special and federal fund authority to the Auditor's Office in the amount of \$487,000, and in fact by doing that save the agencies \$155,000 and ultimately have all of the audits done in-house. I would submit to you that we'd probably have better quality audits since the private audits have only resulted in one recommendation in 10 years. If you were to add 5 auditors, it would only take them half of the time to do this, but it needs to be done annually in the 6 months period, therefore we'd have 5 auditors available 12 months out of a biennium to do performance audits, for example.

Sen. Kilzer: Those comments are well and good, but when I last spoke with the auditor, he was having difficulty with turnover, in fact he had lost 5 of the 15 in Bismarck in the last year, and he still had 4 vacancies. So, if we're talking about auditors, I don't see how we can hire more when

we are that many short chronically. I know that we raised their starting salary up to \$2400 a month, and the private groups pay \$2850 per month for their starting auditors. These are the ones that have 150 credit hours, and their certification to be an auditor, so that restricts how many people there are.

Chair Skarphol: It isn't that they asked for this. This is something that our committee got to thinking about after the fact. Our hope is that the 4% and 4% will help alleviate that problem with regard to the auditors, and I would envision that if we were to suggest this, it would still leave it optional with the Auditors Office that they could conceivably contract out, in the event they are unable to fill it. In fact, I could even envision language that said all of the existing positions need to be filled prior to filling these.

Sen. Kilzer: So, you would use permissive language.

Chair Skarphol: Permissive language that gives them the authority to do this, in the event they were able to fully staff their office.

Sen. Kilzer: Maybe we shouldn't quite say fully staffed, but at least come very close to it, otherwise we are going to end up with sloppy work on the work that they're doing already, if they are to thin before they can take on these additional jobs. We don't want that to happen either.

Sen. Krauder: Did the council prepare this? Where did this come from?

Chair Skarphol: I asked the Auditor's Office to prepare an estimate of what is involved in making this shift if we desire to make this shift. If we need something prepared by Legislative Council, I have no difficulty with that.

Sen. Krauder: I look at these dollar amounts on here, I think a decision like this should be in bill form, then you have a fiscal note. If this says we're going to have a general fund increase of

\$465,000, and we're going to expense out \$400,000 expenditures, if that's going to be what it says, I want to see it on a fiscal note.

Stephanie, Legislative Council: I'm not sure what you need or want. We can't send out a fiscal note, so I'm not sure what else we could do that could formalize this.

Rep. Monson: Who prepares the fiscal note? Is it somebody on Legislative Council, or is it through the agency like Auditor's Office?

Stephanie: It's the agencies most directly impacted that would fill out fiscal notes.

Rep. Monson: So, would you be OK if the Auditor's Office prepared something?

Sen. Krauder: If this action is going to generate \$465,000 additional general fund revenue, and expenditures of \$400,000.

Chair Skarphol: We could certainly ask for a better, more substantiated information. That's not a problem.

Rep. Monson: Is it worth our while to think about this in the next day or two, and see if we can get a little more information on it?

Sen. Schobinger: This very well may be a viable option, or viable proposal, but boy it would be tough to take an additional 5 FTE's upstairs, without having that hearing.

Rep. Monson: It looks to us like they would say that the agencies could save \$155,000 on their audits as well. If the Auditor's Office broke even, instead of giving them the money to go out and hire outside auditors, we hire 5 additional FTE's at the same cost as those outside audits are being done, but because they're being done internally, the agencies can save \$155,000, and then we still have 5 auditors that have free time to go out and do the work for us. It seems to me we should at least talk about it a little more, think about it.

Rep. Glassheim: I'm not clear about all these number s they're whirling about. I see 642,000, I see 487,000, I see 465,000, I see 400,000, and I see 341,000. I don't know which is which.

Chair Skarphol: Overview of handout. (SEE HANDOUT)

Sen. Kilzer: There still would be outside auditors to do some of the projects, wouldn't there? As I understand it, there are some auditing things that are bid out by the auditors department, because they don't have the expertise within their own department to do that. What would that situation be if these 21 were brought in-house? Are there still others outside?

Rep. Monson: I believe that the top 6 on this list here have to be done outside, Retirement Investment Office, Public Employees Retirement System, Board of University and School Lands, Job Service ND, Municipal Bond Bank, and Housing Finance Agency, so they would have to be hired outside, and there may be some other ones that are special cases.

Sen. Kilzer: We have a footnote to about the ITD that's presently ongoing for the 100,000, that would be one. I think when I spoke to the auditor, if the medical school goes through, that would required outside consultation. Are there large numbers of additional ones that pop up that need to have outside consultation , or is that pretty rare?

Chair Skarphol: Typically, the number of performance audits that are done are the ones that require the consulting fees, and I would say in a typical biennium there may be 3 or 4 large ones that could conceivably require a consultant, maybe 1 or 2 of those would. The other 1 or 2 are typically done by the auditors office, and the smaller ones they can usually do themselves.

Sen. Kilzer: This \$100,000 for the ITD, so we know where that's at now, or what's happening there?

Chair Skarphol: The IT issue is a security testing issue, that's not an audit issue.

Sen. Kilzer: That's why it's a bill in the Auditor's Office, and why they don't just bill it to ITD then?

Chair Skarphol: The cost of that is not going to be absorbed by ITD, but rather that \$100,000 is to be spent on the consultant that's hired to do the hacking.

Sen. Kilzer: So, it could have almost been done within the IT Department, without the Auditor's Office being involved if that's what they are doing?

Chair Skarphol: That's not exactly what we want to happen, because ITD is the entity that is responsible for ensuring the security. That's why you want another party, for example, the Auditor's Office to be in charge of testing that security.

Adjourned Conference Committee Hearing.

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB1004

House Government Performance Division

☒ Conference Committee

Hearing Date April 7, 2005

Tape Number
1

Side A
X

Side B

Meter #
2150-3347

Committee Clerk Signature 

Minutes: **Chair Skarphol** opened conference committee hearing on HB 1004.

Chair Skarphol: Overview on cost of conducting audits versus contracting for audits.

(SEE HANDOUT)

Sen. Kilzer: I've talked to the fellow committee members, and there is considerable, and a fair amount of opposition to bringing this forth and to putting it into law for several reasons. Not the least of which is that it's never had a hearing, it's not passed either house, it has implications that go quite far in the relationship to outside independent auditors, and I mentioned last time, there's the manpower problem whether or not the present staff would be able to take on added work. So, for these reasons, we don't have a lot of enthusiasm for further amending the bill to put this on.

Rep. Glassheim: It's my understanding that some of these entities are required to have a 3rd party armslength audits anyway, so that their outside federal regulators would require not an internal audit anyway, at least that's my understanding.

Rep. Monson: Would you be amendable at all to looking at maybe 1 or 2 of these positions, instead of doing all 5?

Sen. Kilzer: We're still having 4 vacant auditor positions out of a total of 21, and my conversation with the State Auditor reveals that it takes at least a year of employment before an auditor is really able to conduct an audit by himself or herself. My conclusion is that if we have a full staff who has at least one year of experience, then we can start to talk about these. I certainly would not be opposed to putting it in as a study resolution to see just which of these can be done, or which can't be done, and the consequences to not only the agencies that are being audited, because some agencies would rather be audited by an independent outside firm, rather than an in-house state agency. So, for these reasons I think we need to either look again in 2 years, or do studies, or something before we take such a big step. The \$485,000 pricetag is also one last item.

Chair Skarphol: I think in all reality if we went all the way with this, I don't think there would be a pricetag based on the analysis that's been done even by Legislative Council. You can in actuality save the agencies money, but I don't disagree with you about the timing issue with regard to what we can really accomplish here as far as whether or not the state agency would prefer an outside audit. I would suggest to you that there's no question in my mind that they would prefer that, because in 10 years there has only been one recommendation with regard to these. I find that a bit troubling when we are looking at an entity like Job Service, or Workers Comp. I would think there should at least be some issues brought forward that we should be talking about, at the very least.

Rep. Monson: I'm looking at page 2 here of this document that Legislative Council prepared for us, and statement or comment #4 I guess kind of indicate to me that we do have contracts now

with outside CPA firms for 2005, and some through 2006. I guess what I'm thinking at the very least in 2007 legislative session, we'd probably be very wise to include more auditors based on these statements, or comments, and maybe phase out some of these independent CPA contracts as they come up.

Sen. Krauder: If that's the scenario, I think then the State Auditor and there budget proposal for the 2007/09 biennium should include that into there budget as they present it to us in the next legislative session. At that point, there can be a full hearing and analysis, and I think a lot more research can be done building into that particularly coming into a legislative session. I can see at that point some of these auditing entities in the state would probably have a response, and maybe some constructive things to add to it to. We just need to get a good solid, stable staff up there before we start to expand more.

Sen. Schobinger: My only thought would be that I would agree that a study resolution would be a very good idea, in that it's my understanding that there is at least 4 of the agencies in there that a lot of their relationship with that outside entity depends on it being audited from the outside. The other 12 or 14, that might be a different story. I think all of that are things that the legislature could look at in the interim, and it would be wise to do so.

Chair Skarphol: This was not a proposal brought forth by the Auditors Office. It was something that Rep. Monson and I started discussing after we kicked this thing out and started looking at it. It's not something that the Auditor's Office has pursued, and in fact, the reason for the inaccuracies in the information distributed at the last meeting, was the fact that I asked them for it just shortly before the meeting, and they did it quite hurriedly.

Rep. Monson: I don't know where to proceed. I guess if you guys are leaning toward doing a study, we could amend something in here. I don't know if that's really necessary, if the Auditor's Office when they put together there next budget wants to do this, they could submit that, and make their case to the OMB when they put there budget together.

Sen. Krauder: You look at the interim, or the statutory committee, the Audit and Fiscal Review Committee, this is an issue that's been kind of talked about off and on for maybe every other interim of how many audits we do, and how many are in-house, how many contracted, so it's an issue that I think is on the table a lot. So, for us to do a study resolution, I don't think that's really necessary either.

Rep. Monson: I would make a motion and let the House accede to the Senate amendments.

Rep. Glassheim: Second.

Roll call vote, motion passes.

Adjourned Conference Committee Hearing.

REPORT OF CONFERENCE COMMITTEE
(ACCEDE/RECEDE)

Bill Number 1004 (, as (re)engrossed):

Date: April 7, 2005

Your Conference Committee House Appropriations Government Performance

For the Senate:

YES / NO

For the House:

YES / NO

Sen. Kilzer

X

Chairman Skarphol

X

Sen Schobinger

X

Rep. Monson

X

Sen. Krauter

X

Rep. Glassheim

X

recommends that the (SENATE HOUSE) (ACCEDE to) (RECEDE from)

the (Senate House) amendments on (SJ/HJ) page(s) 1387 --

____, and place HB 1004 on the Seventh order.

____, adopt (further) amendments as follows, and place _____ on the
Seventh order:

____, having been unable to agree, recommends that the committee be discharged
and a new committee be appointed.

^{HB}
((Re)Engrossed) 1004 was placed on the Seventh order of business on the calendar.

DATE: April 7, 2005
CARRIER: Rep. Skarphol

LC NO. _____ of amendment

LC NO. _____ of engrossment

Emergency clause added or deleted
Statement of purpose of amendment

MOTION MADE BY: Rep. Monson

SECONDED BY: Rep. Glassheim

VOTE COUNT 6 YES 0 NO 0 ABSENT

Revised 4/1/05

Insert LC: .

REPORT OF CONFERENCE COMMITTEE

HB 1004, as engrossed: Your conference committee (Sens. Kilzer, Schobinger, Krauter and Reps. Skarphol, Monson, Glassheim) recommends that the **HOUSE ACCEDE** to the Senate amendments on HJ page 1387 and place HB 1004 on the Seventh order.

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

2005 TESTIMONY

HB 1004

STATE AUDITOR
Department 117 HB 1004

OVERVIEW PRESENTATION TO THE HOUSE APPROPRIATIONS COMMITTEE

January 7, 2005

Funding

	2003-05 Legislative Appropriation	2003-05 Estimated Expenditures or currently filled FTE Positions	(1) Variance	2005-07 Executive Recommendation	(2) 2005-07 Recommendation Change (Variance) to 2003-05 Legislative Appropriations
Salaries & Wages	\$5,981,437	\$5,798,000	(\$183,437)	\$6,516,686	\$535,249
Operating Expenses	717,771	665,000	(52,771)	776,295	58,524
Equipment	0	0	0	10,000	10,000
Total	\$6,699,208	\$6,463,000	(\$236,208)	\$7,302,981	\$603,773
General funds	\$4,581,232	\$4,501,000	(\$80,232)	\$4,875,991	\$294,759
Federal funds	888,035	846,000	(42,035)	985,020	96,985
Special funds	1,229,941	1,116,000	(113,941)	1,441,970	212,029
Total	\$6,699,208	\$6,463,000	(\$236,208)	\$7,302,981	\$603,773
FTEs	55	47	8	55	0

(1) Explanation of Major Funding and FTE Variances for the 2003-05 Legislative Appropriation to 2003-05 Current Estimates

	FTE	General Fund	Federal and Special Funds	Total
1. Vacant state agency auditor positions due to significant upsurge in turnover. Young professionals not willing to wait for raises. We hope to fill these positions soon.	6	\$64,532		\$64,532
2. Unfilled local government auditor	1		\$89,576	89,576
3. Unfilled federally funded royalty auditor	1		29,400	29,400
4. Unspent travel & other operating dollars	0	15,700	37,000	52,700
Totals	8	\$80,232	\$155,976	\$236,208

(2) Explanation of Major Funding and FTE Changes for the 2005-07 recommendation compared to 2003-05 appropriations

	FTE	General Fund	Federal and Special Funds	Total
1. Governor's recommended salary and benefit increases.	0	\$277,759	\$257,490	\$535,249
2. Increase for copier lease for the Division of State Audit.	0	17,000		17,000
3. Equipment line item is to be used for the Division of Local Government to purchase a copy machine	0		10,000	10,000
4. Increase for rent, travel & other operating expenses	0		41,524	41,524
Totals		\$294,759	\$309,014	\$603,773

Summary of Major Goals and Objectives and Related Performance Measurement Data for the 2005-07 Biennium (to the extent available)

1. Develop sound findings and recommendations to help improve state government operations and accountability.

Measurement indicators ↗	For The Year Ending December 31				
	2003	2004	2005	2006	
Number of noteworthy findings by type:					
a. internal control findings	1 of 9	6 of 28	10	10	In recognition that the quantity of findings is not as important as the quality of findings, the State Audit uses "noteworthy" findings as a performance measure. A listing of these findings for objective analysis is available on our web page under "reports" and "significant audit findings".
b. compliance with legislative intent	2 of 25	13 of 44	10	10	
c. operational improvements	10 of 13	9 of 12	10	10	
d. performance audit findings	13 of 36	12 of 27	15	15	
e. information system audit findings	3 of 9	0 of 3	5	5	

Measuring: Noteworthy is defined as being of interest or benefit to the LAFRC members the entity or management of the Office of the State Auditor. Considerations: uniqueness of finding; significance of problem; political sensitivity; potential for improvement (internal control, program effectiveness, economy & efficiency).

2. Maintain compliance with the highest industry standards.

Measurement indicators ↗	For the year or period ending June 30				
	2003	2004	2005	2006	
Unmodified Quality Control Review (QCR) report			✓		
Number of QCR letter of comment recommendations			0		
Complete the CAFR audits timely (as defined by GFOA reporting criteria).					
a. State audit	✓	✓	✓	✓	
b. University System audit	✓	✓	✓	✓	
Complete the Single Audit timely (as required by the federal govt.)		✓		✓	

Measuring: The U.S. Comptroller General requires QCRs every 3 years. Our Last QCR was conducted in May 2002 and resulted in an unmodified report and no letter of comments. The next QCR is scheduled for May 2005.

3. Focus our information systems audit resources as effectively as possible.

Measurement indicators ↗	For the year ending December 31				
	2003	2004	2005	2006	
Number of high priority information systems audits completed by our:					
a. Information systems (IS) auditors	2	1	3	3	IS audits have been limited due to the assistance we are providing for ConnectND.
b. Agency auditors	18	54	30	30	

Measuring: High priority information systems are those systems rated as high risk or moderate risk by our information system risk assessment report.

4. Maintain our highly qualified, experienced work force.

Measurement indicators ↗	For the year ending December 31				
	2003	2004	2005	2006	
Limit turnover by section:					
a. Agency auditors (17 auditors)	0	5	2 or less	2 or less	In the past year turnover has increased 166% for the Division of State Audit. This dramatic increase shows that young professionals are not willing to wait for salary increases. Additionally we are having difficulty hiring new college graduates.
b. College and university auditors (7 auditors)	0	1	1 or none	1 or none	
c. Performance auditors (5 auditors)	2	1	1 or none	1 or none	
d. Information systems auditors (5 auditors)	1	1	1 or none	1 or none	

Measuring: Measured annually based on the number of people leaving the State Auditor's office.

STATE AUDITOR
ROBERT R. PETERSON



PHONE
(701) 328-2241
FAX
(701) 328-1406

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

**TESTIMONY BEFORE THE
HOUSE APPROPRIATIONS
Government Performance Division Subcommittee**

January 12, 2005

H.B. No. 1004

Testimony - Presented by:
Robert R. Peterson, State Auditor

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

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

PROGRAM 1 - ADMINISTRATION

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

House Bill No. 1004 provides the necessary funding to successfully carry out the objective of this program.

PROGRAM 2 – STATE AUDITS

Performance Audits -

Performance auditing is an important part of state government. Performance audits determine if programs are operating efficiently and effectively, and also determine if the programs are accomplishing what the Legislature intended them to accomplish. The vast majority of states have a performance audit function.

During the current biennium, the performance audit team completed performance audits of the North Dakota Department of Transportation's (DOT's) Office of Driver and Motor Vehicles, the Administrative Committee on Veterans' Affairs and the Department of Veterans' Affairs, and the Department of Corrections and Rehabilitation (DOCR).

Despite the fact that our performance audit resources are very limited compared to other states, we have been able to make a significant difference in state government. An example is the performance audit of the North Dakota Department of Corrections and Rehabilitations.

The performance audit report of the Department of Corrections and Rehabilitation (DOCR) contained 51 formal recommendations. There are several significant recommendations in the report which address the overall information systems and information gathering processes at DOCR to improve the efficiencies of these processes as well as the quality and quantity of

information provided to decision makers. Recommendations address substantial problems at the New England facility that houses female inmates; recommendations that would address the number of available beds at the three facilities that DOCR operates; and recommendations which will improve the delivery of medical services to the inmates.

The 2005 Legislative Session will address legislation designed to improve the operations of DOCR that are the direct result of our performance audit. This will result in more efficient and effective services provided by the Department and improved operations. This means the taxpayers of North Dakota will receive more value for their tax dollars.

The performance audit report on the Administrative Committee on Veterans' Affairs and the Department of Veterans' Affairs contained 27 recommendations for improvement. These included implementing management controls to ensure compliance with state laws and other rules and regulations as well as improving the organization and operations of the Administrative Committee and the department. Other recommendations dealt with improving the agency's supervision of and relationship with the county veteran service officers. The performance audit also contained several recommendations to improve accountability and management of the funds provided to the agency, including obtaining the appropriation authority for expenditures made from interest earned on the Veterans' Postwar Trust Fund. Finally the performance audit recommended the department follow established procedures for the loan and grant programs to ensure veterans are provided the services consistently and appropriately. The recommendations in the performance audit report will enable the department to operate more efficiently and effectively.

The performance audit of DOT's Office of Driver and Vehicle Services contained 36 recommendations for improvement. The performance audit detailed the cost overruns and missed deadlines for implementation of the Vehicle Registration and Titling System (VRTS). As a result a recommendation was made that the department implement policies and procedures to adequately manage contracts. We also recommended that the department develop a detailed management reporting system for VRTS. The performance audit also contained recommendations that, when implemented, will increase the department's efficiency. For example we found the department's main office was reviewing 100% of all new

title and title transfer transactions conducted by the branch offices when this wasn't necessary. The audit also recommended that the Motor Vehicle Division establish controls for compliance with laws, rules and regulations (we found violations of these) and also that the division establish policies and procedures in certain areas.

This performance audit also found the costs of the various Drivers License sites varied dramatically as did the hours of operation. We recommended the department review pertinent information and determine if some sites should be closed or have their operations significantly changed. The audit also noted that the charges for some services (such as drivers tests) did not cover the cost to administer them.

The performance audit team either already has conducted audit follow-up work and issued an audit follow-up report or will be doing so before the end of the 2003-2005 biennium for the following performance audits conducted in prior years:

- a) Child Support Enforcement Program
- b) Service Payments to Elderly and Disabled (SPED) and Expanded SPED
- c) Veterans' Home

The State Auditor's Office was able to hire consultants to assist on the DOCR audit, as well as on the Department of Transportation audit. The use of consultants has proved to be a valuable tool in conducting performance audits. Their use allows us to expand the scope of our work into specialized areas. In addition, we leverage expensive consultant hours with our own work and our staff is able to learn from these consultants. All of these aspects enable us to continue to improve as a performance audit team and to provide the decision-makers with valuable information on the operations of state government. The appendix at the back of this testimony summarizes the findings of our performance and other audit activities during the current biennium.

Operational Audits -

In our two-year biennial audits of state agencies we include measures of accountability (financial, compliance, efficiency, and performance measures) in our audit scope to provide

results that will help agencies make their operations more effective and efficient. This change in audit scope has helped many state agencies improve the efficiency and effectiveness of their operations.

Operational improvements come from working with the state agencies, by using our expertise and research to offer constructive assistance and make recommendations for improvement. Our goal is to help individuals do their assigned work as efficiently and effectively as possible while giving them better control over the process. Again, the appendix at the end of this testimony lists some of the more significant findings of the operational audits conducted in this biennium.

Information Technology Audits –

Currently our information systems auditors audit individual computer applications (application control audits) and computer environments.

During the current biennium we have completed these computer audits:

- Secretary of State's Business Registration System
- Department of Human Service's Medicaid Management Information System (MMIS).
- Department of Human Service's VISION-TANF System (follow-up)
- ConnectND Payroll System
- Department of Corrections & Rehabilitation's DOCSTARS System
- Department of Human Service's Medicaid Management Information System (follow-up)

Risk Assessment

In calendar year 2002 we completed a risk assessment of information technology (IT) systems used by the state. This assessment identified:

- 379 IT systems at 50 state agencies
- 31 IT systems considered to be high risk
- 218 IT systems considered to be of moderate risk

To date, we have reviewed less than a dozen of these systems. Our efforts have been stymied by turnover and working on the new ConnectND system. A biennial review of this new statewide system will need to be performed by our I.S. auditors.

Our information systems auditors are also responsible for helping with computer assisted audit techniques, local area network administration, and handling computer problems and support for our office, at four different locations.

Financial Statement Audits –

The Office of the State Auditor performs an annual financial statement audit of the state's Comprehensive Annual Financial Report and the ND University System's Comprehensive Annual Financial Report (CAFR).

Federal Single Audit -

The final type of audit conducted is the statewide single audit of federal assistance received by all state agencies. This audit is required by federal law and is performed once every two years. All colleges and universities, and 34 state agencies receive and expend federal financial assistance. The 2003-2004 single audit covered over \$2 billion of federal expenditures.

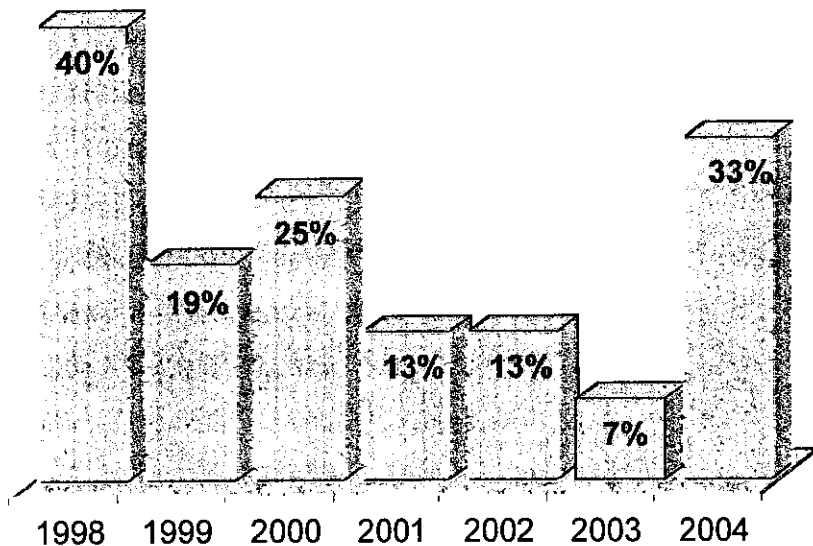
Special Projects –

In addition to audits, our office provides other services to state government and to legislators. We assist the Office of Management and Budget (OMB) and other state agencies in implementing new accounting pronouncements, we help state agencies implement and adhere to policies issued by OMB and the federal government, and we answer questions from state agencies on state and federal laws and regulations. We are involved in monitoring the audits of 22 state agencies or programs that are performed by independent CPA firms. Starting in 2004 we have been offering our expertise to OMB on questions pertaining to the new ConnectND system. This has required a significant amount of our time.

As the size and complexity of state government increases, we are being asked to do more with less. In the 1991-1993 biennium the state agency division had 40 FTEs, in the current biennium there are 36 FTEs. The 2003 legislative session established the ND lottery which requires annual audits by our office. The 2003 legislative session, by the passage of HB 1505, also established additional information system duties for our office. Both of these changes were made without any increase in staff.

In the past the turnover of financial auditors in the state agency division was unacceptably high. With the help of additional salary dollars appropriated by the 1999 and 2001 legislative assemblies, we had made good progress in reducing the turnover rate in recent years. However, the trend is getting worse as can be seen on the chart on the following page

**State Agency Financial Auditor Turnover Percentages
(Bismarck Office)**



The State Agency has a total of 21 financial auditors, 6 of which are in Fargo, leaving only 15 financial auditors in Bismarck. The 33% turnover for 2004 shown above, represents 5 auditors out of a total pool of 15 in Bismarck.

In addition to the significant problem we are experiencing with turnover, we have recently experienced hiring difficulties. Three of the last five people we offered jobs to turned us down. Private CPA firms are starting auditors out at \$2,800 - \$2,900 per month compared to our starting wage of \$2,400 (recently increased from \$2,300 in response to this problem).

Not shown in the chart above is the turnover in our performance audit section. We had a 50% turnover in both calendar years 2003 and 2004 in the performance audit section.

In 1999 and 2001 the legislature gave us an additional \$38,000 and \$52,000, respectively, to address our turnover problems.

| PROGRAM 3 - LOCAL GOVERNMENT AUDITS |

Financial and Compliance Audits –

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

Annual Reports of Small Entities –

Cities with less than 300 population, school districts with less than 100 enrolled students, park districts with less than \$200,000 of annual receipts, and other political subdivisions with less than \$100,000 of annual receipts may file an annual report in lieu of an audit. These reports are reviewed and approved by our office. We review about 710 of these reports each year. Smaller local government reports reviewed include: park districts, special education districts, vocational and technical centers, and water resource districts.

Review of State Subrecipient Audit Reports –

This division also reviews audit reports of local governments receiving federal financial assistance from 9 state agencies. This service saves those agencies from having to review the reports themselves. We review about 300 audit reports for these 9 state agencies.

Review of Alleged Fraud or Embezzlement –

This division is also responsible for investigating any alleged instances of fraud or embezzlement of public funds. Before any state or local governmental entity can recover funds from the State Bonding Fund, our office must conduct an investigation and report the results of our investigation to the State Bonding Fund.

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

House Bill No. 1004 provides the necessary funding to successfully carry out the operations of this program.

| PROGRAM 4 - MINERAL ROYALTY AUDITS |

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

House Bill No. 1004 provides the necessary funding to successfully carry out the operations of this program.

2005 - 2007 BUDGET CONSIDERATIONS

HB 1004 in it's current form does not provide sufficient general fund dollars for the state agency division. We would lose 2 full time auditors. Since 90% of our budget is in the salaries line item, reductions generally result in a loss of FTE.

We are having difficulty getting degreed accountants to apply for such a low starting salary. The relatively new accounting major requirements (150 credit hours), have resulted in less students going into accounting and therefore a demand for accountants for which we currently can't compete.

We have just now increased our starting salary to \$2,400 per month, while private CPA firms in town have starting salaries around \$2,850 per month.

Salaries of employees currently with our office compared to those who left our office to work with other state agencies, show that people who left are making \$500 - \$1,000 more per month, compared to our auditors with the same amount of time.

3 of the last 5 people that we offered jobs to in December have turned us down because they could make more money elsewhere.

The State Agency Division of our office had 40 FTEs in the 1991-1993 biennium. In the current biennium we have 36 FTE, meaning we have had a reduction of 10% over the past twelve years. This is despite a substantial increase in our workload. Reasons for our workload increase since the 1991-1993 biennium include:

- conducting annual audits of the ND University System
- conducting operational audits instead of financial-only audits
- performing information systems audits
- dedicating two people as subject matter experts for the ConnectND project
- conducting annual audits of the ND lottery
- performing additional information systems duties

**WE ARE REQUESTING THE FOLLOWING AMENDMENTS BE MADE TO
HOUSE BILL NO. 1004**

- 1) Increase general funds to fund 2 current FTEs - \$135,500.
- 2) Increase general funds to reduce turnover and provide equity salary increases - \$112,000.
- 3) Add 2 FTEs and funding for additional performance auditors - \$166,000.
- 4) Add 2 FTEs and funding for additional Information Systems auditors - \$171,500.
- 5) Increase funding to allow the hiring of Information Systems consultants to test security at ITD. - \$100,000.

Total increase in general funds of \$685,000.

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1004

Page 1, line 17, replace "\$535,249" with "\$1,106,249"

Page 1, line 18, replace "58,524" with "172,524"

Page 1, line 20, replace "\$603,773" with "1,288,773"

Page 1, line 22, replace "\$294,759" with "979,759"

Page 2, line 4, replace "\$6,516,686" with "\$7,087,686"

Page 2, line 5, replace "776,295" with "890,295"

Page 2, line 7, replace "\$7,302,981" with "\$7,987,981"

Page 2, line 9, replace "\$4,875,991" with "\$5,560,991"

Appendix Noteworthy Audit Findings 2003-2004 Interim

The following summary of noteworthy or significant findings was compiled from audit reports presented to the Legislative Audit and Fiscal Review Committee during the 2003-2004 interim.

Noteworthy is defined as being of interest or benefit to the Legislative Audit and Fiscal Review Committee members, and the audited state agency.

Considerations:

- Uniqueness of finding.
- Significance of problem.
- Political sensitivity.
- Potential for improvement (internal control, program effectiveness, economy & efficiency).

Performance Audit Findings:

Administrative Committee on Veterans' Affairs and Department of Veterans' Affairs:

- Ensuring Compliance with Century Code (2-2)
- Developing a Policy Manual (2-3)
- Reducing Committee Size and Modifying Appointment Process (2-4)
- Adding a Conservatorship Program (2-5)
- Reviewing a Position's Duties and Responsibilities (2-6)
- Developing Strategic Plans (2-13)
- Improving Dissemination of Information (2-14)
- Obtaining Appropriation Authority (3-1)
- Improving the Loan Application & Approval Process (3-2)
- Making Improvements in Accounts Turned Over for Collection (3-7)
- Reviewing Expenditures from the Veteran's Aid Fund (3-9)
- Improving the Grant Application and Approval Process (3-11)
- Improving the Obligated and Outstanding Grant Amount (3-12)

Office of Driver and Vehicle Services:

- Awarding Branch Office Contracts Competitively (2-4)
- Making Improvements to Branch Office Contracts (2-5)
- Changing the Title Review Process (2-6)
- Implementing Additional Management Controls (2-8)
- Making Changes to 30- Day Registration Permits (2-9)
- Evaluating Acceptability of 3-Week Turnaround Time (2-10)
- Enhancing the Efficiency of Driver's License Sites (3-1)
- Ensuring Sponsorship is obtained for Minors (3-4)
- Changing the Requirements of Surrendering a Suspended Permit / License to DOT
- Making Improvements to Current Staffing Levels (3-13)
- Making Improvements With Call-Tracking (4-1)
- Discontinuing the Licensing of Certain Dealers (5-1)

Operational Improvements Findings:

OFFICE OF MANAGEMENT & BUDGET

- 110 03-1 Budget Stabilization
- 110 03-2 Enterprise Fund Transfers
- 110 03-3 Available Financial Resources
- 110 03-4 Use Of One-Time Revenues
- 110 03-5 Revenue Manual
- 110 03-6 Long-Term Perspective

INFORMATION TECHNOLOGY DEPARTMENT

- 112 02-4 Development of Performance Measures
- 112 02-5 Website Analysis – ND State Homepage

OFFICE OF ATTORNEY GENERAL

- 125 02-1 a. Missing control procedures to be implemented on the Gaming Tax Return system.
- 125 02-1 b. Enhancements to the Gaming Tax Return system to increase user capabilities.
- 125 02-1 c. Increasing the efficiency of getting the data into the Gaming Tax Return system.
- 125 02-1 d. Potential changes to the process of auditing gaming tax returns.
- 125 02-2 Reconciliation Of Wagering Data (Racing Commission).

DEPARTMENT OF HUMAN SERVICES

- 325 03-1 a. Implement necessary management controls on the ROAP system to ensure data integrity.
- 325 03-1 b. Implement necessary input controls on the ROAP system until all modules are operational.
- 325 03-1 c. Standardizing policies/procedures at the HSC's to maximize revenue collections.

HIGHWAY PATROL

- 504 02-2 Maximizing Use Of Federal Grant Funds

TOURISM

- 740 01-2 Website Analysis
- 740 01-2 Maah Daah Hey Trail Website's Positioning to Attract Visitors

Compliance With Legislative Intent Findings:

STATE TREASURER

- 120 03-2 Coal Conversion Tax Distribution
- 120 03-3 Coal Severance Tax Distribution
- 120 03-4 Incorrect Population Figures Used In State Aid Distribution
- 120 03-5 Improper Calculations Used In State Aid Distributions
- 120 03-6 Oil And Gas Production Tax Distribution
- 120 03-7 Highway Tax Distribution

120 03-8 Oil And Gas Production Tax Law
120 03-9 Ambiguity Regarding Highway Tax Distribution

OFFICE OF TAX COMMISSIONER
127 03-3 Agri-Business Tax Credit

NORTH DAKOTA UNIVERSITY SYSTEM
220 03-2 Veteran's Dependent Tuition Waivers

UNIVERSITY OF NORTH DAKOTA
230 03-1 Lack Of Approval For Improvements Financed By Gifts
230 03-3 Capital Leases
230 03-4 Motor Pool Surcharge

DICKINSON STATE UNIVERSITY
239 03-1 Lack Of Authorization For a Construction Project

Internal Control Findings:

OFFICE OF MANAGEMENT & BUDGET
110 03-2 Computer Access Controls Weakness – Central Duplicating Billing System

INFORMATION TECHNOLOGY DEPARTMENT
112 02-1 Computer Access Controls Weakness

STATE TREASURER
120 03-1 Controller Job Classification

OFFICE OF STATE TAX COMMISSIONER
127 03-1 Computer Access Controls Weakness

NORTH DAKOTA UNIVERSITY SYSTEM
220 03-1 PeopleSoft And Other System Weaknesses
240 03-2 PeopleSoft Conversion
242 03-1 PeopleSoft Conversion

Information System Audit Findings:

DEPARTMENT OF HUMAN SERVICES
Medicaid Management Information System:
Duplicate payments
Automatic denial of claims

SECRETARY OF STATE
Business entity and accounting systems
Inaccurate reports

ASSIGNMENT OF DEPARTMENTS FOR THE PURPOSE OF BUDGET HEARINGS AND BUDGET ANALYSIS

Department	Budget Status No.	LC Staff	OMB Staff
Adjutant General/National Guard	540	Roxanne	Joe
Administrative Hearings, Office of	140	Don	Sandy
Aeronautics Commission	412	Roxanne	Sandy
Agricultural Experiment Station			
Agronomy Seed Farm	649	Don	Celeste
Carrington Research Center	647	Don	Celeste
Central Grasslands Research Center	642	Don	Celeste
Dickinson Research Center	641	Don	Celeste
Hettinger Research Center	643	Don	Celeste
Langdon Research Center	644	Don	Celeste
Main Research Center	640	Don	Celeste
North Central Research Center	645	Don	Celeste
Williston Research Center	646	Don	Celeste
Agricultural Products Utilization Commission (included in Department of Commerce)			
Agriculture Commissioner (see Elected Officials)			
Agronomy Seed Farm (see Agricultural Experiment Station)			
Aid to Political Subdivisions	85	Don	
Arts, Council on the	709	Stephanie	Joe
Attorney General (see Elected Officials)			
Auditor, State (see Elected Officials)			
Badlands Human Service Center (see Human Services)			
Bank of North Dakota (see Industrial Commission)			
Bismarck State College (see Higher Education)			
Career and Technical Education - State Board for	270	Stephanie	Lori
Carrington Research Center (see Agricultural Experiment Station)			
Central Grasslands Research Center (see Agricultural Experiment Station)			
Central Services (see Management and Budget, Office of)			
Children's Services Coordinating Committee	324	Allen	Lori
Commerce, Department of	601	Allen	Sandy
Corrections and Rehabilitation, Department of	530	Stephanie	Joe
Deaf, School for the	252	Roxanne	Joe
Developmental Center at Grafton (see Human Services)			

Department	Budget Status No.	LC Staff	OMB Staff
Homestead Tax Credit	070	Don	Sandy
Housing Finance Agency (see Industrial Commission)			
Human Services, Department of			
Badlands Human Service Center	348	Allen	Celeste
Developmental Center	335	Allen	Celeste
Economic Assistance	327	Allen	Celeste
Field Services	329	Allen	Celeste
Lake Region Human Service Center	343	Allen	Celeste
Management and Councils	326	Allen	Celeste
North Central Human Service Center	342	Allen	Celeste
Northeast Human Service Center	344	Allen	Celeste
Northwest Human Service Center	341	Allen	Celeste
Program and Policy	328	Allen	Celeste
South Central Human Service Center	346	Allen	Celeste
State Hospital	334	Allen	Celeste
West Central Human Service Center	347	Allen	Celeste
Indian Affairs Commission	316	Don	Sandy
Industrial Commission	405	Stephanie	Sandy
Bank of North Dakota	471	Stephanie	Sandy
Housing Finance Agency	473	Stephanie	Sandy
Mill and Elevator	475	Stephanie	Sandy
Information Technology Department	112	Roxanne	Lori
Insurance Commissioner (see Elected Officials)			
Insurance Tax Payments to Fire Departments	035	Roxanne	Sandy
International Peace Garden (included in Parks and Recreation)			
James River Correctional Center (included in Corrections and Rehabilitation)			
Job Service North Dakota	380	Roxanne	Sandy
Judicial Branch			
District Court	185	Stephanie	Sandy
Judicial Conduct Commission	183	Stephanie	Sandy
Supreme Court	181	Stephanie	Sandy
Labor Commissioner	406	Roxanne	Sandy
Lake Region Human Service Center (see Human Services)			
Lake Region State College (see Higher Education)			
Land Department	226	Stephanie	Lori
Langdon Research Center (see Agricultural Experiment Station)			
Legislative Assembly	150	Allen	Lori
Legislative Council	160	Allen	Lori

Department	Budget Status No.	LC Staff	OMB Staff
Transportation, Department of	800	Allen	Celeste
Treasurer, State (see Elected Officials)			
UND School of Medicine and Health Sciences (see Higher Education)			
University of North Dakota (see Higher Education)			
University System (see Higher Education)			
Upper Great Plains Transportation Institute	627	Don	Celeste
Valley City State University (see Higher Education)			
Veterans Affairs, Department of	321	Don	Lori
Veterans Home	313	Don	Lori
Vision Services - School for the Blind	253	Roxanne	Joe
Water Commission, State	770	Don	Joe
West Central Human Service Center (see Human Services)			
Williston Research Center (see Agricultural Experiment Station)			
Williston State College (see Higher Education)			
Workforce Safety and Insurance	485	Roxanne	Sandy
Youth Correctional Center (included in Corrections and Rehabilitation)			



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

Requests for Information from House Approp. GPD Subcommittee – Requested 1/12/05

1. What is included in the \$535,249 amount on line 17, page 1, of HB 1004?
Page A
2. How is the SAO more unique, i.e., more in need of salary dollars, than any other state agency asking for more money?
Pages B – B1
3. Why is it better for the SAO to audit agencies, than to contract the audits to private firms?
Pages C – C1
4. Where are our auditors at in their pay ranges, and what would we need to get our people to an equitable salary?
Page D
5. Examples of savings from our performance audits, last couple audits.
Pages E – E1
6. What effect will each of these bills have on the SAO if passed?
HB 1035, HB 1074, SB 2069, SB 2072 & SB 2085
Page F
7. What has been our experience with ITD consolidation?
Page G
8. What would it take for the SAO to audit all state agencies, compared to what is paid out for the privates to do them?
Pages H – H1
9. Financial history of the Local Government Division's Operating Fund for the past 2 bienniums.
Page I

At the 1/12/05 hearing, Chairman Carlson asked what made up the \$535,249 amount on line 17, page 1 of HB 1004

General Fund	Special Fund	Federal Fund	Total	Explanation
\$270,189	\$72,632	\$49,485	\$392,306	Governor's recommended increase of 4% and 3%, & increased health costs
(6,160)	64,477	26,240	84,557	Base budget increase in salaries over the 2003 - 2005 appropriation
12,880	34,522	5,584	52,986	Base budget request for increase in fringes over 2003 - 2005 appropriation
4,200	1,200		5,400	Base budget request for increase in temporary salaries over the 2003-2005 appropriation
\$281,109	\$172,831	\$81,309	\$535,249	Salary Amount on line 17, pg. 1, HB 1004

WHY THE STATE AUDITOR'S OFFICE IS UNIQUE AMONG STATE AGENCIES

Employee Turnover Rate

- Bismarck State Agency Division turnover in 2004 was 33%.
- Performance Audit Division turnover for 2003 and 2004 was 50%.
- Average turnover for state classified positions in 2003 and 2004 was 9%.
- We employ professionals (CPA, LPA, CISA) that other state agencies covet because of their expertise and experience with the state's accounting system, state and federal laws, rules and regulations, and auditing/accounting procedures. We cannot compete with the starting salaries other agencies offer our staff.
- 1999 legislative changes requiring 150 credit hours to sit for the CPA exam has resulted in reduction in number of students majoring in accounting. With our current funding, we cannot compete with the private sector for these candidates (our starting salary is \$2,400 vs. \$2,850 for the two largest local firms).
- Employees with equal experience who have left our office for positions at other state agencies are now making \$500-\$1,000 more per month than what our current employees are making.
- We offered 5 applicants a job in December 2004 and only 2 accepted.

Cost of Services

- Average hourly rate for the last three audits contracted with CPA firms was \$105.
- Average hourly rate for the State Auditor's Office is \$42 (Note: we do not charge entities for the general fund portion of their operations).

Quality of Work

- All audits presented to the LAFRC for the period July 1, 2003 through December 31, 2004 were reviewed and 43 significant audit findings were identified. Only 1 of these findings was made by a CPA firm.
- We conduct the following types of audits: state's Comprehensive Annual Financial Report (CAFR) - 5,200 hours;
 - Statewide Single Audit of \$2 billion of federal funds each biennium - 9,400 hours;
 - University Comprehensive Annual Financial Report - 4,200 hours;

- Operational audit of state agencies and colleges and universities every two years;
 - Performance audits of state entities (statewide, we are the leader in this field. CPA firms have performed only 5 of these over the past 12 years while we have performed approximately 25);
 - Information technology audits of the hundreds of IT systems in state government;
- In addition, we provide "consulting" services to state government. For example, assisting OMB with the implementation of ConnectND (we have had two individuals dedicated to this project for the past two years for up to 50% of their time). We answer literally hundreds of questions from state agencies relating to accounting/auditing issues as well as state laws, rules, regulations and policies and procedures.

CONCLUSION

It is not logical or reasonable to eliminate any of our duties. Many of them are required in state or federal law, while cutting out others would not be in the best interest of state government. For example, performance audits provide decision makers with the most complete information on aspects of the agency operations and demonstrate an investment rather than a cost. Bidding out more operational audits does not make sense since it will cost more while yielding less significant information for decision makers. One must also consider that we are the experts in governmental auditing while CPA firms do this on a part-time basis.

In addition, eliminating duties is nothing more than a very short term approach to our situation as it does not address our turnover problem. It will not reduce turnover, nor address the problems we have in hiring and keeping quality staff. If we continue to have this turnover it will affect the quality and quantity of our work.

WHY IS IT BETTER TO HAVE THE STATE AUDITORS OFFICE AUDIT STATE GOVERNMENT VS CPA FIRMS?

Expertise

The State Auditor's Office is the expert in governmental auditing, while CPA firms do it on a part-time basis. We are familiar with the operations of the state agencies and institutions and the federal and state laws, rules, and regulations relating to them. State government operations can be extremely complex. Whether it is information systems, financial and management controls, compliance with legislative intent, or performance audits, specialized knowledge is required. The State Auditor's Office has that specialized knowledge and decision makers rely on us when they have questions or issues to address.

Cost

The average hourly rate of the last three CPA contracts awarded was \$105 per hour. The average hourly cost for the State Auditor's Office is currently \$42 per hour. In addition, it's important to note that we do not bill agencies for the general fund portion of their operations. Due to our workload, we contracted out the commodity groups we were auditing to CPA firms. The total cost for those applicable commodity groups was more than double what we would have charged them.

Quality of Work

We were requested to present to the joint appropriations committees a listing of significant audit findings in audits presented to the LAFRC during the current biennium. There were 43 total significant audit findings included in that presentation, and only 1 was from an audit conducted by a CPA firm. CPA firms only review for compliance those laws that have a material effect on the financial statements, (which are rare) while our office reviews many, many state laws when we conduct the audits. Requiring the firms to review more laws will result in significantly higher audit costs for those entities being audited by the CPA firms.

Consulting

Annually we receive literally hundreds of phone calls from state agencies seeking advice on topics ranging from accounting/auditing issues to state/federal laws, policies, and procedures. We provide assistance without charging the state agencies while CPA firms would be charging for this work. In addition, the expertise and experience we gain while auditing these state entities enables us to gather a lot of knowledge about their operations and provides a solid basis for our assistance.

Legislative Information

Legislators occasionally ask us for information relating to state agencies. Our auditing experience with the state agencies provides us with insight as to how to best gather the information. In other cases, we may actually have the information being requested in our audit working papers.

Management-Related Work to Contract Audits

There is a great deal of work involved in bidding out audits to CPA firms. Examples include: writing the request for proposal, evaluating the bid proposals received, generating and coordinating the contract with the successful firm; answering questions from the firm conducting the audit, and reviewing the firm's work and resolving concerns with the firm. Bidding out audits to CPA firms results in significant costs to state government in addition to the audit fees.

Office of the State Auditor
Proposed Budgeted Increases and Amount Needed to Meet Our Pay Schedule

<u>Position Number</u>	<u>Certification</u>	<u>Title</u>	<u>Years of Service</u>	<u>Current Monthly Salary</u>	<u>Midpoint of Salary Range</u>	<u>Proposed Budgeted Increases</u>	<u>OSA Pay Schedule</u>	<u>Amount Below Pay Schedule</u>
Bismarck Agency Division								
511		Auditor I		Vacant (1)				
520		Auditor I		Vacant (2)				
544		Auditor II		Vacant (3)				
561		Auditor II		Vacant (4)				
542		Auditor II	2	\$2,650	\$3,152	\$0	\$2,700	(\$50)
550		Auditor II	3.5	2,750	3,152	150	2,900	(150)
538		Auditor II	8	2,900	3,152	0	3,200	(300)
547	CPA	Auditor III	5	3,150	3,497	100	3,245	(95)
518	CPA	Auditor III	6.5	3,020	3,497	150	3,450	(430)
560		Auditor III	7	3,060	3,497	200	3,415	(355)
524	CPA	Auditor IV	6.5	3,390	4,213	300	3,950	(560)
443	CPA	Auditor IV	8.5	3,740	4,213	300	4,300	(560)
535	LPA	Auditor IV	9	3,350	4,213	300	4,275	(925)
514	CPA,CM	Auditor IV	16	4,505	4,213	300	5,200	(695)
517	CPA	Auditor IV	25	4,120	4,213	200	4,800	(680)
Fargo Agency Division								
513		Auditor I		Vacant (5)				
553	CPA	Auditor III	6.5	\$3,205	\$3,497	\$200	\$3,450	(\$245)
554	CPA	Auditor III	14	3,785	3,497	150	4,200	(415)
555	CPA	Auditor IV	14.4	4,000	4,213	200	4,700	(700)
537		Auditor IV	23	4,645	4,213	200	5,200	(555)
523		Auditor IV	27	3,890	4,213	150	4,500	(610)
Information Systems Division								
522		IS Auditor I	0.1	\$2,500	\$2,608	\$0	\$2,500	\$0
536	CPA	IS Auditor I	2.5	2,875	2,608	100	2,975	(100)
543	CPA	IS Auditor II	4	2,970	3,152	100	3,100	(130)
533	CPA,CISA	IS Auditor IV	12.5	4,305	4,213	300	4,900	(595)
Performance Audit Division								
531		Auditor II		Vacant (6)				
551		Auditor I	1	\$2,415	\$2,608	\$200	\$2,600	(\$185)
552	CPA	Auditor III	5.5	3,165	3,497	100	3,300	(135)
512	CPA	Auditor IV	9	3,815	4,213	300	4,375	(560)
Monthly Total						\$4,000		(\$9,030)
Biennial Total (including fringe benefits of 17%)						\$112,320		(\$253,562)

Vacancies

- (1) Auditor hired and will begin with our office on February 1.
 (2), (3), (6) Jobs were offered to selected individuals who turned down our offers. Positions have been re-advertise
 (4), (5) Positions have been advertised.

Note:

The OSA Pay Schedule is an internal pay plan that is based on years of service, quality of work, and certifications.

D

EXAMPLES OF RECOMMENDATIONS IN PERFORMANCE AUDITS THAT RESULT IN COST SAVINGS

Department of Corrections and Rehabilitations (issued in December 2004)

1. Recommendation 2-3 in the report addresses relocating inmates within DOCR's facilities to enable the department to bring back prisoners kept in a private prison in Appleton, Minnesota (assuming the male population remains at or near the same level as of September 2004). DOCR has plans to bring these inmates back in December 2005. However, the consultant on this audit felt this can be done sooner. Assuming an average of 35 inmates can be housed at the private prison, the Department can save over \$40,000 each month the prisoners are located in DOCR facilities vs. remaining at the private prison.
2. Various recommendations in chapter 3 of the report involve medical cost savings that can be realized at the New England facility which houses female inmates. Examples of these recommendations include:
 - a) The facility should take steps to have all medical services provided to female inmates charged at state Medicaid rates instead of full rates. The New England facility could save over \$86,000 each biennium by implementing this recommendation.
 - b) The New England facility could save approximately \$55,000 per biennium by purchasing their drugs through the Amerinet buying group (as DOCR does) rather than from a local pharmacy.
3. Various recommendations in chapter 4 of the report involve cost savings that can be realized at DOCR. For example, if the Youth Correctional Center would purchase its pharmaceutical drugs through DOCR rather than from a local hospital, approximately \$42,000 could be saved in drug purchases in a biennium.

Recommendation 2-1 in the report is important to note even though it does not have a projected cost savings attached to it. The recommendation suggests developing a plan to dramatically change where inmates are confined that have less than a year and a day to serve. If implemented, this would most likely result in DOCR avoiding the cost of building a new Orientation Unit (expected cost of approximately \$7 million). This recommendation involves cost avoidance rather than immediate cost savings.

Department of Transportation - Office of Driver and Vehicle Services (issued in August 2003)

1. Recommendation 2-5 in the report deals with costs that DOT pays for motor vehicle branch offices. The majority (13 of the 16 branch offices) involves private entities and the contracts with these private entities state they are to be self-sustaining. Yet we found that DOT was incurring expenses of approximately \$380,000 per biennium. The recommendation was that DOT quit paying costs they are not obligated to pay.
2. Recommendation 2-6 related to DOT's practice of having main office personnel review 100% of new title and title transfer transactions processed by the branch offices. DOT employs 5 temporary employees to conduct these reviews at a biennial cost of \$136,000. We noted that DOT only needed to conduct a limited number of these reviews. If we assume that only 20% of the transactions were to be reviewed, this would result in a savings of over \$108,000 per biennium.

**EFFECT ON THE STATE AUDITOR'S OFFICE IF
THE FOLLOWING BILLS PASS**

HB 1035 – Government Performance & Accountability System

Passage of this bill would require additional work and time from our office. The equivalent of 1 full-time employee would be required to carry out the duties required by this law.

HB 1074 – Audits of Computer Systems

Passage of this bill will allow our office to assess the vulnerability of computer systems used by the state. This would be accomplished by using our staff and the expertise of consultants.

SB 2069 – State Auditor's Access to Records

Passage of this bill will allow our office to access records of state agencies even when we are not currently auditing them. This bill will not change what records we have access to, but rather only when we have access to them.

SB 2072 – Repeal section 54-10-17 of the NDCC

Passage of this bill will save time and effort of the Auditor's Office, since we will no longer be required to prepare and periodically update, an accounting manual for counties. This section of law has not changed since 1967, and is no longer needed.

SB 2085 – Job Service performance audit

Passage of this law would change the requirement for performance audits of Job Service from every two years, to whenever the Legislative Audit and Fiscal Review Committee would request a performance audit. Passage of this law would save the Auditor's Office a significant amount of time, which could then be used in other areas.

F

STATE AUDITOR'S OFFICE' EXPERIENCE WITH ITD CONSOLIDATION

The Auditor's Office' experience with consolidation of information technology services has been a very good one. Before consolidation we received our network, telephone, and e-mail service from ITD but we maintained our own servers. Our consolidation only involved ITD taking two servers and providing that service to us on their consolidated server. Since the servers were previously administered by our Information Technology audit staff, having ITD now provide that service has freed up time for our IT audit staff up to concentrate on IT audits.

State Audits performed by CPA Firms
As of December 31, 2004

Agencies where the State Auditor lacks the statutory authority to conduct the audits:

1. Bank of North Dakota¹ (Approximately 740 hours and \$70,000 per year) *
2. Legislative Assembly
3. Legislative Council
4. North Dakota Development Fund² (Hours and cost unknown)
5. Office of the State Auditor³
6. State Fair⁴ (Hours and cost unknown)

Agencies where the State Auditor lacks the resources to conduct the audits:

	Audit Hours	Projected * Annual Audit Cost
1. Retirement and Investment Office	540	\$55,700
2. Public Employees Retirement System	370	\$36,300
3. Board of University and School Lands	185	\$18,300
4. Job Service North Dakota	520	\$46,800
5. Municipal Bond Bank	110	\$14,900
6. Housing Finance Agency	315	\$36,100
7. Workers Compensation Bureau	328	\$36,600
8. Building Authority	75	\$8,300
9. Beginning Farmer Revolving Loan Fund	40	\$3,300
10. Guaranteed Student Loan Program	250	\$16,500
11. Student Loan Trust Program	330	\$21,000
12. PACE Fund	30	\$2,400
13. Ag PACE Fund	30	\$2,400
14. Developmentally Disabled Facility Loan Fund	40	\$3,300
15. Community Water Facility Loan Fund	30	\$2,600
16. Commodity Groups	395	\$36,470
Totals	3,588	\$340,970

* Projected costs are based on FY 2005 audit contracts. These are costs the agencies pay directly to the CPA firms. This does not include the cost to the Office of the State Auditor in contracting these audits. Our office spends considerable time in writing requests for proposal, evaluating the bids received, writing the contracts, reviewing the CPA firms work, and answering questions from the firms and clients.

¹ In accordance with NDCC § 6-09-29 the State Auditor must select a CPA firm to conduct the financial audit of the BND.

² In accordance with NDCC § 10-30.5-08 the board of directors contracts with a certified public accounting firm to audit the NDDF.

³ In accordance with NDCC § 54-10-04 the legislative assembly provides for the audit of state auditor's office.

⁴ In accordance with NDCC § 4-02.1-18 the State Fair Association will contract with a certified public accounting firm.

The Office of the State Auditor estimates it would need 5 additional FTE in order for this office to conduct the audits of the 15 agencies and 6 commodity groups listed above. 5 additional FTE would cost \$400,000 for the 2005-2007 biennium. The reason we would need 5 FTE's is due to the timing of when the audits would have to be completed. Most of the audits are during our "peak season" (the period when we are auditing the state's comprehensive annual financial report). Therefore, we would need enough FTE's to complete these audits during a 6 month period. If it weren't for the timing issue of when the audits need to be completed, we could audit these entities with 3 additional FTE's. However, with 5 FTE's, we could meet the timing issues and have additional resources to perform more performance type audits during the "non-peak season". The chart below shows the estimated number of hours we would spend on each audit and the highlighted hours are those that would occur during our "peak season".

	FYE	Audit Contract Expires	IPA hours	SAO Hours 2006	SAO Hours 2007
1. Retirement and Investment Office	6/30	2005	540	800	750
2. Public Employees Retirement System	6/30	2005	370	500	500
3. Board of University and School Lands	6/30	2005	185	330	330
4. Job Service North Dakota	6/30	2005	520	750	750
5. Municipal Bond Bank	12/31	2006	110	0	200
6. Housing Finance Agency	6/30	2006	315	0	500
7. Workers Compensation Bureau	6/30	2006	328	0	590
8. Building Authority	6/30	2006	75	0	135
9. Beginning Farmer Revolving Loan Fund	12/31	2005	40	70	70
10. Guaranteed Student Loan Program	9/30	2005	250	350	350
11. Student Loan Trust Program	6/30	2006	330	0	500
12. PACE Fund	6/30	2006	30	0	55
13. Ag PACE Fund	6/30	2006	30	0	55
14. Developmentally Disabled Facility Loan Fund	12/31	2005	40	0	70
15. Community Water Facility Loan Fund	12/31	2005	30	0	55
16. Commodity Groups	6/30	2006	395	0	100
Totals			3,588	2,800	5,010
		Peak hours		2,730	4,615

Note: All of the above audits are annual audits with the exception of 5 of the 6 commodity groups. The commodity group hours shown in 2007 is for the Beef Commission which requires an annual audit. All 6 commodity groups would require an audit in 2008 which would take a total of approximately 600 hours to audit.

FINANCIAL HISTORY OF LOCAL GOVERNMENT SPECIAL FUND - #246

2001 - 2003 Biennium

&

2003 - 2005 Biennium, as of 10/31/2004

| 2001 - 2003 biennium |

BTD

Totals

Bismarck audits	\$695,923
Fargo audits	189,287
IPA Audit Report Reviews	84,443
Small Gvt. Reviews	88,375
Fraud audits	30,853
Interest on fund 246	2,036
Total Revenue	\$1,090,917

Fargo Expenses	\$294,013
Bis. Expenses	707,408
Total Expenses	\$1,001,422

| 2003 - 2005 biennium as of 10/31/2004 |

BTD

Totals

Bismarck audits	\$438,180
Fargo audits	104,335
IPA Audit Report Reviews	50,193
Small Gvt. Reviews	73,381
Fraud audits	12,159
Interest on fund 246	906
Total Revenue	\$679,154

Fargo Expenses	\$185,013
Bis. Expenses	525,407
Total Expenses	\$710,420

Cash Balance at 10/31/2004 = \$161,000

Cash balance at 7/31/03 was \$174,000

Cash balance at 10/31/04 was \$161,000

I

STATE AUDITOR
ROBERT R. PETERSON



PHONE
(701) 328-2241
FAX
(701) 328-1406

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

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

February 25, 2005

Engrossed HB No. 1004

Testimony - Presented by:
Robert R. Peterson, State Auditor

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

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

*with the
exception of
the following
pages, same
testimony given
to the House*

PROGRAM 1 - ADMINISTRATION

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

Engrossed House Bill No. 1004 provides the necessary funding to successfully carry out the objective of this program.

PROGRAM 2 - STATE AUDITS

Performance Audits -

Performance auditing is an important part of state government. Performance audits determine if programs are operating efficiently and effectively, and also determine if the programs are accomplishing what the Legislature intended them to accomplish. The vast majority of states have a performance audit function.

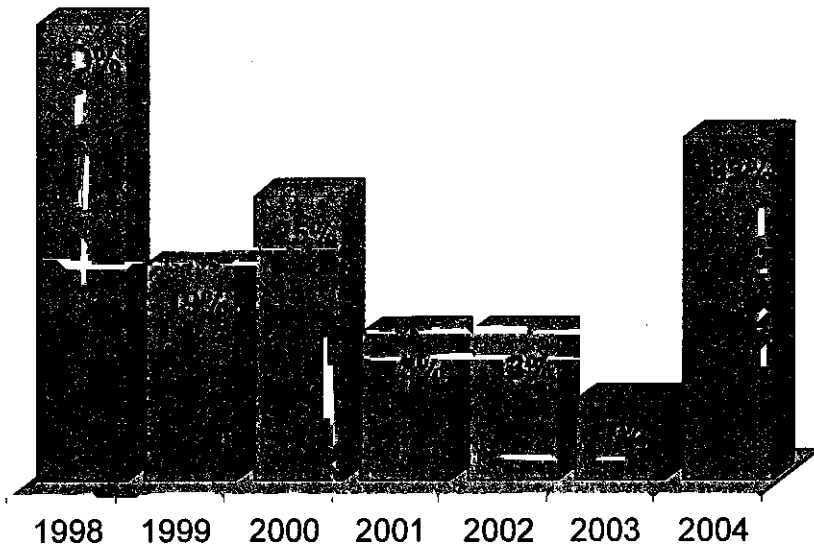
During the current biennium, the performance audit team completed performance audits of the North Dakota Department of Transportation's (DOT's) Office of Driver and Motor Vehicles, the Administrative Committee on Veterans' Affairs and the Department of Veterans' Affairs, and the Department of Corrections and Rehabilitation (DOCR).

Despite the fact that our performance audit resources are very limited compared to other states, we have been able to make a significant difference in state government. An example is the performance audit of the North Dakota Department of Corrections and Rehabilitations.

The performance audit report of the Department of Corrections and Rehabilitation (DOCR) contained 51 formal recommendations. There are several significant recommendations in the report which address the overall information systems and information gathering processes at DOCR to improve the efficiencies of these processes as well as the quality and quantity of information provided to decision makers. Recommendations address substantial problems at

*Program #2 on page 2
the same testimony
given to the House*

State Agency Financial Auditor Turnover Percentages
(Bismarck Office)



The State Agency has a total of 21 financial auditors, 6 of which are in Fargo, leaving only 15 financial auditors in Bismarck. The 33% turnover for 2004 shown above, represents 5 auditors out of a total pool of 15 in Bismarck.

In addition to the significant problem we are experiencing with turnover, we have recently experienced hiring difficulties. Three of the last five people we offered jobs to turned us down. Private CPA firms are starting auditors out at \$2,800 - \$2,900 per month compared to our starting wage of \$2,400 (recently increased from \$2,300 in response to this problem).

Not shown in the chart above is the turnover in the performance audit section. We had a 50% turnover in both calendar years 2003 and 2004 in the performance audit section.

Not only is turnover increasing, but it is getting more difficult to fill our vacancies with qualified individuals. Three of the last five people we offered jobs to this past December turned us down because they could make more money elsewhere. We currently have 4 vacancies and only 3 qualified individuals to interview next week for these positions.

| PROGRAM 3 - LOCAL GOVERNMENT AUDITS |

Financial and Compliance Audits –

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

Annual Reports of Small Entities –

Cities with less than 300 population, school districts with less than 100 enrolled students, park districts with less than \$200,000 of annual receipts, and other political subdivisions with less than \$100,000 of annual receipts may file an annual report in lieu of an audit. These reports are reviewed and approved by our office. We review about 710 of these reports each year. Smaller local government reports reviewed include: park districts, special education districts, vocational and technical centers, and water resource districts.

Review of State Subrecipient Audit Reports –

This division also reviews audit reports of local governments receiving federal financial assistance from 9 state agencies. This service saves those agencies from having to review the reports themselves. We review about 300 audit reports for these 9 state agencies.

Review of Alleged Fraud or Embezzlement –

This division is also responsible for investigating any alleged instances of fraud or embezzlement of public funds. Before any state or local governmental entity can recover funds from the State Bonding Fund, our office must conduct an investigation and report the results of our investigation to the State Bonding Fund.

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

2005 - 2007 BUDGET CONSIDERATIONS

Engrossed HB 1004 in it's current form does not provide sufficient general fund dollars for the state agency division.

We are having difficulty getting degreed accountants to apply for such a low starting salary. The relatively new accounting major requirements (150 credit hours), have resulted in less students going into accounting and therefore an increased demand for accountants. We have just now increased our starting salary to \$2,400 per month, while private CPA firms in town have starting salaries around \$2,850 per month.

Salaries of employees currently with our office compared to those who left our office to work with other state agencies, show that people who left are making \$500 - \$1,000 more per month, compared to our auditors with the same amount of time.

The State Agency Division of our office had 40 FTEs in the 1991-1993 biennium. In the current biennium we have 36 FTE, meaning we have had a reduction of 10% over the past twelve years. This is despite a substantial increase in our workload. Reasons for our workload increase since the 1991-1993 biennium include:

- conducting annual audits of the ND University System
- conducting operational audits instead of financial-only audits
- conducting performance audits
- performing information systems audits
- dedicating two people as subject matter experts for the ConnectND project
- conducting annual audits of the ND lottery
- performing additional information systems duties

With the turnover in staff and no additional positions received when HB 1505 was passed by the 2003 legislature, we are requesting that the related duties identified in NDCC ¶ 54-10-28 be repealed.

**WE ARE REQUESTING THE FOLLOWING AMENDMENTS BE MADE TO
ENGROSSED HOUSE BILL NO. 1004**

- 1) Increase general funds to reduce turnover and provide equity salary increases - \$112,000.
- 2) Add 2 FTEs and funding for additional performance auditors - \$166,000.
- 3) Repeal section 54-10-28 of the North Dakota Century Code.

Total increase in general funds of \$278,000.

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1004

Page 1, line 3, after "auditor" insert "; and to repeal section 54-10-28 of the North Dakota Century Code, relating to information technology responsibilities"

Page 1, line 17, replace "\$645,152" with "\$916,152"

Page 1, line 18, replace "158,524" with "165,524"

Page 1, line 20, replace "\$813,676" with "1,091,676"

Page 1, line 22, replace "\$511,763" with "789,763"

Page 2, line 4, replace "\$6,626,589" with "\$6,897,589"

Page 2, line 5, replace "876,295" with "883,295"

Page 2, line 7, replace "\$7,512,884" with "\$7,790,884"

Page 2, line 9, replace "\$5,092,995" with "\$5,370,995"

Page 2, after line 20, insert:

"SECTION 6. REPEAL. Section 54-10-28 of the North Dakota Century Code is repealed."

Renumber accordingly

STATE AUDITOR'S OFFICE - COSTS OF CONDUCTING AUDITS VERSUS CONTRACTING FOR AUDITS

This memorandum provides comments regarding the State Auditor's office proposal to add five full-time equivalent (FTE) positions and conduct audits of certain entities now audited by private certified public accountant (CPA) firms. Attached is a copy of the State Auditor's office information.

State Auditor's Office Statement #1

There are currently 21 state entities (including six commodity groups) that are bid out to CPA firms that the State Auditor's office could audit if it had additional audit staff. The vast majority of the audits require that an annual audit be done.

Comment #1

North Dakota Century Code Section 54-10-01(2) provides that except for the annual audit of the North Dakota lottery, the State Auditor shall audit or review each state agency once every two years, and that audits and reviews may be conducted at more frequent intervals if requested by the Governor or Legislative Audit and Fiscal Review Committee. There may be other sections of law that require an annual audit for these entities.

State Auditor's Office Statement #2

Total annual audit cost for the 21 entities is approximately \$341,000. All of these audits are either special or federally funded with little or no general fund money. Therefore, the biennial cost of these audits is approximately \$682,000.

Comment #2

The following table shows the cost of the most recent audit for the 21 state entities that have their audits contracted out to CPA firms, along with a reference to the entities that have a contract with CPA firms for future audits.

Agency/Entity Name	Audit Period	Annual Audit Cost	Contract for Future Audits?
Retirement and Investment Office	Fiscal year 2004	\$34,200	Yes - Through fiscal year 2005
Public Employees Retirement System	Fiscal year 2004	\$48,500	Yes - Through fiscal year 2005
Board of University and School Lands	Fiscal year 2004	\$18,800	Yes - Through fiscal year 2005
Job Service North Dakota	Fiscal year 2004	\$45,500	Yes - Through fiscal year 2005
Municipal Bond Bank	Fiscal year 2004	\$14,025	Yes - Through fiscal year 2006
Housing Finance Agency	Fiscal year 2004	\$34,900	Yes - Through fiscal year 2006
Workforce Safety and Insurance	Fiscal year 2004	\$38,615	Yes - Through fiscal year 2006
Building Authority	Fiscal year 2004	\$8,530	Yes - Through fiscal year 2006
Beginning farmer revolving loan fund	Calendar year 2005	\$3,300	Yes - Through fiscal year 2006
Guaranteed Student Loan Program	October 1, 2004, through September 30, 2005	\$16,500	Yes - Through fiscal year 2006
Student Loan Trust Program	Fiscal year 2006	\$22,000	Yes - Through fiscal year 2006
PACE fund	Fiscal year 2006	\$2,500	Yes - Through fiscal year 2006
Ag PACE fund	Fiscal year 2006	\$2,500	Yes - Through fiscal year 2006
Developmentally disabled facility loan fund	Calendar year 2005	\$3,300	Yes - Through fiscal year 2006
Community water facility loan fund	Calendar year 2005	\$2,600	Yes - Through fiscal year 2006
Beef Commission	Fiscal year 2004	\$5,700	Yes - Through fiscal year 2006
Wheat Commission	Fiscal years 2003 and 2004 (biennial audit)	\$5,700	Yes - Through fiscal year 2006
Dairy Products Promotion	Fiscal years 2003 and 2004 (biennial audit)	\$4,970	Yes - Through fiscal year 2006
Milk Stabilization	Fiscal years 2003 and 2004 (biennial audit)	\$4,650	Yes - Through fiscal year 2006
Oilseed Council	Fiscal years 2003 and 2004 (biennial audit)	\$5,700	Yes - Through fiscal year 2006
Dry Pea and Lentil Council	Fiscal years 2003 and 2004 (biennial audit)	\$5,700	Yes - Through fiscal year 2006
Total		\$328,190	

State Auditor's Office Statement #3

If the State Auditor's office were to conduct these audits, the State Auditor estimates the biennial cost to the clients to be approximately \$487,000 which would be deposited by the State Auditor's office directly into the state general fund.

Comment #3

The State Auditor's office based this amount on its current rate of \$44 per hour, that it would spend at least 50 percent more time on each of the audits than the CPA firms, and that all audits could be done for two years in the 2005-07 biennium (see Statement #4).

State Auditor's Office Statement #4

Approximately eight of these entities have their contracts with the CPA firms set to expire after the fiscal year 2006 audit. The State Auditor's office would prefer not to cancel the contracts but to assume the auditing responsibilities for fiscal year 2007 and beyond. The State Auditor's office would assume the responsibilities for the remaining entities for fiscal year 2006 and beyond.

Comment #4:

See Comment #2 - Of the 21 entities, 4 indicated they have a contract for fiscal year 2005 and 17 indicated they have a contract for fiscal year 2006. As a result, four could be audited by the State Auditor's office in the 2005-07 biennium and all 21 in the 2007-09 biennium.

State Auditor's Office Statement #5

The general fund would receive approximately \$465,000 of additional revenue if the State Auditor's office was provided five additional FTE positions at a cost of approximately \$400,000, plus additional costs of approximately \$20,000 to \$25,000 for items such as laptop computers, desks, and chairs. The State Auditor's office would need to work with the Office of Management and Budget to find space for the five additional auditors, because it currently does not have space for the additional auditors. The State Auditor's office states that a conservative assumption would be that the general fund will "break even" because the State Auditor's office will be depositing more revenue which would at least be equal to the additional costs.

Comment #5

The general fund would only receive the revenue to the extent the State Auditor's office conduct the audits. As indicated earlier, four could be audited in the second year of the 2005-07 biennium.

Based on the contract expiration dates noted under Comment #2, the State Auditor's office would be able to conduct the annual audits of the Public Employees Retirement System, Retirement and Investment Office, Board of University and School Lands, and Job Service North Dakota for the second year of the 2005-07 biennium which would generate an estimated \$106,590 of revenue for the general fund (1,615 hours estimated for CPA firms to conduct audits of the four entities x 1.5 for the additional 50 percent of hours the State Auditor's office estimates it will spend conducting the audits x \$44 per hour = \$106,590).

The State Auditor's office calculated the \$420,000 of additional funding necessary for the additional auditors as follows:

- Salaries and wages = \$400,000 (salary - \$2,400/month x 24 months = \$57,600; fringe benefits \$57,600 x 39% = \$22,464; total of \$80,064 x 5 FTEs = \$400,320).
- Operating expenses = \$20,000 (\$4,000 for laptop computer, desk, chair, other supplies x 5 FTEs = \$20,000).

State Auditor's Office Statement #6

The State Auditor's office would need 5 FTE positions to assume the audit responsibilities for the 21 entities because the vast majority of these entities require an annual audit and require the audit to be completed during the State Auditor's office peak audit period (auditing the state's Comprehensive Annual Financial Report). In addition, the audited entities will realize a drop in audit cost of approximately \$195,000 (\$682,000 - \$487,000).

Comment #6

See Comments #2 and #3.

State Auditor's Office Statement #7

Additional benefits from the State Auditor's office having five additional FTE positions include:

- The five additional FTE positions would be able to spend approximately six months each year conducting performance audits.
- The state entities would receive a more thorough, comprehensive audit than they currently do.

Comment #7

No comment.

I hope this fulfills their request:

1. Cost to 21 state entities to have CPA firms continue to conduct their audits \$682,000. This is based on the most current contract rate of \$105 per hour.
2. Cost to 21 state entities to have the State Auditor's Office conduct their audits is \$487,000. This is based on our current rate of \$44 per hour times our estimated hours to complete each audit. We expect that we will spend at least 50% more time on each of the audits than what the private CPA firms currently spend.
3. Savings to 21 state entities is \$195,000 (\$682,000-\$487,000).
4. General Fund Cost of providing 5 FTE to the State Auditor's Office to conduct these 21 audits:

Salaries and Wages--\$400,000 ($\$2,400 \times 24 \text{ months} = \$57,600$. Add in fringe benefits at 39% = \$22,464 and the total is \$80,064 for each FTE).

Operating Expenses--\$20,000. (This is \$4,000 per FTE which is for a laptop computer, desk, chair and other supplies).

Total General Fund Cost is \$420,000.

5. Additional General Fund Revenue if the State Auditor's Office conducts these 21 audits will be the \$487,000 identified in 2. above. This represents audit fees we will collect from the 21 state entities which will be deposited into the State General Fund.
6. Conservatively we can say the State General Fund will at least "break even" if the State Auditor's Office is provided 5 additional FTE to conduct the 21 state entity audits.
7. Other benefits will include more thorough audits as well as the state having these 5 FTE spending six months each year conducting performance audits.
8. The six commodity groups that are referred to in our schedule are: Beef Commission, Wheat Commission, Dairy Products Promotion, Milk Stabilization, Oilseed Council, and Dry Pea and Lentil Council.
9. There will be a transition period since 8 of the 21 audits have contracts with CPA firms to conduct their audits through fiscal year 2006 and we prefer to allow these contracts to expire rather than canceling them. For these 8 state entities we would begin conducting their audits for fiscal year 2007.

INFORMATION PERTAINING TO AUDITS BID OUT TO CPA FIRMS

1. There are currently 21 state entities that are bid out to CPA firms that the State Auditor's Office could audit if we have additional audit staff (this includes 6 commodity groups). The vast majority of these audits require that an annual audit be done.
2. Total annual audit cost for these 21 entities is approximately \$341,000. All of these audits are either special or federally funded with little or no general funds. Therefore the biennial cost of these audits is approximately \$642,000.
3. If the State Auditor's Office were to conduct these audits we estimate the biennial cost to the clients would be approximately \$487,000. It is important to note that these funds would be deposited by our office directly into the State's General Fund (like all of our collections are).
4. Approximately 8 of these entities have their contracts with the CPA firms set to expire after the fiscal year 2006 audit. We would prefer not to cancel these contracts but to simply assume the auditing responsibilities for fiscal year 2007 and beyond. For the remaining entities we would assume the audit responsibilities for fiscal year 2006 and beyond.
5. Therefore the State General Fund would receive approximately \$465,000 of additional revenue should we be provided 5 additional FTE at a cost of approximately \$400,000. I would like to point out we probably would have some additional needs (such as laptop computers and desks and chairs for these auditors which I assume we could acquire for approximately \$20,000-25,000 of additional monies.) We would also need to work with OMB to find space for these auditors as we currently do not have it. In order to be conservative one could assume that the State General Fund would "break even" because we would be depositing more revenue which would at least equal the additional costs.
6. We need 5 FTE to assume these responsibilities because the vast majority of these entities require an annual audit and require this audit to be completed during our peak audit period (auditing the state's CAFR). In addition the audited entities will realize a drop in audit cost of approximately \$155,000 per biennium (\$642,000 current cost less our charge of approximately \$487,000).
7. Additional benefits derived from this would be: a) the 5 additional FTE would be able to spend approximately 6 months each year conducting performance audits and; b) the state entities would receive a more thorough, comprehensive audit than they currently do.

NOTE-The figures we provide relating to the amount we would charge the state entities and the time required to complete these audits are estimates based on our best judgment. We haven't audited some of these entities for several years or we have never audited them so we do not have any other method to determine the time and cost of these audits.

In addition there are other factors which could affect our success in completing all of these audits with 5 additional FTE. These would include if we encounter significant problems with the state entities during the audits, our staff turnover and our ability to hire additional staff (we are experiencing some problems with this currently).

In addition we will have to transition into conducting all of our audits since some of the entities currently have contracts which call for CPA firms to conduct the fiscal year 2005 and 2006 audits.