

2009 HOUSE APPROPRIATIONS

HB 1004

## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1004

House Appropriations Committee  
Government Operations Division

☐ Check here for Conference Committee

Hearing Date: 1/12/09

Recorder Job Number: 6848

Committee Clerk Signature

*Tonya Voegde*

Minutes:

Chairman Delzer called the hearing to order on House Bill 1004. Roll was taken with all members present at a previous hearing.

Robert R Peterson, State Auditor presented his written testimony. See Attachment 1004.1.12.09a.

**Chairman Delzer:** I had Sheila Sandness, Legislative Council hand out letters with the information that we requested that were sent to the agencies.

**Sheila Sandness, Legislative Council:** I did not make copies for everyone however I will.

Mr. Peterson continued his testimony with a Brief Historical Perspective.

**Representative Kempenich:** How many people were in the division that you closed?

**Robert Peterson:** In Bismarck, I had at one time, five auditors and support staff.

**Representative Kempenich:** Was that mainly because of salary issues?

**Robert Peterson:** No, it was due to turnover. Because I was losing people faster than we could train them, it got to the point where the manager of the operation had planned to retire in December of this year took early retirement because of the stress of the position. I was left with three auditors in Bismarck. One of them had two years of experience and the other two had less than six months. It was not economically possible to continue that division because a two year person cannot train and run an audit center. Because the office space in Bismarck was the largest expenditure for the division because everything they earned was paid out I made the decision to close the office. At that point I had two other people, both in Fargo, one with six years of experience and one with two years experience in addition to the one with two years in the Bismarck office. Since I have closed the Bismarck office, the young man from the Bismarck office has since gotten a job with the City of Bismarck. The other gentleman, who had two years of experience and also a Certified Fraud Examiner's license, has taken a job with a private firm. I currently have a young man with six years of experience and he is now my manager. I also have four other auditors in Fargo who have a year and a half or less experience.

**Chairman Delzer:** When did you close that office?

**Robert Peterson:** About a year ago.

**Chairman Delzer:** Are all of the salaries and wages going to be turn back or have you used that elsewhere?

**Robert Peterson:** All of the salaries, wages and operating expenses are special funds. They performed the audits for the political subdivisions and so whatever they made is what they lived off of whether it was retirement or salary or operating. It was all special funds.

**Chairman Delzer:** If you have five positions there, why are you removing three?

**Robert Peterson:** One of the support staff came up to the office here in the tower. So she is still available. And I believe that we shifted one auditor down to Fargo. Before we only had three auditors in Fargo.

**Chairman Delzer:** These are the ones that are doing the audits of the local Government?

**Robert Peterson:** That is correct.

**Representative Kaldor:** For the political subdivisions are they getting fewer requests for audits or are they finding alternative audit places?

**Robert Peterson:** The political subdivisions do not have to hire us to perform their audits. They can hire a local CPA firm in which many have done in the past and many more will do after this event.

**Representative Kaldor:** Is the curtailment here in the west is the east seeing that as well, is there a restriction on subdivisions in the east?

**Robert Peterson:** I have told my manager to prioritize the audits that will be most profitable and the ones you feel you can accomplish with the staff that you have, because, it is a business. The ones that you cannot reach easily, like Williston, the manager can make the decision about whether or not he wants to keep that account. We went through the list and sent letters out to our clients that we were not going to reach and told them they would have to hire other firms to handle their audit needs. I did find on page eleven of the testimony I will talk about the Financial and Compliance Audits. On an annual basis we are doing about 50 audits with public accounting firms performing about 325.

Mr. Peterson continued his testimony on page 4.

**Representative Kempenich:** What was the previous requirement for CPAs?

**Robert Peterson:** It was 120 hours.

**Representative Kempenich:** That has reduced the applicants of the CPA significantly?

**Robert Peterson:** What has happened is that instead of a four year degree it is now five.

**Chairman Delzer:** And these are college credit hours that you are talking about?

**Robert Peterson:** That is correct.

**Chairman Delzer:** Who put in the bill raising it to 150hours?

**Robert Peterson:** The State Board of Accounting.

**Chairman Delzer:** Have you put in a bill to change it back?

**Robert Peterson:** We have not. It is national push by the National CPA Society. We wanted more well rounded professionals coming out of college. So they pushed this through. What is happening is that a lot of students who are completing the fifth year will either go into Certified Fraud Examination or they will go right into their Masters program. So when they graduate, they will not only have a degree in accounting but also will have their masters or Certified Fraud Examiners license.

**Chairman Delzer:** If North Dakota was to go back to 120, would North Dakota students have the ability to go to other states and be a CPA?

**Ron Tolstad:** I think all states but three have gone to 150 hours. I believe California is one that is not. It is not universal by any means but once you get the certificate there is portability to different states. To answer your question though Mr. Chairman, you can't sit for the exam.

**Chairman Delzer:** But if we change that to 120, and they were a North Dakota CPA even though it was 120 and they have their CPA license, another state that required 150 to sit for it.

**Ron Tolstad:** I would not say that definitively.

Mr. Peterson continued his testimony.

**Chairman Delzer:** You say the Governor recommends the \$150,000 from the General Fund to implement Electronic Work Papers to meet auditing standard and to create operational efficiencies? Was that at your request?

**Robert Peterson:** That is correct.

Mr. Peterson continued his testimony regarding the Electronic system.

**Chairman Delzer:** The devil's advocate in me says that if we increase the technology, how many can you reduce the number of FTEs to?

**Robert Peterson:** We were looking at increasing the workload instead of reducing FTEs.

**Chairman Delzer:** That is always the thought but one of the issues we have in state government, if you even take a look at it right in the last two or three sessions we are talking about almost 1000 new state FTEs. I don't know how we can justify this continuing. With IT especially, that has always been the talk, that it doesn't necessarily save us people but it allows us to do more work. The real question is how much work do we really need to do? And why should we not be looking at it from the side of the saving staff instead of just generating more work.

**Robert Peterson:** Again from my testimony it is just estimates, and so to give you a number I would hesitate to do that. Our thought was that if we become more efficient, we could do more work in some of the areas that we haven't been able to get to.

**Chairman Delzer:** The real question is what value is there to getting to that? Are you finding anything when you do those audits that causes problems that we should be getting to them? Or is it simply the case of doing another look at something that is fine when you look at it?

**Robert Peterson:** Audits vary from year to year. It depends upon who is holding the elected or appointed office. You are going to get office holders who are doing a very good job and you will get others who are not. To say that an agency is fine for say eight years and then suddenly you get someone in that has decided to change the style of the way they do things. It is difficult to say. What we look at, you know efficiency and effectiveness cannot always be measured, but we do try to do that to implement a value of that the agency can receive from our audits as well as an assurance that the legislature has. I think that you received a report from Mr. Smith that detailed our findings from the last biennium. I think that they were good findings and that they have positive value to the stakeholders as far as your decision making process.

Mr. Peterson continued his testimony.

**Chairman Delzer:** The \$150,000 for the technology security audit is that all funded in the auditor's office, ITD does not have any of that funding?

**Robert Peterson:** No, it is funded out of the auditor's office.

**Chairman Delzer:** And what you are doing is checking the firewalls to make sure nobody can get through them?

**Robert Peterson:** We are hiring a firm that does penetration testing. We have done this two times, and they have been successful both times. We are hoping to go beyond that this time. We are looking more at applications.

**Chairman Delzer:** Does IT not do anything like this?

**Robert Peterson:** I am going to let Don LaFleur answer that specific question. He is my IT Manager.

**Don LaFleur:** What we do in the security office is auditing the firewall and computer system at ITD. We are also starting to get more and more into applications. The last time we had the study done we did include one application and that was the ConnectND finance PeopleSoft piece. We need to look at more applications today. The hackers are moving away from just cracking the firewalls and they are attacking the applications because the applications are where the problem is at today. We want to deploy more applications and some of these applications have internet access. Those are the ones that are vulnerable.

**Chairman Delzer:** Do we have any idea how many attacks that the state has had?

**Don LaFleur:** I would not have that information. You would have to ask ITD and see, and that would only be the ones they can detect.

**Vice Chairman Thoreson:** Is there one specific thing they are hacking at or is it a wide variety of things?

**Don LaFleur:** I would say that it is a wide variety of things. The coming movement is that it is international stuff. A lot of it is organized crime, they are looking for money and they want Social Security numbers and credit card numbers or whatever they can get a hold of.

**Representative Kempenich:** Those two people that you are asking for, where will they be housed?

**Robert Peterson:** They will be housed in our office.

**Chairman Delzer:** I see that you moved \$50,000 from operating in your budget. Was that the total operating costs for the downtown office?

**Robert Peterson:** That is the net decrease in operating expenses from the Bismarck Office.



Mr. Peterson continued his testimony with the Major Agency Initiatives and Program Changes for the 2009-11 Biennium.

**Representative Berg:** I would like to back up, what would the time savings mean in dollars? What would be the return on the investment?

**Robert Peterson:** I can have my people punch that out.

**Chairman Delzer:** The two people you are asking for on the technology positions are not currently in the budget correct?

**Robert Peterson:** No they are not.

**Chairman Delzer:** When you come for the detail we are going to need a total cost on them. Also you need to justify on where you think you can save us some money somewhere else that would justify doing that.

**Representative Berg:** In closing the Bismarck Office it was because we could not retain the employees. Your profession is highly competitive. How do we ensure we have a strong staff?

**Robert Peterson:** With the respect to the local division of government audits, one of the factors besides salary was travel. We are having difficulty recruiting because of that. You also touched on something, in the Bismarck division of this agency with the salaries. We have been averaging about 20% turnover. I am starting people at \$2600 where the private sector starting at an average of \$3300. Though I have never expected to catch the private sector because we are not working sixty hours a week, there are benefits to working with state government. It is still a challenge especially with North Dakota growth. Our economy is growing. Since 2003 I think I have lost six auditors to the growth. North Dakota is growing that is the good news. We are creating more jobs. State government is lagging a little bit behind. I am certain that you

won't just hear it from the auditor's office. All agencies and there staff will say that it is an issue and something that does need to be addressed.

**Representative Kempenich:** What are your classifications for the auditors?

**Robert Peterson:** We start at Auditor I and go to Auditor V. The fives are managers.

**Chairman Delzer:** What grade are they though?

**Robert Peterson:** We will get back to you on that.

**Representative Meyer:** Has the CPA examination gotten more difficult?

**Robert Peterson:** I can't answer that. I think it is a way to challenge, Whether or not you want to include 100 new CPAs into the mix. I think overall the test is prepared nationally. It is a national test. It is given at the same time across the United States. I am going to let Mr. Smith who sits on the Board of the North Dakota Society address this question.

**Gordy Smith:** What has happened to the exam in the last couple of years, in the old days nationwide it was given twice a year, in North Dakota you went to Grand Forks and the exam took two and a half days. You needed to take all four parts. You had to have at least 50% in every part and you had to have 75% to pass but you had to pass two. You could not just pass one at a time. What they have done now to make it more attractive is, with the electronics world, you can take it as often as you want, and you take it in your own community. There is a specific site in Bismarck where you are able to take it. You only have to take one part at a time but you have eighteen months to pass the other three parts once you have passed that initial part. What a lot of the candidates are doing are they will take one part the first time and if they pass it then they can study two months on another part and so on. The pass rate is still the lowest pass rate of any professional exam. It has risen a little since they went to the new format.

**Representative Meyer:** Anecdotally, I am hearing from constituents that the difficulty factor has risen because they don't want as many CPAs that should be qualified, that could be qualified and it is just that the test is becoming so prohibited.

**Gordy Smith:** Certain parts of the test have a lot more narrative, if you would, in solving some of the problems and more multiple choice. I will tell you the exam, by anyone's standards, is extremely difficult to pass. A number of us that have finally passed, the joke is that CPA stands for Couldn't Pass it Again.

Mr. Peterson continued his testimony on page six with the program goals and objectives and performance audits. .

**Chairman Delzer:** The savings are from your performance audits.

**Robert Peterson:** That is correct.

**Chairman Delzer:** Committee, before we go through the programs, what we have done is that Tammy has printed out what is on the computer. The first four pages of this is the overall agency. Each of the programs then have two pages. That is way the budgets are set up, for the new members. The bill looks a little bit different because everything is rolled up into one line item. The question I have for you then is does that mean you can transfer money between these divisions?

**Robert Peterson:** No we don't transfer money between the divisions.

**Chairman Delzer:** I am not saying you don't, but do you have the legal right to because it is written that way in the bill.

**Robert Peterson:** Part of our funding is federal and we would not move any of these federal dollars around. The subdivisions are special funds and I wouldn't move any of the political

subdivision money into our budget. Within the General Fund now, I can't move salaries and wages around unless I go to the Emergency Commission. As far as your question about the legalities, I can't answer that.

Mr. Peterson continued his testimony with the explanation of the programs.

**Chairman Delzer:** All they are looking at is how they do that and comparing that to national levels for the peer review?

**Robert Peterson:** That is correct.

**Chairman Delzer:** Has the Auditor's Office ever had a performance audit of the Auditor's Office?

**Robert Peterson:** No we have not.

**Chairman Delzer:** How would you go about that if you were to have one?

**Robert Peterson:** I believe that we would have Legislative Council submit an RFP to the firms that do performance audits much as they do when they do our financial audits. Legislative Council hires the people who audit us for our financial compliance audits.

**Chairman Delzer:** Do you think that would be valuable?

**Robert Peterson:** I guess I have never thought about it. I guess we have relied on our peer review simply because the teams are never the same and we are getting people that are recognized in their offices as quality people in that particular field.

**Chairman Delzer:** Most of what they look at is not how you do things compared to national standards it is how they do things compared to our state law is it not.

**Robert Peterson:** That is true but the standards are guides to completing those audits. The standards that are used are used all over the nation and some territories. All fifty states and

those territories use the same standards. Granted in performance auditing there are subjective issues. Yes, it is subject to the auditor's judgment. Following the standards allows us to have that assurance that we are conducting the audit the same way as every other state would.

**Gordy Smith:** I would tell you that when we are peer reviewed from these other states, it is an extensive with a questionnaire that is probably two inches thick where they would look at everything. They would look at our standards and what the standards call for, the judgement we used, subjectivity of what we looked at. They will take a performance audit from start to finish. The subjectivity that we have in deciding what we are going to look at, they are looking at that subjectivity and that decision making. The Performance audit covers not only just what laws are but also what kind of management controls are there for not just those laws but also what are ways we can make this better. What are problem areas that they are having? What are customer service issues they are having? What the peer review looks at is especially the quality control review. What kind of quality control does the auditor's office specifically have to ensure the audit reports that we put out are accurate, to make sure that what we looked at was reasonable, why we looked at that kind of stuff and how we documented our work. You can't just say that they are only looking at laws. They are looking at compliance with a lot of things not just laws.

**Chairman Delzer:** They don't go to the point at looking at North Dakota's particular laws; they would look at the national level.

**Gordy Smith:** They would look at the national standards not national laws. They would look at what did we look at in order to come up with our compliance testing.

**Chairman Delzer:** That is what you would look at when doing a performance audit not what a peer review would look at.

**Gordy Smith:** The peer review people would look at what we did in order to see if how we comply with that national standard.

**Robert Peterson:** The peer review people basically come in and look at our work papers and try to understand how we got to what we got to. If we did it right they are going to follow along with our reasoning and say ok this is reasonable.

**Chairman Delzer:** I have sat on Lapersy for a number of times and we sit there and go through your audits and the numbers all match up and they are all done to standard. There are times if you can ask questions about the numbers and where the numbers come from. That is nothing to do with the auditor's office. You can get some real questions about what those agencies are doing and yet they are more than valid on the auditing side.

Mr. Peterson continued his testimony with the Operational Audits.

**Chairman Delzer:** Your contract for ITD is \$150,000?

**Robert Peterson:** That is correct.

**Chairman Delzer:** It is currently at \$100,000. What are you going to receive for the extra \$50,000 or is it basically the same and it has just gone up that much?

**Robert Peterson:** Part of it went up that much but we are going to ask to do another application.

**Don LaFleur:** It is mostly the same amount of work but we are going to shift that work into other areas to cover the applications.

**Chairman Delzer:** Who is the contractee?

**Don LaFleur:** ManTech International

**Chairman Delzer:** Where are they out of?

**Robert Peterson:** Virginia

**Chairman Delzer:** Is it done by an RFP or how do you do that?

**Robert Peterson:** We have issued an RFP. They have worked for the NSA and Army and Military Intelligence.

**Chairman Delzer:** Were they the lowest bidder or are they considered to be the best?

**Don LaFleur:** They were not the lowest bidder but they were the best.

**Chairman Delzer:** When we do the detail we would like to see your returns on those bids.

Mr. Peterson continued his testimony with the Financial Statement Audits.

**Representative Kaldor:** Back to the Division of Local Government Audits, Do we know how the rates that we charge compare to the private sector?

**Robert Peterson:** We are not sure what the private sector charges. Because it is not always a bid situation for instance I know the city of Grand Forks does not put their audit out for bid they simply hire the local firm.

**Chairman Delzer:** Have you ever heard of anybody not being able to find a private firm to do the work?

**Robert Peterson:** Not that I know of.

**Representative Kaldor:** The reason I proposed those questions, I know that in my area, we have a small community that has had the state office do it in the past but they are not going to do it now. The fees, I think, that you charge are pretty low especially when you compare them to the local auditing firms.

**Robert Peterson:** One of the things that separates us from the private sector is that we are just trying to break even. We are not trying to make a profit. Yes we have in many ways held

the price down because we were a more viable force throughout North Dakota. With the loss of the Bismarck office, yes I have heard the same thing. The price has gone up significantly because we can only do so many jobs and we are not available to do as many as we were before.

**Chairman Delzer:** Does somebody else review the private sector audits?

**Robert Peterson:** We do review all audits done by the private firms.

**Chairman Delzer:** What about the local division government audits?

**Robert Peterson:** On a sample basis.

**Representative Kaldor:** It is kind of a balancing act trying to provide that service. It was a policy act in 1969 to provide the subdivisions with audits. Obviously it is almost becoming an economic drag. It is hard to compete and to keep and retain people to do those audits. That is why I proposed the question about the rate structure and its comparison to the private sector. If that is the reason or impediment to offering local subdivisions, is that something that needs to be looked at or reviewed.

**Robert Peterson:** I think the rates that we charge were sufficient to operate the government offices. . We had the flexibility to adjust our rates and we did depending on the complexity of the audit. One of the things I did require when I took over is that we had been bidding these out from year to year. I told my manager that I now want them bid out under three year contracts. When you are in the private sector you can "skim the standards" in other words the bare minimum. So yes you can undercut us by skimming the standards. The entity is not going to get the quality work but they are getting an audit which a lot of times is all that they are interested in.

**Representative Berg:** In the big picture, should we not be contracting out more and more audits and look at that and say that maybe we could be efficient and we will work with the



private sector on doing the bulk of the audits and look the auditor's office to manage those and also go in on those select ones and really dig into it if you will.

**Robert Peterson:** The state of Illinois, the state of Kansas, the auditor's office only does performance audits. Everything else is bid out. Conversely with the state of Pennsylvania and the state of Washington, the state auditor's office does everything from A-Z. The state of Pennsylvania has over 800 auditors on staff. Washington has around 600. I think that it is possible but I don't think there would be a savings. We would have to crunch the numbers but the private firms are currently charging a lot more than what we are per hour. Just because of where we are at as far as salaries and benefits. We can certainly look at that.

**Representative Berg:** As I recall with your audits, out of 350 you are doing about 50. It seems like we are kind of one foot in and one foot out. Rather than by default ending up somewhere would it make sense to kind of look at where it is you want to be twenty years from now? Do we want to be managing private firms doing this? Or if it is cheaper should we have everything done 100% by the audit department?

**Robert Peterson:** Where we are at right now with the divisions of our audits is that it is more or less the free market.

**Chairman Delzer:** Is it mostly free market or is it the fact that the office is in Fargo and the local ones there or do you do a lot of the out layers in the Fargo office?

**Robert Peterson:** We do audits as far as Burleigh and Morton counties and as far north as Grafton all of the Fargo office. Beyond that it becomes prohibited because of travel time.

**Chairman Delzer:** Have you had to turn a lot of local political sub divisions away?

**Robert Peterson:** Not yet. They understand that they will be put the end of a list. We are full right now. We are not looking for any new business. We have enough business going.

**Chairman Delzer:** They have certain deadlines for dates that they have to have these done by?

**Robert Peterson:** That is correct.

**Chairman Delzer:** Is that a staggered date or is that date the same for everybody?

**Robert Peterson:** It is staggered.

Mr. Peterson continued his testimony with Annual reports of small entities.

**Chairman Delzer:** What is the total number of Political Subdivisions in the State of ND?

**Robert Peterson:** I could not answer that question right now.

**Chairman Delzer:** Council could you see how to find that information out?

**Robert Peterson:** To go back to a question that Representative Kaldor raised earlier I have heard discussion among the League of Cities. Currently the law says that cities with less than 300 population I have heard that they are having discussions about raising that, just because it is a hardship for these smaller entities to continue, especially when your audit bill is huge compared to what your regular expenses are. That might be a way for some of these smaller entities to escape this burden and just file a report.

**Chairman Delzer:** There are some districts that have had money embezzled. Is that found in the audits or before the audits?

**Robert Peterson:** I will say that for the State Auditor's Office I believe there has only been one instance in the years of us doing the audits there was only one that we missed.

**Chairman Delzer:** How many have you uncovered over the years?

**Robert Peterson:** Most of the time the commissioners find it before the audits.

**Chairman Delzer:** That was the reason for my question though. I think most of them are found before the audits come. It has come to light before the audit.

**Robert Peterson:** Usually it has. There are a few that came after the point because I remember one case where the office manager talked the chairman of the board into doing a rubber stamp and then got possession of that stamp. He was the other signature on a two signature check system.

**Representative Meyer:** Just to indicate the hard ship that this entails, when South Heart a city in my district went to 308, there cost went from \$90.00 with a Quickbook application to the cheapest auditor that they could find to be in compliance with state law was \$6500. They just did not have that in their city budget.

**Robert Peterson:** I think this is true for a lot of the smaller entities out there. This is the opportunity for the legislature to examine this and move that number up. There is nothing magic about 300.

**Chairman Delzer:** That is one that should be a policy issue and have a separate bill to change this.

Mr. Peterson continued his testimony with the review of state Sub recipient Audit reports.

**Chairman Delzer:** You have 5 people in this division alone?

**Robert Peterson:** Yes, this division has actually been quite successful. The Federal Government is very pleased. They have always had more money returned to them than what they are spending in the program. I think that will hold true. They are still able to generate a positive return for the Federal Government for the amount of money they are spending. North Dakota will continue to be a large oil and gas producer.

**Chairman Delzer:** Do you find quite often and what exactly are you doing here? Are you going in and looking at all of the mineral leases that you think there is federal participation in and looking at the lease?

**Robert Peterson:** What we are looking at point of sale versus what is being reported. We are looking at what the company is doing, what the producer is doing. This is what you reported to the federal government and this is what you reported selling, now what do your records show? We are doing an audit based on the report they are filing with the federal government versus what they are actually showing as selling.

**Chairman Delzer:** Are you finding that many differences in ND?

**Robert Peterson:** Not so much recently but back in the 80s the oil companies just didn't care.

**Chairman Delzer:** Do we have any times where the Federal is comingled with private? On mineral leases, is there any times where the Feds have half of the mineral leases and a private company has half on the same property.

**Robert Peterson:** That could probably happen due to spacing. The Industrial Commission sets up certain spacing. You could have the state of North Dakota and the federal government and private individuals within a particular spacing.

**Chairman Delzer:** In something like that when you do an audit of that particular sheet, do you check both the federal and the rest of them for that particular piece of property?

**Robert Peterson:** The State Tax Department handles North Dakota's share. We do the federal audit.

**Chairman Delzer:** Nobody looks at the private?

**Robert Peterson:** No, unless someone is hired.

**Representative Meyer:** The point of sale is that considered at the well head or is there net transportation involved or is it at the actual point of sale because it is two different saleable entities?

**Robert Peterson:** You are correct. There are deductions that are allowed for transportation and I am not going to pretend that I am an expert.

**Chairman Delzer:** The royalties are usually paid after transaction.

**Robert Peterson:** Yes but you still want to look at point of sale. The biggest problem is that this is an arm's length transaction. That is where Representative Meyer is going.

**Chairman Delzer:** That has nothing to do with the auditor's office budget.

Mr. Peterson continued his testimony with a proposed amendment relating to the Electronic Work paper project. He stated that the funds should have been listed under Capital Assets.

**Chairman Delzer:** What kind of assets are they? Is it all software?

**Don LaFleur:** Yes all software.

**Chairman Delzer:** All software that we do not have?

**Don LaFleur:** The electronic paperwork system.

**Chairman Delzer:** Questions by the committee? Is there any other testimony?

Chairman Delzer closed the hearing.

## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1004

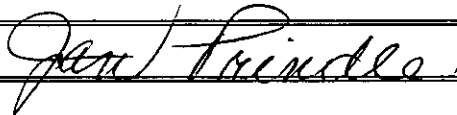
House Appropriations Committee  
Government Operations Division

☐ Check here for Conference Committee

Hearing Date: **1/20/09**

Recorder Job Number: 7269

Committee Clerk Signature



Minutes:

**Chairman Delzer opened the detail hearing on House Bill 1004**, the State Auditor's Office.

Roll was taken with Representative Glassheim absent.

**Robert Peterson, State Auditor:** I am going to let Mr. Smith talk about some of the information that you requested. Then Don LaFleur will speak regarding the IT issues that you had asked for.

**Gordy Smith, audit manager for State Auditor's Office** presented the committee with information regarding the State Auditor's FTE Information. See Attachment 1004.1.20.09A. He also passed out and discussed the organizational chart. See Attachment 1004.1.20.09B.

**Chairman Delzer:** Are all of these positions in the Fargo office?

**Gordy Smith:** Yes.

**Chairman Delzer:** That Deputy position. . ?

**Gordy Smith:** It has never been filled. We leave it in there because it exists. We don't receive any salary for it.

**Chairman Delzer:** It is an FTE that exists that is unfunded?

**Gordy Smith:** Yes. It is in the local government so they have to earn their positions. From what we were told the deputy position is constitutionally every elected officer can have one.

Mr. Peterson has chosen not to have a deputy position. That position has been empty for at least a decade. I suppose you could say that Mr. Nagel as the director of the office is fulfilling the position of a deputy because he does oversee the various divisions.

**Representative Kempenich:** Is it worth keeping this local government division of government going? Would that be something worth pursuing? Perhaps they could review local government audits instead of actually doing audits?

**Gordy Smith:** Mr. Peterson would have to answer that. If we lost the manager in Fargo, I think he would consider closing the office and doing something along the lines of what you are saying. That's why we closed the Bismarck office. We simply did not have the people that we felt comfortable that would do the quality of work and also do it timely. If you were going to farm out the rest of the audits out that we do—I think we do something around 125 in a biennium. There is obviously a process we would want to follow. I suppose we have to sit down and decide how many people you would need to review reports. Would we be talking a desk review of those? Or go out in the field?

**Chairman Delzer:** What do you do now when you do your audit reviews?

**Gordy Smith:** The small reviews now they fill out a form and send that in and we review that form.

**Representative Kempenich:** You brought up earlier that CPAs are hard to find and pay is one of the issues. When you start looking at special fund type instances, you have a lot of vacant positions and you are doing a lot of things that you wouldn't be doing if there were funds available. It's more of a question—where do we want to go with this?

**Gordy Smith:** I don't think we reject that idea out of hand. We would want some direction on how we would go about that. We want to make sure that we met expectations of the

Legislature. Typically when you do a desk review, you are not going to find some things.

When you do a field review that's where you are going to find more of the problems.

**Chairman Delzer:** The firms that we are talking about are political subdivisions are we not?

**Gordy Smith:** The firms that do the political subdivisions include both of the two largest firms in the state. If we did a desk review 90% would be acceptable. If we did a field review it was a little over half. That's just a fact of life. If you are out in the field looking at their work papers and seeing what they have documented and how they approached the test, it's more in depth.

**Vice Chairman Thoreson:** You say that your manager in Fargo has six years experience, how many years do the others in the office have?

**Gordy Smith:** Less than two years.

**Vice Chairman Thoreson:** Is that also true of the people that were there previously. Were they also staying for that time frame or had there been people for a long time?

**Gordy Smith:** We had a group of 3 or 4 people who had been there forever—30 years or more. They have retired. We have temporary part-time employees in those positions. They spend time reviewing those reports to help us catch up.

**Chairman Delzer:** How many hours do you have them working?

**Ed Nagel:** About twenty hours per week.

**Chairman Delzer:** All of these would be in your summary line? What's your spending level on that? You list \$200,000 on salary budget adjustment?

**Tammy Dolan, OMB:** Yes, that is correct.

**Chairman Delzer:** Where is the second year?

**Tammy Dolan, OMB:** That would be in the salaries and wages line.

**Chairman Delzer:** Yes, but where is it at? Is it in the adjustment?

**Tammy Dolan, OMB:** That would be part of the Salary Increase and Benefit



**Chairman Delzer:** I'm looking at the first page, the overall bill.

**Tammy Dolan, OMB:** If you go four accounts down in that line, you will see salary increase where there is a recommendation of \$419,946.

**Chairman Delzer:** Is that the way all these budgets are going to show up—the 5% is going to be down in the box?

**Tammy Dolan, OMB:** Yes.

**Chairman Delzer:** Why did you do that?

**Tammy Dolan, OMB:** When the compensation package is run, we put that in two separate account codes so we can track it.

**Chairman Delzer:** How do you track it separately when you put it in with the five and five instead of the equity money? That's obviously what you have done.

**Tammy Dolan, OMB:** Yes. It's the same for "salaries-permanent" and it's not just for the equity money for all employees. The compensation package runs . . .

**Chairman Delzer:** If you look at the green sheet, there is \$200.0 for equity money and \$10.0 for the 5% just on the equity money. It doesn't go to everybody. It's just the ones that get the equity get the 5%.

**Tammy Dolan, OMB:** I could run you a detailed salary report that would show for each position. You could actually identify the dollar amount by position and by equity increase to that particular position.

**Chairman Delzer:** What is this Salary Other?

**Tammy Dolan, OMB:** The \$135,000 is the amount that the auditor's office when they were preparing their budget had to underfund a few positions in order to meet the hold even request.

We actually had positions in the budget that were put in at lower dollar amounts than they were

really getting paid now. They are current filled positions. It is an optional request to fund those positions.

**Representative Kaldor:** I am trying to reconcile the salary increase line recommended is \$419,946 with the green sheet where I see \$346,200. Is the continuing existing salary levels is included in that increase line in the budget detail.

**Tammy Dolan, OMB:** The \$136.2 on the green sheet is in here but is in the salary other. The increase portion of that is in the salary increase.

**Chairman Delzer:** So that's part of the \$419,946.

**Tammy Dolan, OMB:** On the green sheet it is separated and shown that way. On the department . . . Yes but that is not double counting.

**Representative Kaldor:** I think it would be helpful for us if OMB could go through each of those lines in salary and wages line item.

**Tammy Dolan, OMB:** All of the budgets are shown the same way. They all have the same account codes. If an agency receives any equity money and they all did, they will have an account code called "salary budget adjustments" showing equity, the 5 and 5. Not all agencies have "salary other" and that might be different for each agency or not exist in some agencies.

**Chairman Delzer:** Do they all have the ability to use vacant FTE money for temporary employees?

**Tammy Dolan, OMB:** Yes, they can.

**Chairman Delzer:** There is nothing that quantifies them to the legislature.

**Tammy Dolan, OMB:** No, only their budget request. If they want to transfer that salary to a different line item, then they need to go through the Emergency Commission.

**Representative Kaldor:** On the "salaries-permanent" line item where there is a reduction of \$263,605 does that relate to the 3 FTE in the green section?

**Tammy Dolan, OMB:** Yes, it wouldn't be operating expense but it would be some salary related expense.

**Gordy Smith** continued with the final page of attachment 1004.1.20.09B.

**Chairman Delzer:** Your Auditor I through IV, are they accountant graduates mostly?

**Gordy Smith:** All of the auditor positions in the office are required a four-year accounting degree, even at the entry level.

**Chairman Delzer:** Do these numbers pretty much the pay grades of HR—on the last page?

**Tammy Dolan, OMB:** I believe that they do. I will double check.

**Chairman Delzer:** What I would like a list of the salary range for all of the grades.

**Tammy Dolan, OMB:** I can get that for you. In fact they are here on the last page.

**Representative Kaldor:** How far off of the midpoint is your agency?

**Gordy Smith:** I can certainly get that for you.

**Chairman Delzer:** We need to go through IT.

**Gordy Smith:** In our optional package we asked for two FTE in our IS department. That was not in the Governor's budget.

**Mr. Smith** presented a chart with the revised estimate unspent General Fund appropriation.

See Attachment 1004.1.20.09C. This is through 12/31/08. We will be turning back \$120,000 in GF money.

**Representative Kempenich:** (unintelligible)

**Gordy Smith:** We had asked \$135,000, the \$150,000 for work papers, \$100,000 for the IT and we got \$50.0 on that. We asked for two IT auditors and we didn't get that.

**Representative Kempenich:** Is that where you want to go?

**Gordy Smith:** We asked for \$100.0 because we know the cost of this going up.

**Representative Kempenich:** What do you have budgeted in for that right now?

**Gordy Smith:** There is a \$100.0 for this biennium. When we issued the RFP we asked for several things but to bid them separated. All the bids were above and we picked those we could have them do.

**Chairman Delzer:** If we are honest about it though, with the economic downturn, this is probably going to be one of the places where a lot of states will back off.

**Gordy Smith:** I have no idea on that. Up until the downturn it was still a growing field.

**Chairman Delzer:** Have you sent out a new RFP.

**Don LaFleur:** No

**Chairman Delzer:** What two positions did you decide to let go?

**Don LaFleur:** We underfunded them, we didn't let them go.

**Ed Nagel:** We will probably leave them open longer, we cannot really underfund.

**Chairman Delzer:** Is there any history of underfunding in your office? Do you have a breakdown of your funding turndown?

**Gordy Smith** presented a list of the number and type of Political Subdivisions. See Attachment 1004.1.20.09D.

**Representative Dosch:** Who else is doing audits?

**Gordy Smith:** That 718 would be the entities in law like if you are a school district under 100 or a city under 300 or under \$100.0 of annual revenue, you don't have to have an audit. You fill out a form and send it in lieu of an audit.

. . . Unstructured discussion. . .

**Representative Kempenich:** (unintelligible)

**Gordy Smith:** We did several years ago when we had the expertise.

**Chairman Delzer:** What would it take if you audited 2 out of 100? What would it cost?

**Gordy Smith:** I wish we had the expertise to check the private audit reports or at least a sample to protect the quality of what's out there. The reason we got out of it was the same reason we had to transfer the fraud investigations. We have no more expertise in here. I don't think it would take long to do it.

**Chairman Delzer:** The division of local government is one you are cutting down here in Bismarck, is there any where here you state what you are receiving in revenue? You have the expense here, but not revenue.

**Ed Nagel:** Roughly our expenditures are going to be equal to our revenues. Revenues may be a little more, but not a whole lot.

**Chairman Delzer:** Do you carry that forward?

**Ed Nagel:** We do. We get to keep the cash in a separate fund and then it is reappropriated in each appropriation bill. I would think that's the way all special funds work.

**Representative Kempenich:** How many special funds do we have in state government?

**Tammy Dolan:** I would say hundreds.

**Tammy Dolan:** Did you bring us any kind of listing of where your equity money is going?

**Gordy Smith:** We didn't bring it but we can get that for you.

**Don LaFleur** presented information that was requested at the overview hearing. See Attachment 1004.1.20.09E. He went over the benefits and savings of the electronic working papers.

**Chairman Delzer:** You have been doing that by computer for a while haven't you?

**Don LaFleur:** They are done on Microsoft word and there are a lot of handwritten notes.

**Chairman Delzer:** What exactly are you buying here, the software? Don't you already have it?

**Don LaFleur:** There will be some licensing fees but we don't know how much it will be.

The \$150,000 will get us through that for the biennium. We don't know what the ongoing fees will be.

**Chairman Delzer:** How did you come up with the \$150,000?

**Don LaFleur:** We did some research to see what these packages were pricing and it looked like about \$100,000 based on our staff size.

**Chairman Delzer:** What are the licensing fees?

**Don LaFleur:** For the one package we looked at it was about \$20.0 per year. We figured we could save 25% of the time of our auditors on audits by having an electronic working paper system.

**Chairman Delzer:** How far behind are you on your audits?

**Don LaFleur:** We do the audits that are required in statute today.

**Chairman Delzer:** If you are not behind and you are going to save 25% of your time, what will you do with that time?

**Don LaFleur:** We would want to do more in depth audits.

**Chairman Delzer:** Why?

**Don LaFleur:** By being more in depth and efficient on the audits' saves our office money and also saves the agencies the audit money.

**Representative Kempenich:** This \$150,000 was funded by the Governor's Budget correct?

**Don LaFleur:** Yes.

**Mr. LaFleur** continued describing the Electronic Working Papers project. With implementation and training, we expect the \$80.0 in savings would probably not be realized until 2011.

**Representative Kempenich:** (unintelligible)

**Chairman Delzer:** That is pretty much how you do it now isn't it?

**Don LaFleur:** We do use Word to initially do the write up, but they do have to print it out. There is timing, dating and manager review. They have to be bound together and stored.

**Representative Kempenich:** How would this differ now?

**Don LaFleur:** We would try to get the stuff we get from the agencies in conjunction with our audit in electronic format. If the only way we can get it is on paper then we can scan it in.

**Mr. LaFleur** continued describing the security assessment project.

**Chairman Delzer:** For two audits?

**Don LaFleur:** Yes, for 2005 and 2207, for agencies that still do still run their own IT stuff.

**Chairman Delzer:** So you are going to do the same two again, plus one on the inside?

**Don LaFleur:** We will get to that in the details if I could defer that question of what was done on the audits. I can explain that more in depth and where we want to go with the additional money.

**Chairman Delzer:** Alright.

**Mr. LaFleur:** The benefits here are to insure the security of the state networks; also to provide expertise to the state to help improve its security. There are no real dollar savings here; in fact, increase in security will actually cost the state money. The real benefit is to prevent attacks on the state network.

**Chairman Delzer:** Do we know of any attacks?

**Don LaFleur:** ITD would have to get that information. I would say, yes; the state network is being at least scanned daily which is considered an attack.

**Chairman Delzer:** I guess I should ask if we have had any successful attacks.

**Don LaFleur:** We did have one that I know of in the University System with the People Soft application. They discovered it because they do a review of all new IDs and they noticed an ID

that was out of the ordinary and when they investigated, it was actually a hacker that had gotten in and set up that ID so they could return.

**Mr. LaFleur** continued his testimony going over the RFP written, completed and not completed.

**Chairman Delzer:** Did you do all four?

**Don LaFleur:** Man Tech is the vender we went and you can see the scoring for how we came to that decision. We broke it down by the technical merit of the RFP and then the costs of the RFP and the points that were awarded.

**Chairman Delzer:** Was that for '05-'07? And you are currently doing one for '07-'09?

**Mr. LaFleur:** Yes, it was \$100,000 for each of '05 and '07. He continued his testimony by explaining the proposal from ManTech included in Attachment 1004.1.20.09E. I printed the whole proposal for you so you can see the areas and why you want to audit those areas. On page 6, you can see where that begins under the "scope of work" section. On page 8, they have their technical approach so you can see specifically what they are doing for us. On the last page, you can see the pricing information.

**Chairman Delzer:** Which ones did you do?

**Don LaFleur:** We did the external security, the internal security, the penetration testing and one application which was People Soft.

**Chairman Delzer:** How much did you spend this biennium?

**Don LaFleur:** In both years, we spent close to the \$100,000.

**Chairman Delzer:** In '07 it looks like \$79,000.

**Don LaFleur:** That was just for the technical areas. In addition to that there was a travel cost they charged us, some licensing fees for the software they used and the time to create the report so there was some additional overhead that brought it up to the \$100,000.



**Representative Kempenich:** (Unintelligible)

**Don LaFleur:** We didn't do everything on the sheet. We did the first three columns and part of the application assessment.

**Chairman Delzer:** Were those the same ones you did in 05-07?

**Don LaFleur:** Two of them were the same.

**Chairman Delzer:** Are we going to do those in the next biennium?

**Don LaFleur:** We need to finish the different People Soft applications. You need to keep doing those because of the computer changes within ITD. We have to continue to scan those to insure that everything remains in good shape there.

**Mr. LaFleur** continued with page one of his testimony explaining the request for the two additional IT auditors. This is not included in the executive recommendation. I list the cost as \$235,650 and that includes both salary and some operating to get them phones and computers.

**Chairman Delzer:** How did we go from 55 to 54.8?

**Gordy Smith:** Our office manager went for full time to four days per week. With our administrative assistant gaining more and more experience, it's been covered.

**The Committee took a short break and then was called back to order.**

**Chairman Delzer:** While we are going through this, I would suggest taking notes that come to your attention and if you would like to consider offering amendments. We don't plan to have agencies get up in front of us again. That will be what we have planned for the second week in February. It's easy to forget stuff especially when we are dealing with this many different budgets.

**Don LaFleur:** I thought it might be helpful to bring down a set of working papers since there were some questions about exactly what went in to them.

**Chairman Delzer:** I guess I don't understand why you print it all now.

**Don LaFleur:** There are referencing requirements, and there are requirements to make sure these don't change once the audit is done. Without a working paper system we don't have the ability today to really lock these downs so they don't change.

**Chairman Delzer:** They will satisfy accounting standards? What is going to stop something from hacking in and change the information?

**Don LaFleur:** This would be just within our office; it wouldn't be exposed to the internet.

**Chairman Delzer:** How many times have you asked for it?

**Don LaFleur:** This is the first time we have asked for it. We have talked about it in our office for about eight years.

**Chairman Delzer:** Why have you not just found the money within your budget?

**Don LaFleur:** We thought about it and experimented with a few things that we could do within our budget; but these systems are very expensive. We don't have the money within our budget to do it.

**Chairman Delzer:** If you could save 25% staff time I sure would have thought you could have done it.

**Don LaFleur:** Most of our budget is salaries. We are 80%-90% salary so most of the savings that we do have in our budget are salary dollars that we cannot spend on this type of system.

**Chairman Delzer:** (unintelligible)

**Representative Meyer:** Could you clarify what you just said?

**Chairman Delzer:** You cannot move between line items without approval of the Emergency Commission. There is opportunity to do those things, but you have to go to the Emergency Commission.

I think Larry and I will sit down with Tammy and Becky and look at what we think we want to have for reports and have them run those for us this afternoon and we will meet again after we get them.

**Representative Kaldor:** On HB 1129, this is really a policy issue but it is related to what we have been discussing about the political subdivision issue. The bill provides that the state auditor may perform audits of political subdivisions rather than it being a requirement. Are you familiar with that?

**Robert Peterson,** State Auditor: I am not.

**Chairman Delzer:** It is an agency bill.

**Robert Peterson,** State Auditor: Yes it is. We are changing it from "shall" to "may." I wanted to introduce "may" in the event that Fargo collapses and I don't have anyone left to do the audits. I'm hoping that we can continue to provide audits to political subdivisions.

**Representative Kaldor:** If that passes, what do you expect to be the outcome of that? For so many of these communities when they checked with the private agencies there was so much of a cost difference the cost difference is so great. Maybe there is a way to narrow that difference a little bit. To me, this is a policy question. Should we be doing this? Probably we really can't do this because it is just not affordable. Should we be studying this whole issue of subdivision audits from the standpoint that your rates would have to increase in order for us to offer competitive salaries to the kinds of auditors that do this work? Are the cities and communities going to fine with this bill?

**Chairman Delzer:** The bill increases the fee from \$50 per hour to \$80 per hour.

**Robert Peterson,** State Auditor: I don't have the answer to that question.

**Chairman Delzer:** Do we have the overall hours that you charge for? You obviously must have it to build the budget.

**Robert Peterson**, State Auditor: I am sure we have that number somewhere. To go back to answer your question Representative Kaldor, in the four years leading up the office in Bismarck being closed, I was consistently losing money. We wrote off close to \$280,000 in that four years in work performed but not paid for. When you are training, you are losing money. As far as what we can and can't do, we would like to be a viable source to political subdivisions. We are only trying to break even not to make a profit. As far as raising auditor's salaries, we would have to deal with HRMS. All state employees are on the same system. I think with raising the limit of cities being audited, we can look at the issue for a couple of years and see where we are at and see how this works out.

**Chairman Delzer**: For this committee I think we are going to need that number.

**Representative Kaldor**: I completely understand what you are saying. Your hands are tied.

In a small way this is a relationship between state government and local subdivisions. The services we have been providing have been a slight offset to increasing property taxes to increase the funds required to run a county or a city. As they have to move to more expensive audits, it is going to increase their operating costs. They are too large to just do the report and kind of too small to afford one of the two large firms.

**Robert Peterson**, State Auditor: We have referred an individual to the state society. They don't want to take away your CPA certificate. The individual was a sole practitioner and doing the Fargo School District. One person doing the largest school district in ND is unbelievable.

**Chairman Delzer**: HB 1148. Do you have any information about that bill? It came out of the policy committee as a Do Pass. Do you not expect very many of these?

**Robert Peterson**, State Auditor: The Chief Justice of the Supreme Court visited with me and said we don't have a remedy in case there was fraud in one of these districts. He wanted an opportunity to have a fraud audit done.

**Chairman Delzer:** How about SB 2144? This allows the State Auditor to investigate any public employee or public official.

**Robert Peterson,** State Auditor: Does that allow me to hire somebody?

**Chairman Delzer:** That is paid out of what fund.

**Robert Peterson,** State Auditor: It is paid out of the state bonding fund.

**Chairman Delzer:** 2142 removes the requirement for ITD to file with the State Auditor the description of the wide area network service.

**Don LaFleur:** That bill was introduced by ITD. The reason they are removing that was because it the date on that was 2001. They filed that report with us as they were supposed to but there was no requirement for it to be ongoing so why do we leave that in code.

**Chairman Delzer:** So this would just reduce the work that ITD does?

**Representative Dosch:** Of the different departments within your agency, can you tell us how many audits were completed by each division?

**Gordy Smith:** We can get that.

**Chairman Delzer:** I notice on the green sheet there was "remove prior capital assets appropriation of \$10,000." What was that for?

**Ed Nagel:** I believe that was for a copier that was never purchased.

**Chairman Delzer:** That's part of your \$120.0 rollover?

**Becky Keller,** Legislative Council: It is special funds.

**Chairman Delzer:** Representative Kaldor and Kempenich, I request the two of you talk and decide whether or not you want to put in language about a study resolution. I don't know whether it will be accepted or not or if you even want to go that way.

**Representative Kaldor:** There will probably be opportunity for us to visit about the issue. Before doing a study resolution, I would like to have a more in-depth understanding of . . .

**Chairman Delzer:** I would request that it is not a mandatory study.

**Chairman Delzer** recessed the meeting until the call of the chair or 2:30 pm.

## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1004

House Appropriations Committee  
Government Operations Division

☐ Check here for Conference Committee

Hearing Date: 1/20/09

Recorder Job Number: 7335

Committee Clerk Signature

*Jan Prindee*

Minutes:

**Chairman Delzer** reopened the hearing on House Bill 1004. Roll was taken at a previous meeting with Representative Glassheim absent.

**Tammy Dolan, OMB** presented materials that were requested in the morning's meeting. See North Dakota Salary Ranges (Attachment 1004.1.20.09F). Also the PeopleSoft reports (Attachment 1004.1.20.09G and H)

**Chairman Delzer** addressed the committee about reviewing the PeopleSoft reports and if anything stands out to them to address the issue within their subcommittee for each agency. We want to get to where we deal with each of the agencies information in the same way. At some point in time we are going to have to deal with the equity issue. Do we do that at the Governor's level or higher? You always want to look at the FTEs.

**Mr. Nagel** with the Auditor's Office presented the spend down report that was requested in the morning meeting.

**Chairman Delzer:** This is something you built yourself?

**Ed Nagel:** Yes. I created this sheet.

**Chairman Delzer:** These numbers are through the end of December? At 75% of the budget? You cut off at the end of June?

**Ed Nagel:** We do make payments in July for June's expenditure—primarily travel.

**Chairman Delzer:** We would be interested in the local issues. That's the one that has to do with your fee increases and where you want to put more people in. That's something we have to appropriate and we would like to be pretty accurate. You don't have travel in here for the overall budget—just for administration.

**Ed Nagel:** This is just for administration and the state agency division. Those are the only ones I have GF dollars for.

**Chairman Delzer:** Now you have this split out. . ?

(Unstructured general clarification questions/answers on line items.)

**Representative Kempenich:** The fees and professional services?

**Ed Nagel:** I believe that is the fee we pay to the National Auditors Association for the peer review. That is done only one every three years.

**Chairman Delzer:** So there will be nothing for that in the next biennium.

**Ed Nagel:** That is correct.

**Chairman Delzer:** Who pays for that?

**Ed Nagel:** The National Association pays for it. We reimburse them for travel.

**Robert Peterson, State Auditor:** We do not pay their salaries. Each state contributes some to the cost.

**Ed Nagel:** I believe that would be under Dues and Professional Development under cost center 1000.

**Chairman Delzer:** When are they due?

**Ed Nagel:** They are due periodically throughout the biennium.

**Representative Kempenich:** Is this group comprised of state auditors? Would you might have to go on one of these?



**Gordy Smith:** Yes, I was on one in Virginia and in Colorado. You work on a credit system.

**Chairman Delzer:** Is there any independent groups that come in and do audits of the State Auditors.

**Gordy Smith:** Not that I know of besides the financial audit that Legislative Council performs every two years.

**Representative Kempenich:** I think the organization is very strict and react pretty fast is something is wrong.

**Chairman Delzer:** That is one of the problems with the peer review. It gives the appearance of pretty close ties.

**Ed Nagel:** It really doesn't because the individuals from one state who participate on a quality review of another state can never go back to same state.

**Chairman Delzer:** But can somebody from that state come in and review you guys?

**Robert Peterson,** State Auditor: One time. We don't get to pick them.

**Representative Kempenich:** Statistically, it would be difficult to get the same one every time.

**Gordy Smith:** In the CPA world if you want a review, you have to hire a firm.

**Chairman Delzer:** They would just hire another accounting firm.

**Gordy Smith:** That is correct.

**Chairman Delzer:** There isn't any firm out there that. . Unintelligible.

**Gordy Smith:** I'm not aware of any.

**Chairman Delzer:** The next one is the special funded one and you were going to get the information for us. Tammy, what was the reason to go from \$37.0 to \$40.0 in administration?

**Tammy Dolan,** OMB: Mainly it would be inflationary adjustments.

**Chairman Delzer:** I was looking at the wrong year. You didn't adjust that at all?

**Tammy Dolan,** OMB: That is correct. We did not adjust it.

**Chairman Delzer:** Then we have the GF one.

**Ed Nagel:** That is correct.

**Chairman Delzer:** Where are you temporary hiring. How many temps are you hiring?

**Ed Nagel:** The temps are in the Fargo office. I believe we have had temps there for a number of years on the state agency side.

**Chairman Delzer:** So in Fargo, you have local ones that are special funded and how many state ones?

**Ed Nagel:** Nine

**Chairman Delzer:** How many people do you have working in the tower?

**Ed Nagel:** There are 31 General Funded positions in the capitol tower.

**Representative Kempenich:** Are you off campus with another agency?

**Ed Nagel:** Yes, our mineral royalty management services auditors are downtown. Those are federally funded positions.

**Representative Kempenich:** Where are they at then?

**Ed Nagel:** On the south side of the Public Library in Bismarck

**Chairman Delzer:**

**Ed Nagel:** The university system people are all in Fargo

(Unstructured discussion)

**Ed Nagel:** I believe there is one temporary person in the office in Fargo.

They do some auditing but it's mostly the assembling of information. C

**Chairman Delzer:** Is this travel for audits?

**Ed Nagel:** It would also be for travel to out of state Professional Development seminars.

**Chairman Delzer:** Computers—how many are you expecting to buy this time? Chairman Ed

**Nagel:** I believe we are on a rotation schedule where we replace our computers once every three years for laptops and four years for desk tops. Laptops go out faster. That's the state standard we are using. We have 15 desktops and 17 laptops that we are budgeting for. For the desktops we are budgeting \$680 each and for the laptops \$1,275 base. Plus we add an accident policy of \$80 to those.

**Chairman Delzer:** What goes under your operating fees and services?

**Ed Nagel:** That would be most anything except salaries, travel and rental space.

**Chairman Delzer:** Where are you renting space?

**Ed Nagel:** In our Fargo office.

**Chairman Delzer:** Are those all University?

**Ed Nagel:** They spend the majority of their time doing University Audits,

**Chairman Delzer:** Have you checked in to whether they could be housed at the university?

**Ed Nagel:** Many years ago we were housed there and they kicked us out. I don't know the details of that.

**Chairman Delzer:** Committee, I know it seems foolish to do some of these, but money does add up even if these are small numbers. We need to do this to all budgets. When you look at some of the bigger budgets and do this, it can be a lot of money. We are all about efficiency and making sure that our taxpayer's dollars are well spent.

Do you use a lot of fleet services?

**Ed Nagel:** We do use them, but not as much as we used to in years past. We do less traveling than we did in years past.

**Chairman Delzer:** How did you build the portion of fleet services in your budget for the next biennium?

**Ed Nagel:** I increased it over the prior biennium. I would have to look back at the details to see exactly how I did it.

**Chairman Delzer:** If you would let us know just for our information.

**Representative Kempenich:** If I remember right the cost for the sedans for fleet services were pushing \$.50.

(Unstructured discussion regarding fleet services pros and cons.)

**Chairman Delzer:** You have \$117.0 in the ITD budget line item. What's that for? Does the \$100.0 go in there?

**LaFleur:** Part of it would be in ITD processing since we are paying.

(Open, unstructured discussion.)

**Chairman Delzer:** Have you done any kind of audit on ITD?

**Ed Nagel:** We have never done a performance audit on ITD.

**Chairman Delzer:** I'd like to know how much goes for phone, processing, etc.

**Gordy Smith:** The feds would look at how they determine they rates. They want to make sure there is no profit made.

**Chairman Delzer:** Your request is to move the 150,000 out of operating to Capital Assets?

**LaFleur:** Only \$100,000

**Chairman Delzer:** You will pay \$80 on each of your laptops in the next biennium. Have you had any of them broken and would they have been covered if they had had the insurance?

**LaFleur:** No.

**Representative Kempenich:** Can we see what fleet service rates are and what they built the rates on. Can we see the numbers?

**Chairman Delzer:** We can certainly request that.

**Gordy Smith:** Representative Dosch had asked for the number of audits by each division.

The political subdivision division has done 100 political subdivision audits.

**Chairman Delzer:** How many are they required to do?

**Gordy Smith:** The law says the subdivision can ask the auditor or they can hire their own. It's all their decision. None are required.

**Chairman Delzer:** How many asked last time?

**Gordy Smith:** I don't have that but I would say it would be pretty similar.

**Chairman Delzer:** How come you do things on a three year contract?

Why three compared to four when doing a biennial budget?

**Robert Peterson, State Auditor:** They are staggered. I just chose 3 because that's when we could recover our costs invested and also for budgeting. We don't know from year to year if we are doing the same audits. We do 69 state entity audits and we are on schedule. We do audit the comprehensive annual financial that OMB prepares annually. That would be two of those 69. That takes 5000 man hours per audit each year. We also audit every two years all the federal funds North Dakota receives. The federal government requires that. We have to also audit that for compliance. That audit alone this time is \$2.4 billion for compliance and is estimated to take 10,000 man hours. Those would be 3 of those 69 that state agencies do every biennium. We have done two performance audits, four of follow-up, and we are on our third performance audit in the Department of Commerce.

**Chairman Delzer:** How many request for performance audits do you have?

**Robert Peterson:** One that has been put off for a while is a request to do one on statewide cell phone usage by state employees. There is also one that goes back a ways on motor pool. Typically a lot of those requests end up coming through the session like the wildlife services program administered by the Department of Agriculture. We also did the UND School of

Medicine and Health Sciences that was in there appropriation bill. That's usually the way they come about. We chose the Department of Commerce ourselves.

**Representative Kempenich:** Usually the agency doesn't request that.

**Chairman Delzer:** We are also going to want you to get a hold of ITD and ask them if they were writing specs for standard desk top and lap top today what they would expect the price would be

**Becky Keller, Legislative Council:** I did talk to them earlier today after your questions. They are ending the end of their 3 year . . . While they expect the rates to be similar they are not sure. They won't go into negotiations for that on the state level for a few months now.

**Chairman Delzer:** They are contracting for all agencies buying directly through ITD?

**LaFleur:** There is contract with HP that the state standard desk tops are on. You can however buy from any vendor on the list. You don't have to buy that state standard PC. In our office we do buy the state standard.

**Chairman Delzer:** That contract is for a year at time?

**Becky Keller, Legislative Council:** It is a three year contract and they extended it for two years. The overall contract will be negotiated in April.

(Unstructured discussion)

**LaFleur:** I think they kept it static and what we get for that money changes—they update the specs from time to time.

**Reprehensive Kempenich:** I don't like that. Would it better to wait until the economy to turn around?

**LaFleur:** I have to make a correction I told you last biennium's numbers. This biennium we have budgeted for four desktops and thirteen laptops.

**Robert Peterson**, State Auditor: The last section is the Information Technology and they conducted three audits during this biennium.

If any of your Committee members have any questions, just give us a call. We would be happy to go over any details you may have questions about.

**Chairman Delzer closed the hearing.**

Committee members you should have notes on this and prepare any amendments you may have and we will vote on them.

**Representative Kempenich:** We will have some time tomorrow . . . . Will you be around then?

**Robert Peterson** agreed to be available.

## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1004

House Appropriations Committee  
Government Operations Division

☐ Check here for Conference Committee

Hearing Date: **6 February 2009**

Recorder Job Number: 8924 (29:10)

Committee Clerk Signature



Minutes:

**Chairman Delzer:** The next one up is the auditor's office: 1004. We did that one as a group.

We also have a bill passed on the floor that was different than what they want. It was 1129.

Do we have a new fiscal note on 1129?

\_\_\_? \_\_\_: The latest fiscal note was January 29 and it simply stated that the fiscal impact was unknown.

**Chairman Delzer:** The original bill went from "shall" to "may" and the amendment took it from "may" to "must." Part of their deal was that they were going to do less when they put in that bill. They were going to raise the rates but they were going to do less. I don't know if they have special fund authority to cover when it goes back to they have to do it. The problem is that they don't necessarily have the opportunity to hire those people.

**Lori Laschkewitsch, OMB:** I think they had authority in the bill to cover either situation.

Would you like me to contact them?

**Chairman Delzer:** Yes, and you can let us know on Monday.

I would like an amendment to reduce the funding on the electronic working papers to \$100.0. I don't know why, but I have it on my notes that I felt that was too much or they should have decreased operating costs because of it--one or the other. Are they both in the



operating line? I have a note to move part of that: \$100.0 out of operating to capital assets and then a reduction of \$50.0 of operating on top of that. The information technology consultants are, I would guess, the working papers for the \$150.0 on the bill itself. O no, that's the \$150.0 for their hackers that they wanted.

**Lori Laschkewitsch, OMB:** That is correct. That's that separate line.

**Chairman Delzer:** I would like an amendment to reduce that back down to \$100.0. What about the issue of a performance audit on the auditor's office? I'm not sure I agree that both this office and the office of OMB—what they get for reviews is peer review. I don't know if they look at the same things a performance audit looks at. I don't know that I'm proposing anything; I just want to throw out there. I'm not sure there isn't anyone in state that you could hire to do that.

**Representative Kaldor:** On those electronic working paper—I'm unclear on this. They asked that we remove \$100.0 of that \$150.0 from the operating line and put it into capital assets. Are we going to do that?

**Chairman Delzer:** Yes, it's been asked for. I know that they said with the working papers it should reduce their workload by 35% but they don't want to reduce anything else. They will do more audits.

**Representative Kaldor:** I hope that by raising their rates for municipal audits I hope they don't abandon that process. I think a lot of smaller entities are very dependent on the auditor's office to do their audits.

**Chairman Delzer:** I think that's why the bill came back "must" instead of "may." I do understand why they want to do the electronic working papers, and do find it unacceptable that they do everything on paper.

\_\_\_\_? \_\_: One last thing in reviewing the operating expense overall, they are showing a 12.3% increase in operating. I am looking at the unspent appropriations information that they provided us. It shows they are anticipating about an \$81.0 turn back. I'm wondering if we shouldn't address that operating expense line item.

**Chairman Delzer:** We have a request for \$50.0. Do you want to do more than that?

\_\_\_\_? \_\_: We should be looking more at \$75.0.

**Chairman Delzer:** We can have both of those to vote on. Grady, line these up so the largest on is first when we vote on them.

## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1004

House Appropriations Committee  
Government Operations Division

☐ Check here for Conference Committee

Hearing Date: 2/10/09

Recorder Job Number: 9071

Committee Clerk Signature

*Tonya Voegeli*

Minutes:

Chairman Delzer opened the discussion of amendments for HB 1004.

**Chairman Delzer:** Let's take a look at the Auditor's Office and see if we can get that done. On the Auditor's we have reduce funding for the IT Security Consultants to provide for a total of \$100,000. I think that is their current level. When we have looked at this they do some different things and I think they wanted to increase it and do everything they are currently doing plus even more of the security checks in house, on the inside of the firewall. My take on that and the reason I think I asked for the reduction, because they could do the inside firewall checks and I am not sure they need to do all of the same outside firewall checks that they were doing before.

**Representative Kempenich:** I will move it.

**Representative Dosch:** Second.

**Chairman Delzer:** Discussion?

A motion was made by Representative Kempenich, seconded by Representative Dosch to adopt an amendment reducing the funding for the IT Security Consultants to provide for a total of \$100,000. The amendment was adopted by voice vote.

**Chairman Delzer:** The next one I think was their request to move \$100,000 for their Electronic WorkPapers from their operating line to the capital line because they consider it a capital asset instead of operating. Does someone care to move that?

**Representative Kempenich:** I will move it.

**Vice Chairman Thoreson:** Second.

**Chairman Delzer:** Discussion?

**A motion was made by Representative Kempenich, seconded by Vice Chairman Thoreson to adopt an amendment moving \$100,000 from the operating line to the capital assets line in their budget. The amendment was adopted by voice vote.**

**Chairman Delzer:** The next one up is to reduce the operating expense line for the remaining \$50,000 of the one-time funding costs for the Electronic WorkPapers. I think I asked for that myself. My take on that, the reason I asked for it and I am not sure that it is exactly sound but the reason I asked for it was when they came forward with why they wanted the Electronic WorkPapers they claim that should save them 25-40% of their time and yet there is no reductions in FTEs or operating or anything. I think that was my point of contention on that. I am not sure it is the right point of contention, but that is what it was. We have the other option of reducing operating expense line by an additional or \$25,000, whichever one we want to do. I don't know how much room there was? How much turnback there is in the Auditor's Office? I also know that the bill they put in for "shall" to "may" ended up coming back "may" again but it also increased the fees from \$50,000 to \$80,000 for the (INAUDIBLE) and we have not given them any money for that special fund money to spend that. But they didn't say what it would be either.

**Representative Kempenich:** Their operating was \$115,000 turnback.

**Chairman Delzer:** They had some empty positions in the one department but they are redoing that and shuffling that around. Their enhancements on the operating is \$99,000 total operating is \$909,000 but we are moving \$100,000 of that from operating to capital asses so their total operating would be \$809,000

**Representative Kempenich:** They didn't change any of their operating. That was special funds. I don't think the \$25,000 would be an issue. I will move that.

**Representative Dosch:** I will second.

**Chairman Delzer:** The motion has been made and seconded to reduce operating by \$25,000.  
Discussion?

**Representative Kempenich:** (INAUDIBLE)

**A motion was made by Representative Kempenich, seconded by Representative Dosch to adopt an amendment that will reduce the operating line by \$25,000. The amendment was adopted by voice vote.**

**Chairman Delzer:** So we have those three and we would leave the \$50,000 in there for them.  
Anything further on the Auditor's Office?

Chairman Delzer closed the discussion.

## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1004

House Appropriations Committee  
Government Operations Division

☐ Check here for Conference Committee

Hearing Date: 2/13/09

Recorder Job Number: 9434

Committee Clerk Signature *Konya Voegle*

Minutes:

Chairman Delzer opened the discussion of amendments on House Bill 1004.

Chairman Delzer reviewed the amendment.

**A motion was made by Representative Berg, seconded by Vice Chairman Thoreson to adopt amendment 98005.0101 to House Bill 1004. The amendment was adopted by voice vote.**

**A motion was made by Vice Chairman Thoreson, seconded by Representative Berg for a DO PASS AS AMENDED recommendation for House Bill 1004 to the House Appropriations Full Committee. The vote was 8 yeas, 0 nays and 0 absent and not voting. The carrier will be Representative Meyer.**

## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1004

House Appropriations Committee

☐ Check here for Conference Committee

Hearing Date: February 16, 2009

Recorder Job Number: 9585

Committee Clerk Signature



Minutes:

**Rep. Meyer** is carrying HB 1004. This is the State Auditor's Budget. Rep. Meyer distributed Amendment .0101. When looking at the green sheet, the Exec. Budget removed 2 FTEs. That was the Auditor II and Auditor III positions and they are related to the closing of the political subdivision audit office in Bismarck. This amendment is from the Government Opps. Committee provided one-time funding for electronic working papers \$150,000. However we did have to move \$100,000 of the cost of these papers from operating expenses to capital assets. That is because any IT project over \$5,000 has to be included under capital assets. We also decreased funding for IT consultants by \$50,000 to provide a total of \$100,000. We had an amendment that decreased the funding for operating expenses \$25,000.

I would move these amendments.

**Rep. Delzer:** Seconded it.

**Voice Vote taken** to adopt amendment .0101. Motion carries.

**Rep. Meyer moved Do Pass as amended.**

**Rep. Delzer Seconded.**

A Roll Call vote was taken. **Yes: 24, No: 0, Absent: 1**, (Representative Kerzman). **Representative Meyer will carry the bill.**

98005.0101  
Title.  
Fiscal No. 1

Prepared by the Legislative Council staff for  
House Appropriations - Government  
Operations

February 10, 2009

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1004

Page 1, line 13, replace "99,436" with "(25,564)" and replace "909,985" with "784,985"

Page 1, line 14, replace "(10,000)" with "90,000" and replace "0" with "100,000"

Page 1, line 15, replace "50,000" with "0" and replace "150,000" with "100,000"

Page 1, line 16, replace "943,241" with "868,241" and replace "9,185,031" with "9,110,031"

Page 1, line 18, replace "1,216,213" with "1,141,213" and replace "6,872,229" with "6,797,229"

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT - LC 98005.0101 FN 1**

**A copy of the statement of purpose of amendment is attached.**



**STATEMENT OF PURPOSE OF AMENDMENT:**

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

	<b>Executive Budget</b>	<b>House Changes</b>	<b>House Version</b>
Salaries and wages	\$8,125,046		\$8,125,046
Operating expenses	909,985	(125,000)	784,985
Capital assets		100,000	100,000
Information technology consultants	150,000	(50,000)	100,000
<b>Total all funds</b>	<b>\$9,185,031</b>	<b>(\$75,000)</b>	<b>\$9,110,031</b>
Less estimated income	2,312,802	0	2,312,802
<b>General fund</b>	<b>\$6,872,229</b>	<b>(\$75,000)</b>	<b>\$6,797,229</b>
FTE	51.80	0.00	51.80

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

	<b>Decreases Funding for IT Security Consultants<sup>1</sup></b>	<b>Changes Electronic Working Papers Funding<sup>2</sup></b>	<b>Decreases Operating Expenses<sup>3</sup></b>	<b>Total House Changes</b>
Salaries and wages				
Operating expenses		(100,000)	(25,000)	(125,000)
Capital assets		100,000		100,000
Information technology consultants	(50,000)			(50,000)
<b>Total all funds</b>	<b>(\$50,000)</b>	<b>\$0</b>	<b>(\$25,000)</b>	<b>(\$75,000)</b>
Less estimated income	0	0	0	0
<b>General fund</b>	<b>(\$50,000)</b>	<b>\$0</b>	<b>(\$25,000)</b>	<b>(\$75,000)</b>
FTE	0.00	0.00	0.00	0.00

<sup>1</sup> This amendment decreases funding for information technology consultants by \$50,000 to provide a total of \$100,000.

<sup>2</sup> This amendment moves \$100,000 of the cost of the electronic working papers project from operating expenses to capital assets.

<sup>3</sup> This amendment decreases funding for operating expenses \$25,000.

**2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES**  
**BILL/RESOLUTION NO. 1004**

House House Appropriations- Government Operations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 9805.0101

Action Taken Adopt Amendment

☒ Voice Vote

☐ Roll Call Vote

Motion Made By Representative Kempenich: Seconded By Representative Dosch:

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer			Representative Glassheim		
Vice Chairman Thoreson			Representative Meyer		
Representative Kempenich			Representative Kaldor		
Representative Berg					
Representative Dosch					

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

Absent \_\_\_\_\_

Floor Assignment "Click here to type Floor Assignment"

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

Reduce the funding for the IT security consultants to provide a total of \$100,000

**Amendment Adopted**

**2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES**  
**BILL/RESOLUTION NO. 1004**

House House Appropriations- Government Operations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Adopt Amendment

☒ Voice Vote

☐ Roll Call Vote

Motion Made By Representative Kempenich: Seconded By Vice Chairman Thoreson:

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer			Representative Glassheim		
Vice Chairman Thoreson			Representative Meyer		
Representative Kempenich			Representative Kaldor		
Representative Berg					
Representative Dosch					

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

Absent \_\_\_\_\_

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

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

Move \$100,000 from operating to capital assets

**Amendment Adopted**

**2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES**  
**BILL/RESOLUTION NO. 1004**

House House Appropriations- Government Operations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Adopt Amendment

☒ Voice Vote

☐ Roll Call Vote

Motion Made By Representative Kempenich: Seconded By Representative Dosch:

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer			Representative Glassheim		
Vice Chairman Thoreson			Representative Meyer		
Representative Kempenich			Representative Kaldor		
Representative Berg					
Representative Dosch					

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

Absent \_\_\_\_\_

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

If the vote is on an amendment, briefly indicate intent:  
Reduce Operating for Electronic working papers 25,000

**Amendment Adopted**

**2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES**  
**BILL/RESOLUTION NO. 1004**

House House Appropriations- Government Operations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 98005.0101

Action Taken Adopt Final Amendment

☒ Voice Vote

☐ Roll Call Vote

Motion Made By Representative Berg: Seconded By Vice Chairman Thoreson:

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer			Representative Glassheim		
Vice Chairman Thoreson			Representative Meyer		
Representative Kempenich			Representative Kaldor		
Representative Berg					
Representative Dosch					

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

Absent \_\_\_\_\_

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

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

Amendment Attached

**ADOPTED**

**2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES**  
**BILL/RESOLUTION NO. 1004**

House House Appropriations- Government Operations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 98005.0101

Action Taken Do Pass As Amended

☐ Voice Vote

☒ Roll Call Vote

Motion Made By Vice Chairman Thoreson: Seconded By Representative Berg:

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer	X		Representative Glassheim	X	
Vice Chairman Thoreson	X		Representative Meyer	X	
Representative Kempenich	X		Representative Kaldor	x	
Representative Berg	X				
Representative Dosch	X				

Total (Yes) 8 No 0

Absent 0

Floor Assignment Representative Meyer:

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

VR  
2/18/09  
1082

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1004

Page 1, line 12, replace "803,805" with "435,504" and replace "8,125,046" with "7,756,745"

Page 1, line 13, replace "99,436" with "(25,564)" and replace "909,985" with "784,985"

Page 1, line 14, replace "(10,000)" with "90,000" and replace "0" with "100,000"

Page 1, line 15, replace "50,000" with "0" and replace "150,000" with "100,000"

Page 1, line 16, replace "943,241" with "499,940" and replace "9,185,031" with "8,741,730"

Page 1, line 17, replace "(272,972)" with "(312,198)" and replace "2,312,802" with "2,273,576"

Page 1, line 18, replace "1,216,213" with "812,138" and replace "6,872,229" with "6,468,154"

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT - LC 98005.0102 FN 2**

**A copy of the statement of purpose of amendment is attached.**

**STATEMENT OF PURPOSE OF AMENDMENT:****House Bill No. 1004 - State Auditor - House Action**

	<b>Executive Budget</b>	<b>House Changes</b>	<b>House Version</b>
Salaries and wages	\$8,125,046	(\$368,301)	\$7,756,745
Operating expenses	909,985	(125,000)	784,985
Capital assets		100,000	100,000
Information technology consultants	150,000	(50,000)	100,000
<b>Total all funds</b>	<b>\$9,185,031</b>	<b>(\$443,301)</b>	<b>\$8,741,730</b>
Less estimated income	2,312,802	(39,226)	2,273,576
<b>General fund</b>	<b>\$6,872,229</b>	<b>(\$404,075)</b>	<b>\$6,468,154</b>
FTE	51.80	0.00	51.80

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

	<b>Decreases Funding for IT Security Consultants<sup>1</sup></b>	<b>Changes Electronic Working Papers Funding<sup>2</sup></b>	<b>Decreases Operating Expenses<sup>3</sup></b>	<b>Reduces Funding for Anticipated Salary Savings<sup>4</sup></b>	<b>Removes Salary Equity Funding<sup>5</sup></b>	<b>Total House Changes</b>
Salaries and wages				(\$158,301)	(\$210,000)	(\$368,301)
Operating expenses		(100,000)	(25,000)			(125,000)
Capital assets		100,000				100,000
Information technology consultants	(50,000)					(50,000)
<b>Total all funds</b>	<b>(\$50,000)</b>	<b>\$0</b>	<b>(\$25,000)</b>	<b>(\$158,301)</b>	<b>(\$210,000)</b>	<b>(\$443,301)</b>
Less estimated income	0	0	0	(39,226)	0	(39,226)
<b>General fund</b>	<b>(\$50,000)</b>	<b>\$0</b>	<b>(\$25,000)</b>	<b>(\$119,075)</b>	<b>(\$210,000)</b>	<b>(\$404,075)</b>
FTE	0.00	0.00	0.00	0.00	0.00	0.00

<sup>1</sup> This amendment decreases funding for information technology consultants by \$50,000 to provide a total of \$100,000.

<sup>2</sup> This amendment moves \$100,000 of the cost of the electronic working papers project from operating expenses to capital assets.

<sup>3</sup> This amendment decreases funding for operating expenses \$25,000.

<sup>4</sup> This amendment reduces salaries and wages funding to recognize anticipated savings from vacant positions and employee turnover.

<sup>5</sup> This amendment removes funding added in the executive budget for state employee salary equity adjustments.



Date: 2/16/09  
Roll Call Vote #: 1

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 1004

**Full House Appropriations Committee**

☐ Conference Committee

Legislative Council amendment Number 98005.0101

Action Taken: ☐ Do Pass ☐ Do Not Pass ☐ As Amended Adopt. 0101

Motion Made By: Meyer Seconded By: Delzer

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan					
Vice Chairman Kempenich					
Rep. Skarphol			Rep. Kroeber		
Rep. Wald			Rep. Onstad		
Rep. Hawken			Rep. Williams		
Rep. Klein					
Rep. Martinson					
Rep. Delzer			Rep. Glassheim		
Rep. Thoreson			Rep. Kaldor		
Rep. Berg			Rep. Meyer		
Rep. Dosch					
Rep. Pollert			Rep. Ekstrom		
Rep. Bellew			Rep. Kerzman		
Rep. Kreidt			Rep. Metcalf		
Rep. Nelson					
Rep. Wieland					

Total Yes \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

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

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

Voices Vote - Carries

Date: 2/16/09  
Roll Call Vote #: 2

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 1004

Full House Appropriations Committee

☐ Conference Committee

Legislative Council amendment Number .0101

Action Taken: ☒ Do Pass ☐ Do Not Pass ☒ As Amended by .0101

Motion Made By: Meyer Seconded By: Delzer

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan	✓				
Vice Chairman Kempenich	✓				
Rep. Skarphol	✓		Rep. Kroeber	✓	
Rep. Wald	✓		Rep. Onstad	✓	
Rep. Hawken	✓		Rep. Williams	✓	
Rep. Klein	✓				
Rep. Martinson	✓				
Rep. Delzer	✓		Rep. Glassheim	✓	
Rep. Thoreson	✓		Rep. Kaldor	✓	
Rep. Berg	✓		Rep. Meyer	✓	
Rep. Dosch	✓				
Rep. Pollert	✓		Rep. Ekstrom	✓	
Rep. Bellew	✓		Rep. Kerzman	✓	
Rep. Kreidt	✓		Rep. Metcalf	✓	
Rep. Nelson	✓				
Rep. Wieland	✓				

Total Yes 24 No 0

Absent 1

Floor Assignment: Raz. Meyer

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** (24 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). HB 1004 was placed on the Sixth order on the calendar.

Page 1, line 12, replace "803,805" with "435,504" and replace "8,125,046" with "7,756,745"

Page 1, line 13, replace "99,436" with "(25,564)" and replace "909,985" with "784,985"

Page 1, line 14, replace "(10,000)" with "90,000" and replace "0" with "100,000"

Page 1, line 15, replace "50,000" with "0" and replace "150,000" with "100,000"

Page 1, line 16, replace "943,241" with "499,940" and replace "9,185,031" with "8,741,730"

Page 1, line 17, replace "(272,972)" with "(312,198)" and replace "2,312,802" with "2,273,576"

Page 1, line 18, replace "1,216,213" with "812,138" and replace "6,872,229" with "6,468,154"

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT - LC 98005.0102 FN 2**

A copy of the statement of purpose of amendment is on file in the Legislative Council Office.

2009 SENATE APPROPRIATIONS

HB 1004

## 2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1004

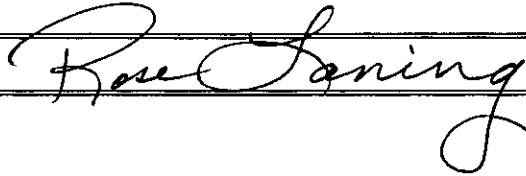
Senate Appropriations Committee

☐ Check here for Conference Committee

Hearing Date: February 25, 2009

Recorder Job Number: 9727

Committee Clerk Signature



Minutes:

**V. Chair Grindberg** called the committee hearing to order on HB 1004 concerning the appropriation for the state auditor.

**Robert R. Peterson**, State Auditor

Written attached testimony # 1.

**Senator Krauter:** Have we adjusted the fee that the political subdivisions are paying for these audits or is it just a small, small fee?

**Robert R. Peterson:** Are you talking about the fees to have your report reviewed or your report reviewed?

**Senator Krauter:** I'm talking about all these other fees, like fees for a park board.

**Robert R. Peterson:** You're talking about an independent CPAs report. We charge \$50 hour and we have a bill that would increase that up to \$80.

**Senator Krauter:** This division of local government audits is revenue generated, so if you don't have the revenue there to pay for competitive salary, we need to figure out how to increase the revenues.

**Robert R. Peterson** – continuing on page 13 – 15.

**Senator Seymour:** Why do you think the House made those cuts to your budget?

**Robert R. Peterson:** I don't know. I suspect this was part of a grand plan they didn't let us in on.

**V. Chair Grindberg** asked for clarification on the FTE requests. He proposed adding two FTEs and the green sheet shows a decrease of three FTEs to 51.80. You want 53.8 and the two FTEs were not in the governor's budget?

**Robert R. Peterson:** Correct. This is an additional request.

**Senator Wardner:** Our green sheet shows you were going to reduce three FTEs.

**Robert R. Peterson:** Correct. I closed Bismarck office and those three FTEs are from political subdivision side, but we wanted to add two on the agency side.

**V. Chair Grindberg:** If your request was to reduce three and pick up two – why didn't it show up in your request?

**Robert R. Peterson:** The three that I reduced were special funds and the two that I would ask for are general fund positions.

**V. Chair Grindberg:** It wouldn't matter if it was special funds or general funds, would it?

**Robert R. Peterson:** The two we are asking for are new ones to be added to our existing staff. They weren't part of our existing staff.

**Tammy Dolan, OMB, Fiscal Analyst:** The state auditor had optional request in their budget to add two new positions that would be funded from general fund. We did not approve those positions in the executive budget, so that's why they wouldn't have showed upon the schedules.

**Senator Krauter** asked about the House Bills about political subdivisions in this session.

**Senator Krauter:** What are those political subdivisions doing now and where are they going for those audits and how much of an increase was it?

**Robert R. Peterson:** There has been an increase. The statute reads that if you are a city of 300 or more, you have to have an audit. There's legislation that passed the House that increased that to 500 or more, so that will help alleviate some problems. They are going to track it over the next two years and maybe increase the number. One city of 307 population had an audit bill of \$6,000. Because we were available and had more auditors, we were able to hold the price down.

**Senator Krauter:** What was average cost that you charged a political subdivision?

**Robert R. Peterson:** We didn't have an average. We went on the size of entity. I could get you the information. All we have to do is break even and cover expenses.

**Senator Krauter:** What is a typical audit – is it one hours or ten hours? Because at \$50 hours.....?

**Robert R. Peterson:** The review is just one hour. Also depends on size of entity.

**V. Chair Grindberg** asked about auditor rotation. The auditor performing audit can only be assumed for a certain amount of time. A long tenured auditor needs a fresh outlook – a new set of eyes on each case. How long before an auditor rotates?

**Robert R. Peterson:** I have managers that are dedicated to each area that we audit, such as the University System, political subs, or oil, coal and gas royalties, etc. We will move a team around. The senior staff schedules the agency audits and we try to work around the agency as well as the staff. The university system is not rotated because those people are in Fargo and they do all the audits in the University as well as the Mill and Elevator and the Vets Home. Sarbanes Oxley was passed because of the private sector and how cozy they had gotten with their auditing agencies. We aren't under same pressure to produce a better product. We like them to stay in their areas and they have more knowledge of their agencies.

**V. Chair Grindberg** closed the hearing on SB 1004.

## 2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1004

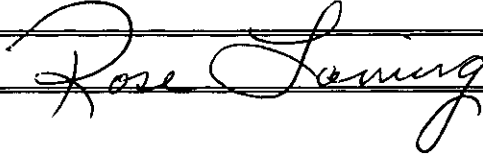
Senate Appropriations Committee

☐ Check here for Conference Committee

Hearing Date: March 13, 2009

Recorder Job Number: 10892 (59:04)

Committee Clerk Signature



Minutes:

**Chairman Holmberg** opened discussion on HB 1004 which is the State Auditor's budget.

**Senator Wardner** presented and explained amendment .0301. This is the auditor's budget and basically it just restores it to the way it was in the executive budget. If you turn to the back page of the fiscal note, it restores the funding for the IT security consultants. The House had taken out \$50,000. This is to allow people to test the system to see if they can break in. It's important to keep it as safe as possible, so we restored the \$50,000 there. We had \$25,000 taken out for operating expenses. There seems to be no reason and nobody knows why. We restored that. We also put the salary five and five back in. That's the \$158,301 and we restored the equity. There was one thing that the House had changed that we left alone. It's the changes in electronic working papers funding, and the amendment moved \$100,000 of the cost of the electronic working papers project from operating expenses to capital assets and the auditor's office was OK with that. Those are the amendments and I move that we adopt them.

**Senator Wardner moved Do Pass on amendment .0301**

**Senator Krauter seconded.**

**Voice vote passed.**



**Tammy Dolan:** This would include an additional \$200,000 for equity and is what the auditor's office requested.

**Senator Krauter:** This is also a reduction of 3 FTEs to the current biennium. Maybe we can fill those positions. We've tried to address that thing and it basically comes out to salary dollars aren't sufficient to compete in the market place. I don't know how much more money it's going to take to get applicants that are willing to apply. We're getting into a scenario where the market place for auditors, CPAs, and those types of individuals who are more into the performance type of things versus the bead counters. There are fewer and fewer out there and those that are out there are getting higher dollars.

**Chairman Holmberg:** We have the same thing in the attorney general's office. They had two positions; one, which was for an assistant attorney general, has been open for 19 months. That was federally funded, I believe. And then one position that is general funded that's been open for fourteen months. They have now started looking at interns and law school graduates. They are also looking at the interns that are here.

**Senator Krauter:** The auditor's office has currently four vacant FTEs and one has been vacant for 23 months. The other comment I'd like to make is that the IT security consultant does not only prevent breaking into the system from the outside but internally is really critical now. An internal FTE may figure out and want to get into the system for their benefits and this consultant is going to continue to hammer away to make sure those types of things internally don't happen.

**Senator Christmann:** It is a shame to see so much of this shift from the auditor's office to the private auditing firms because I don't know how many of you are on boards where you see audits getting turned in, but in the last few years, the audits done by major firms have gotten to be explaining why, if anything is wrong, it's not their fault and they couldn't possibly have

known. I hate to see political subs and other agencies we audit all get shifted out. I get almost nothing out of those audits. Everything with any red meat comes out of the auditor's office. The \$25,000 of operating expenses – what are we going to see if we give it back to them that we're not going to see if we don't?

**Senator Wardner:** It's that flexibility. It's drawing them down. They do not have any extra money. The \$25,000 was taken out and there was no reason to do so. They just decided to cut it out. It's an indiscriminate number. What we'll see is operation as usual. They won't be as restrictive. They'll have a little breathing room and that is said with a grain of salt. It's not much.

**Senator Christmann:** On these operating expense decreases by the House, I think we can find ourselves getting cavalier about how much they cut it, but keep in mind that the governor just increased it by a certain amount. There's some increase here and now we're talking about whether we should decrease the increase. It's hard to justify cutting it if it wasn't justified adding it. If you don't know what it's for, you'll justify that it shouldn't be there.

**Chairman Holmberg:** The bottom line on this one is that they have less money in operating for the next biennium than they did this biennium. This biennium they had \$810,000 and even though costs have gone up for some things, they are at \$784,000 now, so it's a reduction of \$25,500 total.

**Senator Wardner:** They had to explain and defend themselves when they went in for the governor's budget, and they got what they asked for. This could be for stationery, stamps, travel, and buyout. It's for a variety of things. They'd have to squeeze wherever they can. I'd like to make one last comment about the 3 FTEs that they dropped and dealing with audit for political subdivisions. They still have a unit in Fargo. That unit will continue to do audits for political subs working and competing with the private sector. They will come as far as

Bismarck. The one that was in Bismarck is the one that they cannot keep people. They don't have the experience, so everything west of Bismarck will have to go to the private sector and so they are not going to turn their back on it. They will continue to try and reinstate that at some time in the future.

**Senator Wardner moved Do Pass as Amended on HB 1004.**

**Senator Warner seconded.**

**A Roll Call vote was taken. Yea: 13    Nay: 0    Absent: 1**

**Senator Wardner will carry the bill.**

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

Page 1, line 12, replace "435,504" with "803,805" and replace "7,756,745" with "8,125,046"

Page 1, line 13, replace "(25,564)" with "(564)" and replace "784,985" with "809,985"

Page 1, line 15, replace "0" with "50,000" and replace "100,000" with "150,000"

Page 1, line 16, replace "499,940" with "943,241" and replace "8,741,730" with "9,185,031"

Page 1, line 17, replace "(312,198)" with "(272,972)" and replace "2,273,576" with "2,312,802"

Page 1, line 18, replace "812,138" with "1,216,213" and replace "6,468,154" with "6,872,229"

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT - LC 98005.0301 FN 1**

**A copy of the statement of purpose of amendment is attached.**

**STATEMENT OF PURPOSE OF AMENDMENT:****House Bill No. 1004 - State Auditor - Senate Action**

	<b>Executive Budget</b>	<b>House Version</b>	<b>Senate Changes</b>	<b>Senate Version</b>
Salaries and wages	\$8,125,046	\$7,756,745	\$368,301	\$8,125,046
Operating expenses	909,985	784,985	25,000	809,985
Capital assets		100,000		100,000
Information technology consultants	150,000	100,000	50,000	150,000
Total all funds	\$9,185,031	\$8,741,730	\$443,301	\$9,185,031
Less estimated income	2,312,802	2,273,576	39,226	2,312,802
General fund	\$6,872,229	\$6,468,154	\$404,075	\$6,872,229
FTE	51.80	51.80	0.00	51.80

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

	<b>Restores Funding for IT Security Consultants<sup>1</sup></b>	<b>Restores Funding for Operating Expenses<sup>2</sup></b>	<b>Restores Funding Related to Anticipated Salary Savings<sup>3</sup></b>	<b>Restores Salary Equity Funding<sup>4</sup></b>	<b>Total Senate Changes</b>
Salaries and wages			\$158,301	\$210,000	\$368,301
Operating expenses		25,000			25,000
Capital assets					
Information technology consultants	50,000				50,000
Total all funds	\$50,000	\$25,000	\$158,301	\$210,000	\$443,301
Less estimated income	0	0	39,226	0	39,226
General fund	\$50,000	\$25,000	\$119,075	\$210,000	\$404,075
FTE	0.00	0.00	0.00	0.00	0.00

<sup>1</sup> This amendment restores funding removed by the House for information technology consultants added in the executive budget to provide a total of \$150,000.

<sup>2</sup> This amendment restores funding removed by the House for operating expenses.

<sup>3</sup> This amendment restores funding for salaries and wages removed by the House to recognize anticipated savings from vacant positions and employee turnover.

<sup>4</sup> This amendment restores salary equity funding removed by the House.

## STATEMENT OF PURPOSE OF AMENDMENT:

## e Bill No. 1004 - Funding Summary

	Executive Budget	House Changes	House Version
State Auditor			
Salaries and wages	\$8,125,046	(\$368,301)	\$7,756,745
Operating expenses	909,985	(125,000)	784,985
Capital assets		100,000	100,000
Information technology consultants	150,000	(50,000)	100,000
Total all funds	\$9,185,031	(\$443,301)	\$8,741,730
Less estimated income	2,312,802	(39,226)	2,273,576
General fund	\$6,872,229	(\$404,075)	\$6,468,154
FTE	51.80	0.00	51.80
Bill Total			
Total all funds	\$9,185,031	(\$443,301)	\$8,741,730
Less estimated income	2,312,802	(39,226)	2,273,576
General fund	\$6,872,229	(\$404,075)	\$6,468,154
FTE	51.80	0.00	51.80

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

	Executive Budget	House Changes	House Version
Salaries and wages	\$8,125,046	(\$368,301)	\$7,756,745
Operating expenses	909,985	(125,000)	784,985
Capital assets		100,000	100,000
Information technology consultants	150,000	(50,000)	100,000
Total all funds	\$9,185,031	(\$443,301)	\$8,741,730
Less estimated income	2,312,802	(39,226)	2,273,576
General fund	\$6,872,229	(\$404,075)	\$6,468,154
FTE	51.80	0.00	51.80

## Department 117 - State Auditor - Detail of House Changes

	Decreases Funding for IT Security Consultants <sup>1</sup>	Changes Electronic Working Papers Funding <sup>2</sup>	Decreases Operating Expenses <sup>3</sup>	Reduces Funding for Anticipated Salary Savings <sup>4</sup>	Removes Salary Equity Funding <sup>5</sup>	Total House Changes
Salaries and wages				(158,301)	(210,000)	(368,301)
Operating expenses		(100,000)	(25,000)			(125,000)
Capital assets		100,000				100,000
Information technology consultants	(50,000)					(50,000)
Total all funds	(\$50,000)	\$0	(\$25,000)	(\$158,301)	(\$210,000)	(\$443,301)
Less estimated income	0	0	0	(39,226)	0	(39,226)
General fund	(\$50,000)	\$0	(\$25,000)	(\$119,075)	(\$210,000)	(\$404,075)
FTE	0.00	0.00	0.00	0.00	0.00	0.00

<sup>1</sup> This amendment decreases funding for information technology consultants by \$50,000 to provide a total of \$100,000.

is amendment moves \$100,000 of the cost of the electronic working papers project from operating expenses to capital assets.

This amendment decreases funding for operating expenses \$25,000.

This amendment reduces salaries and wages funding to recognize anticipated savings from vacant positions and employee turnover.

<sup>5</sup> This amendment removes funding added in the executive budget for state employee salary equity adjustments.

Date: 3-13-09

Roll Call Vote # 21

2009 SENATE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 1007

Senate Senate Appropriations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number .0301 voice vote

Action Taken ☒ Do Pass ☐ Do Not Pass ☐ Amended

Motion Made By Sen. Wardner Seconded By Sen. Krauter

Senators	Yes	No	Senators	Yes	No
Sen. Ray Holmberg, Chairman			Sen. Aaron Krauter		
Sen. Bill Bowman, VCh			Sen. Elroy N. Lindaas		
Sen. Tony S. Grindberg, VCh			Sen. Tim Mathern		
Sen. Randel Christmann			Sen. Larry J. Robinson		
Sen. Tom Fischer			Sen. Tom Seymour		
Sen. Ralph Kilzer			Sen. John Warner		
Sen. Karen K. Krebsbach					
Sen. Rich Wardner					

Total Yes \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

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

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



Date: 3-13-09Roll Call Vote # 2

**2009 SENATE STANDING COMMITTEE ROLL CALL VOTES**  
**BILL/RESOLUTION NO. 1004**

Senate Senate Appropriations Committee☐ Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken ☒ Do Pass ☐ Do Not Pass ☒ AmendedMotion Made By Wardner Seconded By Warner

Senators	Yes	No	Senators	Yes	No
Sen. Ray Holmberg, Chairman	✓		Sen. Aaron Krauter	✓	
Sen. Bill Bowman, VCh	✓		Sen. Elroy N. Lindaas <i>A</i>		
Sen. Tony S. Grindberg, VCh	✓		Sen. Tim Mathern	✓	
Sen. Randel Christmann	✓		Sen. Larry J. Robinson	✓	
Sen. Tom Fischer	✓		Sen. Tom Seymour	✓	
Sen. Ralph Kilzer	✓		Sen. John Warner	✓	
Sen. Karen K. Krebsbach	✓				
Sen. Rich Wardner	✓				

Total Yes 12 No 0Absent 2 1Floor Assignment Wardner

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** (13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). Engrossed HB 1004 was placed on the Sixth order on the calendar.

Page 1, line 12, replace "435,504" with "803,805" and replace "7,756,745" with "8,125,046"

Page 1, line 13, replace "(25,564)" with "(564)" and replace "784,985" with "809,985"

Page 1, line 15, replace "0" with "50,000" and replace "100,000" with "150,000"

Page 1, line 16, replace "499,940" with "943,241" and replace "8,741,730" with "9,185,031"

Page 1, line 17, replace "(312,198)" with "(272,972)" and replace "2,273,576" with "2,312,802"

Page 1, line 18, replace "812,138" with "1,216,213" and replace "6,468,154" with "6,872,229"

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT - LC 98005.0301 FN 1**

A copy of the statement of purpose of amendment is on file in the Legislative Council Office.

2009 HOUSE APPROPRIATIONS

CONFERENCE COMMITTEE

HB 1004

## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1004

House Appropriations Committee  
Government Operations Division

☒ Check here for Conference Committee

Hearing Date: 4/20/09

Recorder Job Number: 12018

Committee Clerk Signature

*Tonya Voegeli*

Minutes:

Vice Chairman Thoreson opened the discussion on House Bill 1004. All conferees were present.

**Senator Wardner:** We basically have four amendments to this bill. The first one was the information technology consultants. We added back the \$50,000. There was \$100,000 there so it makes a total of \$150,000. We feel that it is important that that money is going to be used to test the state's IT system to see if anyone can hack in. That is what this money would be used for. We think we want to have a secure state system and that was our reasoning there. Number two was the operating expenses and we have been doing this in all budgets, putting it back in. We feel that the state budgets are very tight and we are not sure what line item this \$25,000 would come out of. Number three, we restored the funding for salaries and wages of vacant positions and employee turnover. I am not going to go through the reasons right now but when we get to it we will discuss that. And then of course number four restores the salary equity portion. Those are the four areas where we are different. I think we have another thing that we might like to visit a little bit about and I think Senator Krauter when he gets back here will visit with you a little bit about that. We have one other issue that we want to at least talk

about. It is something that we had talked about a lot on our side however it is not a part of this bill.

**Vice Chairman Thoreson:** I guess at this time what we would like to do, obviously the equity issue number four is something that we are seeing throughout the various budgets and it is probably nothing that we will resolve at this time. I think what we will do is just talk about the other points and then if time allows we can visit on the issue that Senator Krauter had. We obviously won't be finishing up our work on this one today so if not we will take that up at the next meeting. On the first issue of the additional \$50,000 for the IT testing, what criteria did you use to feel that it was important to put the additional \$50,000 back in? I do recall our discussion on the House side on this and we felt that the \$100,000 was adequate but I guess I would just be interested in getting a little further clarification on that issue.

**Senator Wardner:** On that particular issue it is going to be the cost to have this done and the consultant that you would have to hire, it is going to cost, according to the State Auditor's Office, in order to do this for the state system it is going to cost at least \$150,000 in order to do an adequate job of testing the system to make sure that no one could hack in and get into private accounts and private information. It was a matter that the information that we had that it was going to cost more than \$100,000.

**Vice Chairman Thoreson:** So this would be used to hire a consultant to bid for that or get the contract for that information. Are there any questions or comments from anyone else on the committee on that issue?

**Representative Kempenich:** I think that was brought up and I think we were kind of quizzing ITD when we had them in front of us too. It was kind of what the process is. That is basically what you are doing is hiring hackers to go through the system. It is an audit in one sense of the

frame but I think that was where we were kind of coming from was the amounts and stuff is why we dropped it down. I don't think that it was an all year process if I remember right.

**Senator Bowman:** I kind of looked at it like it was an insurance policy against that particular business because if we can be assured that hackers can't get in, that is a fairly reasonable cost as an insurance policy against that. That doesn't mean five years from now they can't develop new technologies to do that but with the kind of information that they have and be able to know that that information is protected I think it is a fairly reasonable investment to find out the bottom line.

**Vice Chairman Thoreson:** I don't disagree with you. I do feel also that it is highly important to keep our state system sound so that people who are trying to be intruders or bad actors are kept away and you said five years, I think it is more like every five minutes probably somebody is coming up with some new malicious items so I guess whether we spend \$100,000, \$150,000 or \$1.5million, not that I am suggesting that, but we will just have to find a level where we are comfortable thinking that this is going to keep our system secure. I guess we can take into consideration the Senate's action on that and come back to that one. Item number two the operating expenses I think on the House side reduced the operating expenses in quite a few budgets. A lot of times it was tied to travel and that type of thing. I don't recall if that was the case in this situation.

**Representative Kempenich:** Some of it probably was but I don't think all of it was tied to travel though. I was trying to remember what we had. Some of it probably was but I don't think all of it was tied to travel.

**Senator Wardner:** In that particular amount, I guess it has been our position that the state agencies at least the ones that I have been involved with, they have very tight budgets and I guess I would like to know from the House side just what criteria they used to cut out the

\$25,000. We have got a \$9.1million budget and 51.8 employees and cutting out \$25,000 doesn't seem like it is going to make a big difference as far as the state budget. When you start talking about travel, we never know what the cost of travel is going to be, the cost of gas, it may go up and it may stay the same. Chances are that it is probably going to go up a little bit. This just simply gives them the ability to operate their agency without going to the Emergency Commission.

**Representative Kempenich:** These Electronic Work Papers I think when we changed the funding source. That is where we took the \$25,000 from. It went from an operating expense to a capital asset we took the \$25,000 operating out of those Electronic Work Papers.

**Senator Krauter:** So what you are saying is that you went from \$150,000 down to \$125,000 for that whole process of streamlining the efficiency of electronic papers versus paper and in testimony it was all about it said something like you can improve your office efficiency by 40% by reducing the hard copy paper and going with electronics, particularly in the auditing field.

**Representative Kempenich:** That is what the committee decided the \$25,000 should be reduced. We felt there should be some efficiency showing up in the operating part of that if they are going to sell it to us as efficient then that is where we took the \$25,000 out.

**Senator Krauter:** I guess I would have to ask the question when you build budgets and you have efficiencies you factor those things in so if the cost was \$200,000 and you could figure yourself 20-30 or 40% efficiency then you would basically put in a budget for \$150,000. That is the question I would have to ask versus did they say that it was going to cost \$150,000 and we will get \$25,000 efficiency out of it. That is the way you build a cost analysis budget so I would just have to ask if you could ask the Audit Manager that is sitting here today is that the way they built the budget?

**Vice Chairman Thoreson:** If you would like to address that I guess again just reminding you that this is not another hearing but for clarification and information for the committee I would go ahead and entertain that.

**Gordy Smith, State Auditor's Office:** What ended up, what we did with that is we figured the project is going to cost \$150,000. The efficiencies and we did have some and we took them this is kind of, it is the typical way that most audit shops operate is with these electronic work papers. Our concern is that by the time that we buy the product and by the time we implement the product and then the practice of start using it, we think that there will be savings but we didn't think we would save them this upcoming biennium. We figured the biennium after that is when we actually would realize those efficiencies. That was how we did it.

**Vice Chairman Thoreson:** Any further comments or questions from the committee on item number two? I guess again that is something we will just have to ponder prior to our next get together here. I think items three and four are fairly self explanatory. Number three you went ahead and restored the salary and wages, is that correct?

**Senator Wardner:** That is correct. We did.

**Vice Chairman Thoreson:** Number four of course is the equity issue which have discussed and discussed and will continue to discuss and when there is some resolution we will certainly address that.

**Senator Wardner:** I have a question on the vacant positions and employee turnover, do we have a bill out there that is doing this blanket?

**Representative Kempenich:** Yes and no. Probably not the way it was sent over in the OMB bill but on the back of Legislative Council there are amendments that were put on that are basically in conference on it. There is a vehicle but I don't think there is a standalone bill on it anymore.



**Senator Wardner:** It was in the OMB bill and we in the Senate probably took it out.

**Representative Kempenich:** I am guessing it did and then there were amendments that got put on coming back over.

**Senator Wardner:** That bill is still lying in our committee.

**Representative Glassheim:** If I am reading it right, there is a \$40,000 difference in income between the House version and the Senate version. I was wondering what that was about.

**Tammy Dolan, OMB:** I believe the \$40,000 that you are talking about, the difference is related to the reduction that was made for anticipated salary savings. When that change was restored on the Senate side it increased estimated income by \$39,226 so that would have been reduced on the House side. When you took out the money for the roll up dollars it changed. Part of their reduction was related to special fund authority which shows up on here as estimated income.

**Senator Wardner:** What kind of income are we talking about?

**Tammy Dolan, OMB:** That would be charges that the Auditor's Office charges political subdivisions.

**Vice Chairman Thoreson:** We have a couple of minutes left here I guess if we would like to just briefly touch on additional item which Senator Krauter would like to bring forward. Again we will be getting together sometime here in the near future but just so the committee is aware of that please go ahead and give us a brief overview.

**Senator Krauter:** It relates to political subdivisions and their audits. The department had eliminated or basically closed the Bismarck office that does political subdivision audits. They still have a Fargo one and that is where these revenues basically come from, that \$39,000.

The conference committee has met and finished their work on House Bill 1129 and that was the one where it was introduced as "may" do the audits for political subdivisions well the

conference committee has agreed and they came out with "shall" do the audits. It is one of those things where I think the State Auditor's back is up against the wall and they got no where to turn when it comes to doing those audits because they do not have the salaries and operating for staff to do political subdivisions audits other than what is in the Fargo office and what they could squeeze out in a time schedule in the tower here basically. It is something that we need to visit about. Do we need to give them the salary and the operating to do some of those or hire or potentially try to hire for those Bismarck or let's say Central North Dakota and Western North Dakota political subdivision audits?

**Vice Chairman Thoreson:** You said that bill has been returned from conference committee and that was agreed to on both sides correct?

**Senator Krauter:** Yes. House Bill 1129, the conferees were Andrist, Olafson, Dotzenrod and Koppelman, Pietsch and J. Kelsh

**Representative Kempenich:** What was told to us and you are seeing this with this equity money here is if that comes back I would hope that we would unclassify those positions then and then charge what it takes to keep it an auditor in place because that was the reason that we got told that they discontinued the Bismarck office is the problem of keeping auditors and that is the whole problem. You look at the equity part of this budget is the whole problem that we are facing. It is kind of self inflicted because we changed rules here a couple of years ago on hours towards audits to graduate out of college so we have kind of created our own shortage of auditors and I think that if we go down that path we are going to have to basically have, if it takes \$70,000 to keep an auditor then, because that is a self funded operation. There is no General Fund money running that operation right now. If we are going to go down that road we are going to have to do some changes here on what we pay the auditors if it is going

to be "shall" because I can't see forcing them to do something and then they can't employ the people to do it. We are going to be at a dilemma that way.

**Vice Chairman Thoreson:** Gordy, how many people are in the Fargo office and how many were in the Bismarck office?

**Gordy Smith, State Auditor's Office:** Right now we have six auditors doing political subdivisions in Fargo. Thank goodness we have one that has been there seven years but we have one that has been there two, one that has been there a year and a half and three that have been there less than six months. In Bismarck we had three when we closed the office. One had been here two years, two less than six months. We simply didn't feel comfortable that they had the expertise to go out and do the audits.

**Vice Chairman Thoreson:** Would you anticipate having to staff that many or a larger number say if it stays this "shall" will we have to add additional people in Bismarck? I guess I am just looking for some direction if 1129 goes forward that way, where will we end up?

**Gordy Smith, State Auditor's Office:** When we put that in our concern was we didn't want to be in a position to break the law. We are the Auditor's Office and we try to hold ourselves to a higher standard. If it said "shall" what our concern was what if ten counties from out west came and said we want you to do our audit. They can pick. They can either have a firm do it or they can have us do it. Our concern was what if you come in and ten of them say we want you to do our audit, what do we do? The Fargo office schedule is pretty much full. Three counties actually did come to Mr. Peterson the beginning of the session and he considered it and said yes we will do it and we added them to the Fargo's list. If we were going to try to do something in Bismarck, yes I would start off at trying to fund it just at the three we had but right now if 1129 goes forward as it is and it says "shall" if people come and ask us we are simply going to have to put them on the list but my concern is that they are required by law to be audited once

every two years and would we get to them in time? I don't know, I would have to look at what their schedule is down in Fargo.

Vice Chairman Thoreson closed the discussion on House Bill 1004.

## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1004

House Appropriations Committee  
Government Operations Division

☒ Check here for Conference Committee

Hearing Date: 4/25/09

Recorder Job Number: 12260

Committee Clerk Signature

*Jeannette Cook*

Minutes:

**Vice Chairman Thoreson** called the conference committee to order on House Bill 1004. All conferees were present.

**Vice Chairman Thoreson:** Looking through this we discussed the changes that the Senate made at our last meeting. Item 4 is the equity issue, and I believe that that has been resolved. I think we can go ahead and put a check mark next to that one. I am working off of the statement of purpose of the amendments, the restoring of the \$50,000 for the security consultants. I guess the House was fairly strong in the fact that we thought that the money put in there was originally \$150, and it would take it down to the \$50. We thought the \$50 would be able to accomplish what they wanted. The Senate may disagree. It is my hope that we can work toward a resolution.

**Senator Wardner:** On that particular issue, it is our understanding that if they are going to hire the people to complete the job they are going to need the whole \$150,000. When they submitted their budget, they didn't put in any fluff. That is what they need.

**Gordy Smith, State Auditor's Office:** When we originally submitted our budget we had \$200,000 in that line, and the Governor cut it down to \$150,000. We have done this for four years now, and each time the cost for these has gone up. They have traditionally tried to hack

into the state's system as if they are someone from outside the system. They have looked at one application, the GEN TAX system in the tax department. This time we would like to have them get inside the original firewall as if they were a disgruntled employee. We want to know how far they could get inside the system, and we want them to try at least two other applications. That is the basic purpose for the extra \$50,000. The hourly cost will go up, and we would like to have them do a little more than what they have done up to this point.

**Vice Chairman Thoreson:** Once they get into the firewalls and into the system, do they then hand off their information to you or ITD or who comes up with a fix for that?

**Gordy Smith, State Auditor's Office:** The minute they get access to a system, they stop, get a representative from that department, and they issues two reports. One is a very broad general report that is presented to legislators. One is a very techy detailed report that's confidential by law that we give to ITD because we don't want to make it public. Then ITD fixes the holes that were found.

**Vice Chairman Thoreson:** So, our Information Technology Department is responsible for coming up with a fix. Then do they go back a second time to try to hit that same spot?

**Gordy Smith, State Auditor's Office:** The next time they come in they will try to go back and try to get in the same way in which they were successful the first time.

**Vice Chairman Thoreson:** I am concerned about our system and want to make sure that it is secure as possible, and that we are getting value for the dollars that we put into it.

**Senator Krauter:** When we had this in the Senate what really struck us was that we have always looked at protection from the outside coming in to the system. This is the next step, the inside individuals. Even though it will cost more this time, to me that was the deciding factor.

**Representative Kempenich:** What would something like this be worth to a disgruntled employee if they wanted to sell the information?

**Gordy Smith, State Auditor's Office:** Say someone is unhappy with their job, and they have access to social security numbers, tax returns, or any other privacy health information that they would be able to get in beyond where they are supposed to be. They could sell the information to someone who could abuse it, or just take it and release it somewhere. The firm that we have do this, tests the security information for the feds. They told about someone who got into a computer in Human Service Computer in Pennsylvania. By getting into this computer they were able to get into about every state department in all of Pennsylvania's state government just by getting into one department. The next year that Human Services Department in Pennsylvania hired them, just themselves.

**Vice Chairman Thoreson:** My opinion is that we need to look at this a little further. Are there any further comments from the members? We are going to move on to the operating expenses of \$25,000. The electronic work papers were the major issue on that.

**Senator Wardner:** I don't know that could have been a part of it. It restores \$25,000 operating expenses. If it were a larger amount, we might look at a compromise, but it is such a small amount. The department is doing a very tight budget. This gives them some flexibility. It might be used to give bonuses. The state government is out there trying to recruit employees against the private sector. They need very skilled and talented people, this allows them to give a recruitment bonus. They do give some performance bonuses, which are limited. That may be the difference between retaining a quality person in the department versus losing them. The other thing any time someone leaves, they have to pick up the vacation pay and 10% of the sick leave. I do have a question, how much vacation time can a

person accrue in state service? These are all reasons that we think that the \$25,000 is a good bargain. It is important for them to have that flexibility.

**Robert Peterson, State Auditor:** You can carry over 240 hour per year. After 240 you will lose if you go beyond that for one year.

**Representative Kempenich:** They can carry over 240 hours? How long can they take off at one time?

**Robert Peterson, State Auditor:** It is up to the agency director. They can't let an employee take off an entire month because they will be missed. It think that the most that people take off is usually two weeks at a time. In my office we usually take off at the end of the year. After 18 years you get two days per month.

**Senator Wardner:** So, that equals about 30 days that they get. What is the vacation time per year?

**Robert Peterson, State Auditor:** It depends on how long they have been with the agency. I'll give you an example. When my father left office we had a sixty percent turnover in the agency because they didn't know who was going to be the next state auditor. That was a lot of money to be paid out.

**Senator Wardner:** If you accrue the 30 days, then you have to take your vacation or lose it. So, we are looking at about a month's salary when they leave state service.

**Senator Krauter:** The issue there is the efficiency that you will see by using the electronic working papers. The industry standards say that if you are going to continue to do things in a paper society, 50% of your time is moving paper and 50% of your time is being productive. By using the electronic working papers efficiency will be gained.

**Representative Kempenich** moved that the House accede to the Senate amendments on HB 1004.



Not identified: seconded the motion.

**Vice Chairman Thoreson:** There has been a motion and a second, but first we should clarify.....

**Representative Kempenich:** I should have clarified that, and further amend on number 4.  
We will have to take #4 out on that one. Can we do that?

Senator Wardner: It is my understanding that Council put in the correct verbage for that. But, I did think about one more issue. Let's have Council answer the question about the shell in the other bill.

Vice Chairman Thoreson: Let's go ahead and do this. Then maybe we will have to go back and pull the motion. Sheila, do you have some information?

Sheila: Because there is a difference in the equity the best way to do it would have the Senate recede from its amendments, and then do the conference committee amendment for the first three items. Then you need to further amend.

**Vice Chairman Thoreson:** We do have a motion and a second. We would need to withdraw.

**Representative Kempenich:** I will withdraw the motion.

**Unidentified:** I withdraw the second. 4 minutes

**Vice Chairman Thoreson:** The motion and the second have been withdrawn.

Unidentified: I move that the Senate recede from their amendments and further amend.

Unidentified: second.

**Vice Chairman Thoreson:** There is a motion and a second. If I am correct we are just dealing with those items not dealt with previously.

**Senator Krauter:** I beg to differ, but if we pass that motion, how are we going to get the issue of 1129 into this yet? We need to address 1129 before we make that motion because then we are done.

**Representative Kempenich:** We are further amending now, so if ...

**Senator Krauter:** If the chairman gavels down right now, we are done.

**Vice Chairman Thoreson:** That is a fair point. We have not discussed a lot on 1129. Maybe we are going to have to come back one more time and have a discussion on that issue.

**Representative Kempenich:** It is the House that is the problem on this. The "shall" getting left in that bill does create an issue. We either have to have it on record, or do something on how the auditor's office would handle that without doing anything further than what we have done.

They have that office in Fargo doing this. I think that if 1129 comes on, we will have to put some intent language in or pass some type of ..... I'm really uncomfortable forcing the auditor's office to mandate something to do. The problem that they are having is to get the people to do it. To either have the counties that are charged at cost or have the local political subdivisions are charged at cost. I don't know if the auditor's office wants to comment on that.

**Senator Wardner:** If I'm an auditor working out of the Fargo office, and I have to go to Crosby, North Dakota, I may just decide that it isn't worth it. It will cause problems in retaining staff.

**Vice Chairman Thoreson:** We are going to have to come back one more time and discuss this issue. We still have a motion and second out there. We can keep it until the next meeting. We can leave the motion open.

**Senator Krauter:** This issue of the mandated audits by the department. It is going to be, we fund them with one or two FTE's to do it, or we don't audit. It is unfortunate that it is that way. We need to figure out how we are going to fund it. Will it be general fund, special fund, or what? We can give them flexibility to be located where they want.

**Vice Chairman Thoreson:** This is something that we are going to have to resolve. I will try to have discussion with leadership on our side and perhaps the auditor's office before the next meeting.

**Vice Chairman Thoreson:** We will stand in recess until the call of the chair.

## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1004

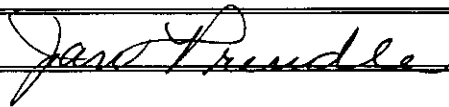
House Appropriations Committee  
Government Operations Division

☒ Check here for Conference Committee

Hearing Date: **27 April 2009**

Recorder Job Number: 12310

Committee Clerk Signature



Minutes:

**Vice Chairman Thoreson** called the conference committee on House Bill 1004 to order. All conferees were present. Chairman Delzer replaced Representative Kempenich.

**Vice Chairman Thoreson:** At our last meeting we came to agreement on almost everything.

There was an issue with House Bill 1129. That bill has passed and is with the Governor.

That means that the State Auditor will audit the political subs. We need to decide what if anything we need to do with this budget in reflecting with what has happened with 1129.

**Senator Wardner:** I'm not sure what we can do. Can we change it in this bill? It's over the word "shall." That means that the State Auditor "will" audit the political subs if they ask him to.

**Gordy Smith:** We originally introduced it because we had to close the Bismarck office of the political subdivision because we can't keep people. We can't recruit and them and we can't retain them. That is a self funded operation and so only as much as they make can they deposit in the fund. We introduced the bill so that if at some point if ten subdivisions in the Western part of the state came and asked for an audit, if we said no we didn't want to be breaking the law. There are plenty of political subdivision that are finding out with us not in the game in the Western part of the state, that the limited number of firms that are now doing these

are probably charging a premium price. Our only plan that we have come up with is if these ten counties came and asked us, we would have our Fargo branch put those on the list. To be perfectly frank, they are booked through the summer already. The political subs are required by law to be audited once every two years. When we could get to them would have a huge impact on them. We just found out on Friday that one of our people in Fargo has quit and is moving on to somewhere else. It is something that we have trouble with. 1129 calls for a study I hope we are able to get because it's a policy decision. It used to be generally funded until 91 then it was changed to this specific self funding mechanism. We had 3 senior members on the Bismarck team retire and we simply cannot replace them.

**Vice Chairman Thoreson:** Do you have any idea right now when these subdivisions go outside of your office what they are getting dinged to do this.

**Gordy Smith:** One we have heard of was Southart. They were getting charged for a city of 308 people around \$6,000. We sent out an RFT to do counties and had only had two responses and one was over \$40.0

**Senator Bowman:** If we changed that to "may" would this become law over the other.

**Chairman Delzer:** I believe that is true. The other thing you may do is leave it at "must" but then put a line in there that says only if the time and personnel and time to do it. Try that for two years and come back and see what the study says. That way we wouldn't be totally flying in the face of what the floors passed and it would make it a situation where you had a possibility to make it work.

**Vice Chairman Thoreson:** I think that is something I would be comfortable also.

**Senator Krauter:** What rate do you charge these political subdivisions right now? Give us the history since 1991.

**Gordy Smith:** We actually try if the person is only here a year, the rate for them is going to be a lot less than if someone is here for ten years. From 91 to now we have only charged enough of an amount so that fund carries about \$90.0 to \$100.0 in it. The thing to understand is that a political sub can put out an RFP and ask for bids and when we are in the game we may have artificially kept the price down because firms wanted to get the jobs rather than us. So we are bidding to barely make a profit so they were bidding down. Now once we are out of the game then I think they are more comfortable bidding at a more profitable margin.

**Senator Krauter:** Have you increased those rates because the bottom line is you need to pay to keep a comparable salary to keep these people on staff.

**Gordy Smith:** While we have not specifically addressed it we certainly are thinking that one of the methods we will have to use is to increase the amount over our costs to give us more flexibility to pay people more in order to retain them.

**Senator Krauter:** That is my point here. This is not a new issue here. It's been going on for 2 or 3 biennia. For us to study it again, we know what the issue is. We are not going to exempt the political subdivisions from audits done. So they are going to have to pay these exorbitant prices. My thought is that we give them the flexibility to raise those rates to cover the costs to pay some comparable salaries for these FTEs so they can continue to do it. The solution is in front of us.

**Gordy Smith:** I would say that even though these are classified positions, the salary range of the grade that they are, you have a fair amount of flexibility. Right now if we got lucky and found somebody with experience we could pay them more than what we have in the past and would have to charge a higher rate in order to recoup the costs. We do have some of that flexibility now.

**Senator Krauter:** We have fallen all over ourselves in this room to add 2 FTEs back to the Tax Department that were vacant for 38 months. They think they will get them filled. I would push the Auditor's office to get them filled and if you have the money, you have the flexibility to do that.

**Vice Chairman Thoreson:** The position in Fargo that just came open, are you going to start trying to fill that immediately or what is going to happen with that one?

**Gordy Smith:** It would be our intent to try to fill it immediately.

**Senator Bowman:** The flexibility in the rates to offset your costs, do you have by law the right to be able to raise your rates so you can generate the money it takes to keep these people?

**Gordy Smith:** Yes. The way the law reads we can charge enough to recoup our costs.

**Senator Wardner:** I think that is what you have to do.

**Robert Peterson, State Auditor:** The number one issue for political subs is not the money it is the travel. Travel is the number one issue as to why they quit. That is often the deciding issues. Yes we have the flexibility to raise the rates to whatever we want to; however, we don't have a captive clientele. They do not have to issue an RFP. They want to hire their local firms and they have the flexibility to hire whomever they choose. They don't have to put it out on bid. I know what you are saying, yes I can raise the rates but I don't have a captive clientele. If you want to give me a captive clientele to guarantee that revenue stream available to raise those salary dollars, we could work somewhere along that line. But, I cannot force them to hire me and as soon as I get high enough they are going to get another firm that's coming in. There is more to the dynamics than I can charge this and hire this guy for this kind of money. I'm competing against other small businesses.

**Senator Wardner:** You may have raise your rates to keep your auditors out of Fargo having to go out west so you don't lose them because of that travel.

**Chairman Delzer:** That is not fair to the small political subdivisions.

**Senator Krauter:** If you look at the list of the political subdivisions, they don't have a lot of resources. This has to be partnership. You have to be creative. What if that auditor lived in Dickens or Douglas? They don't have to live in Bismarck. If you get an applicant, I would think that some of these with the right salary who is an established individual in Minot could work out of his home for the state.

**Robert Peterson, State Auditor:** That is an issue. I would love to set up an office in Dickinson. It would cut down the travel time. The thing about hiring a CPA and saying they are going to work out of their home for the state auditor's office does have some merit; however, you come to a point where the guys says why do I want to work for the state why don't I take the business for myself. That's why I kind of want him in an office situation. Right now if the Fargo group decided to go private on me they could do that and I couldn't stop them. They could set up their own firm right now. They have the client list. I would be out of business. I would love to set up in Dickinson. It would cut down travel time immensely for the western part of time.

**Senator Krauter:** I think that is health. If you have somebody you developed and they went out and start their own business doing it, I don't see anything wrong with that. You don't have the FTEs and you don't have the audits. They can then do it and then you reduce one FTE and some expenses.

**Vice Chairman Thoreson:** We've had a good discussion. We need to figure out what we are going to do with this. It was my hope to get this wrapped up today.

**Senator Wardner:** I think we should wrap this bill up.



**Vice Chairman Thoreson:** The only issue is what Representative Delzer mentioned is do we want to put any kind of language in here that would soften the blow or do we just want to leave it be.

**Senator Wardner:** We have had a good discussion with the Auditor's Office and they know how we feel and we kind of understand them. Maybe they will try some things and make it work. Maybe in two years we'll figure out what needs to be done. The ultimate solution would be for us to fund the FTEs out of the budget and that would be it.

**Robert Peterson, State Auditor:** The only permanent solution would be to give me a captive clientele. That way I can't be underbid and I have the revenue coming in that I can make my budget accordingly and can pay accordingly to keep them.

**Vice Chairman Thoreson:** I'm not ready to make that and I don't think we are going to do that in this bill today. We have discussed the issue and I don't know if we need to take any action on it. We will certainly find out more about it in two years. There was a motion made at our previous meeting. We need to vote on that.

**Shiela:** In this case the Senate would recede from its amendments and then the bill would be amended on items 1, 2 and 3. Item 1 would restore the security consultant funds. Item 2 was to restore the operating expenses. Item 3 was to restore the anticipated salary savings of \$119.0. It would be further amendment for those 3 items. The fourth item was the salary equity funding that was put back—we would not put that back. Is that correct? So the motion would be to recede and amend.

The motion has been made and seconded and it's been out there so we are going to go ahead and take a vote on this and see if we can wrap it up.

**A roll call vote was taken. The motion passed.**

**The committee adjourned.**

All present

Withdrawn

Vote 1

REPORT OF CONFERENCE COMMITTEE  
(ACCEDE/RECEDE)

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

Date: 4/25/09

Your Conference Committee Gov Ops

For the Senate:

For the House:

	YES / NO			YES / NO	
Wardner			Thoreson		
Bawman			Kempenich		
Krauter			Glassheim		

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

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

\_\_\_\_\_, and place \_\_\_\_\_ 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.

((Re)Engrossed) \_\_\_\_\_ was placed on the Seventh order of business on the calendar.

DATE: \_\_\_\_\_

CARRIER: \_\_\_\_\_

LC NO.	of amendment
LC NO.	of engrossment
Emergency clause added or deleted	
Statement of purpose of amendment	

MOTION MADE BY: Kempenich

SECONDED BY: Wardner

VOTE COUNT    \_\_\_ YES    \_\_\_ NO    \_\_\_ ABSENT

Vok 2

Motion  
Left open

REPORT OF CONFERENCE COMMITTEE  
(ACCEDE/RECEDE)

Bill Number 1004 (, as (re)engrossed): Date: 4/25/09

Your Conference Committee Gov Ops

For the Senate:

For the House:

YES / NO			YES / NO		
Wardner	X		Thoreson	X	
Bowman	X		Kempenich <del>Delzer</del>		X
Krauter	X		Glassheim	X	

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

the (Senate/House) amendments on (SJ/HJ) page(s) \_\_\_\_\_

\_\_\_\_\_, and place \_\_\_\_\_ on the Seventh order.

X, 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.

((Re)Engrossed) \_\_\_\_\_ was placed on the Seventh order of business on the calendar.

DATE: \_\_\_\_\_

CARRIER: \_\_\_\_\_

LC NO.	of amendment
LC NO.	of engrossment
Emergency clause added or deleted	
Statement of purpose of amendment	

MOTION MADE BY: Wardner

Items 1, 2, 3

SECONDED BY: Kempenich

VOTE COUNT \_\_\_\_ YES \_\_\_\_ NO \_\_\_\_ ABSENT

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

That the Senate recede from its amendments as printed on page 1003 of the House Journal and page 753 of the Senate Journal and that Engrossed House Bill No. 1004 be amended as follows:

Page 1, line 12, replace "435,504" with "593,805" and replace "7,756,745" with "7,915,046"

Page 1, line 13, replace "(25,564)" with "(564)" and replace "784,985" with "809,985"

Page 1, line 15, replace "0" with "50,000" and replace "100,000" with "150,000"

Page 1, line 16, replace "499,940" with "733,241" and replace "8,741,730" with "8,975,031"

Page 1, line 17, replace "(312,198)" with "(272,972)" and replace "2,273,576" with "2,312,802"

Page 1, line 18, replace "812,138" with "1,006,213" and replace "6,468,154" with "6,662,229"

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT - LC 98005.0302 FN 1**

**A copy of the statement of purpose of amendment is attached.**

**STATEMENT OF PURPOSE OF AMENDMENT:****House Bill No. 1004 - State Auditor - Conference Committee Action**

	<b>Executive Budget</b>	<b>House Version</b>	<b>Conference Committee Changes</b>	<b>Conference Committee Version</b>	<b>Senate Version</b>	<b>Comparison to Senate</b>
Salaries and wages	\$8,125,046	\$7,756,745	\$158,301	\$7,915,046	\$8,125,046	(\$210,000)
Operating expenses	909,985	784,985	25,000	809,985	809,985	
Capital assets		100,000		100,000	100,000	
Information technology consultants	150,000	100,000	50,000	150,000	150,000	
Total all funds	\$9,185,031	\$8,741,730	\$233,301	\$8,975,031	\$9,185,031	(\$210,000)
Less estimated income	2,312,802	2,273,576	39,226	2,312,802	2,312,802	0
General fund	\$6,872,229	\$6,468,154	\$194,075	\$6,662,229	\$6,872,229	(\$210,000)
FTE	51.80	51.80	0.00	51.80	51.80	0.00

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

	<b>Restores Funding for IT Security Consultants<sup>1</sup></b>	<b>Restores Funding for Operating Expenses<sup>2</sup></b>	<b>Restores Funding Related to Anticipated Salary Savings<sup>3</sup></b>	<b>Total Conference Committee Changes</b>
Salaries and wages			\$158,301	\$158,301
Operating expenses		25,000		25,000
Capital assets				
Information technology consultants	50,000			50,000
Total all funds	\$50,000	\$25,000	\$158,301	\$233,301
Less estimated income	0	0	39,226	39,226
General fund	\$50,000	\$25,000	\$119,075	\$194,075
FTE	0.00	0.00	0.00	0.00

<sup>1</sup> This amendment restores funding removed by the House for information technology consultants added in the executive budget to provide a total of \$150,000, the same as the Senate version.

<sup>2</sup> This amendment restores funding removed by the House for operating expenses, the same as the Senate version.

<sup>3</sup> This amendment restores funding for salaries and wages removed by the House to recognize anticipated savings from vacant positions and employee turnover, the same as the Senate version.

Funding for salary equity is removed, the same as the House version. The Senate had restored this funding.

All present

Vote for  
Open motion

**REPORT OF CONFERENCE COMMITTEE  
(ACCEDE/RECEDE)**

Bill Number 1004 (, as (re)engrossed): Date: 4/27/09

Your Conference Committee Gov Ops

**For the Senate:**

**For the House:**

	YES / NO			YES / NO	
Wardner	X		Thoreson	X	
Bowman	X		Delzer		X
Krauter	X		Glassheim	X	

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

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

      , and place        on the Seventh order.

X, 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.

((Re)Engrossed)        was placed on the Seventh order of business on the calendar.

DATE:       

CARRIER:       

LC NO.	of amendment
LC NO.	of engrossment
Emergency clause added or deleted	
Statement of purpose of amendment	

MOTION MADE BY: Wardner Restore 1, 2, 3

SECONDED BY: Krauter

VOTE COUNT 5 YES 1 NO 0 ABSENT

Revised 4/1/05

**REPORT OF CONFERENCE COMMITTEE**

**HB 1004, as engrossed:** Your conference committee (Sens. Wardner, Bowman, Krauter and Reps. Thoreson, Delzer, Glassheim) recommends that the **SENATE RECEDE** from the Senate amendments on HJ page 1003, adopt amendments as follows, and place HB 1004 on the Seventh order:

That the Senate recede from its amendments as printed on page 1003 of the House Journal and page 753 of the Senate Journal and that Engrossed House Bill No. 1004 be amended as follows:

Page 1, line 12, replace "435,504" with "593,805" and replace "7,756,745" with "7,915,046"

Page 1, line 13, replace "(25,564)" with "(564)" and replace "784,985" with "809,985"

Page 1, line 15, replace "0" with "50,000" and replace the second "100,000" with "150,000"

Page 1, line 16, replace "499,940" with "733,241" and replace "8,741,730" with "8,975,031"

Page 1, line 17, replace "(312,198)" with "(272,972)" and replace "2,273,576" with "2,312,802"

Page 1, line 18, replace "812,138" with "1,006,213" and replace "6,468,154" with "6,662,229"

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT - LC 98005.0302 FN 1**

A copy of the statement of purpose of amendment is on file in the Legislative Council Office.

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

2009 TESTIMONY

HB 1004

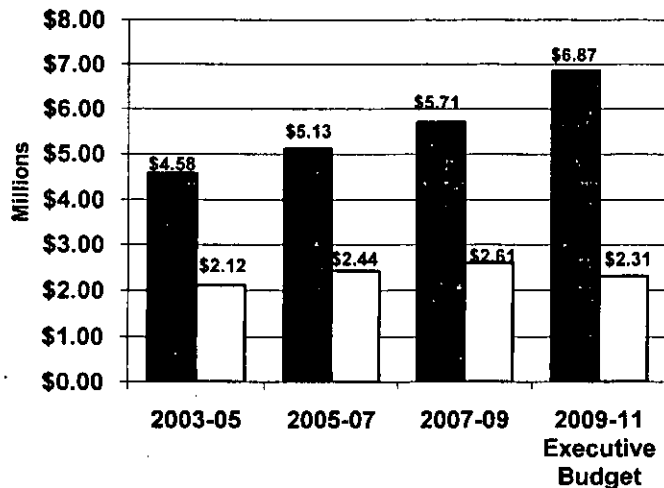


Department 117 - State Auditor  
House Bill No. 1004

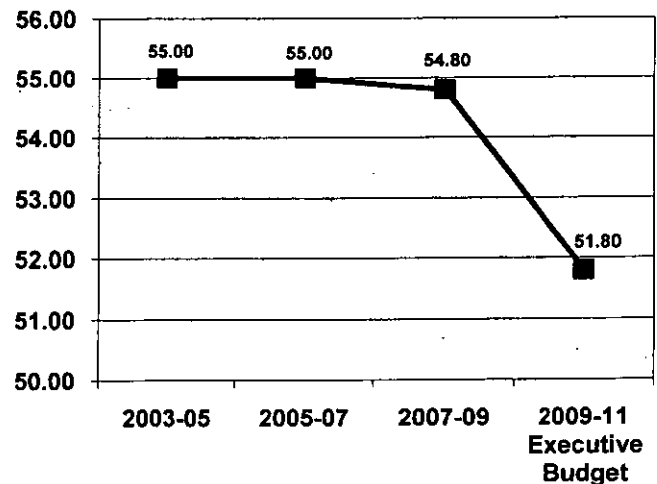
	FTE Positions	General Fund	Other Funds	Total
2009-11 Executive Budget	51.80	\$6,872,229	\$2,312,802	\$9,185,031
2007-09 Legislative Appropriations	54.80	5,714,677	2,610,202	8,324,879 <sup>1</sup>
Increase (Decrease)	(3.00)	\$1,157,552	(\$297,400)	\$860,152

<sup>1</sup>The 2007-09 appropriation amounts include \$83,089, \$58,661 of which is from the general fund, for the agency's share of the \$10 million funding pool appropriated to the Office of Management and Budget for special market equity adjustments for classified employees.

Agency Funding



FTE Positions



■ General Fund □ Other Funds

Ongoing and One-Time General Fund Appropriations

	Ongoing General Fund Appropriation	One-Time General Fund Appropriation	Total General Fund Appropriation
2009-11 Executive Budget	\$6,722,229	\$150,000	\$6,872,229
2007-09 Legislative Appropriations	5,714,677	0	5,714,677
Increase (Decrease)	\$1,007,552	\$150,000	\$1,157,552

First House Action

Attached is a summary of first house changes.

Executive Budget Highlights  
(With First House Changes in Bold)

	General Fund	Other Funds	Total
1. Provides funding for continuing existing salary levels	\$136,200		\$136,200
2. Provides funding to address salary equity issues, including \$10,000 for the related second-year salary increase. <b>The House removed this funding.</b>	\$210,000		\$210,000
3. Removes 3.00 FTE auditor II and auditor III positions related to the closing of the political subdivision audit office in Bismarck		(\$309,897)	(309,897)
4. Provides <b>one-time funding</b> for implementing electronic working papers	\$150,000		\$150,000
5. Provides a reduction for the net decrease in operating expenses relating to the closing of a political subdivision audit office in Bismarck	(\$21,293)	(\$29,271)	(\$50,564)
6. Removes prior capital asset appropriation provided in the 2007-09 biennium		(\$10,000)	(\$10,000)

7. Increases funding for an information technology security audit to provide a total of \$150,000. The House removed this increase.

\$50,000

\$50,000

### Other Sections in Bill

Section 3 of House Bill No. 1004 provides for the statutory changes necessary to increase the State Auditor's salary as follows:

Annual salary authorized by the 2007 Legislative Assembly:

July 1, 2007	\$76,511
July 1, 2008	\$79,571

Proposed annual salary recommended in the 2009-11 executive budget:

July 1, 2009	\$83,550
July 1, 2010	\$87,728

The executive recommendation provides funding for elected officials' salary increases equal to 5 percent of salaries effective July 1, 2009, and 5 percent effective July 1, 2010.

### Continuing Appropriations

No continuing appropriations for this agency.

### Major Related Legislation

**House Bill No. 1129** - This bill provides that the State Auditor may perform audits of political subdivisions rather than requiring the State Auditor to conduct these audits.

**House Bill No. 1148** - This bill requires the State Auditor to audit political subdivisions upon the request of the state court administrator.

**Senate Bill No. 2142** - This bill removes the requirement of the Information Technology Department to file with the State Auditor a description of the wide area network service the department provided to each private, charitable, and nonprofit entity receiving services from the department.

**Senate Bill No. 2144** - This bill allows the State Auditor to investigate or cause to be investigated any public employee or public official who defaults or creates a liability against the bonding fund.

**Senate Bill No. 2295** - This bill changes the minimum population requirement for an audit of a city from 300 to 500.

ACH:1



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

Attachment  
1004.1.12.09A

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

**TESTIMONY BEFORE THE  
HOUSE APPROPRIATIONS COMMITTEE**  
GOVERNMENT OPERATIONS DIVISION  
Representative Jeff Delzer, Chairman

January 12, 2009

---

H.B. No. 1004

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

---

The following testimony provides the information requested by Representative Jeff Delzer, Chairman House Appropriation's Government Operations Division, as identified in the December 19<sup>th</sup> letter from Mr. Allen Knudson, Legislative Budget Analyst and Auditor.

**Brief Historical Perspective**

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

- 1889 – North Dakota's first State Auditor took office. Much as county and city auditors function to this day, for the first 72 years of the state's existence the State Auditor functioned as a bookkeeper or accountant rather than a true "auditor."
- 1961 – The State Auditor's responsibilities were changed to performing the post audit of all financial transactions of state government. At the time this meant auditing 100 separate departments.
- 1969 – The State Auditor began performing audits of political subdivisions.
- 1971 – The Legislature gave counties the option to contract for their own audits and soon after that other political subdivisions were given the same power.
- 1973 – The State Auditor modernized operations of the office by adopting generally accepted auditing standards.

- 1975 – The State Auditor started to conduct performance audits to help improve the effectiveness and efficiency of state government.
- 1982 – The State Auditor was given the responsibility for performing royalty audits to ensure royalties are properly paid on federal oil, gas, and coal leases.
- 1984 – The Single Audit Act was passed. This act combined the responsibilities for auditing government financial statements with auditing compliance with requirements relating to Federal financial assistance. The State Auditor was given this responsibility, significantly increasing the auditors' work load.
- 1986 – Because of the demands associated with the Single Audit Act, performance audits were discontinued
- 1991 – The Legislature funded additional positions for the State Auditor to establish a performance audit function.
- 1991 – The Legislature required the State Auditor to audit the state-wide financial statements. At this time biennial agency audit reports went from including financial statements prepared in accordance with generally accepted accounting principles to only including reports on internal control and compliance with laws and regulations.
- 1991 – The State Auditor's Division of Local Government Audits became self-sufficient by the establishment of an operating fund for its revenues and expenditures.
- 1997 – Biennial agency audits started to include a statement of revenues and expenditures and an appropriations statement. These statements were audited in accordance with the financial statement audit standards.
- 2000 – Biennial agency audits switched to following the performance audit standards rather than the financial statement audit standards. This change was done in consultation with the Legislative Audit and Fiscal Review Committee. The objectives for biennial agency performance audits are to: provide reliable financial statements, identify and test controls for the most important areas of internal control; identify and test compliance for the most significant and high-risk areas of legislative intent, and; determine if there are areas of agency operations where we can help to improve efficiency or effectiveness.
- 2005 – The State Auditor received funding and authority to conduct the first statewide information technology security audit.

Each year new accounting and or auditing standards are issued. These new standards often increase the State Auditor's responsibilities and work load. The constant issuance of new standards from various standard setting bodies has caused many auditing firms nationally to complain about standards overload.

### **Mission and Purpose**

The mission of the State Auditor's Office 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.

An independent audit function is of critical importance to accountability in both business and government. The purpose of the State Auditor's office is to provide this critical element of accountability.

### **Budget Specific Information**

	2005-2007 Actual <u>Expend.</u>	2007-2009 <u>Approp.</u>	2007-2009 Estimated <u>Expend.</u>	2007-2009 Anticipated Unspent GF <u>Approp.</u>	2009-2011 Budget <u>Needs</u>
<b><u>Major Program</u></b>					
Administration	288,883	337,432	329,310	8,122	378,552
Division of Local Govt.	1,365,909	1,681,071	1,080,786		1,338,124
Division of State Audits	4,640,771	5,377,245	5,267,601	109,644	6,729,327
Mineral Royalty Auditing	707,779	929,131	724,224		974,678
<b>Total Major Programs</b>	<b>7,003,342</b>	<b>8,324,879</b>	<b>7,401,921</b>	<b>117,766</b>	<b>9,420,681</b>
<b><u>Line Item</u></b>					
Salaries & Wages	6,239,277	7,404,330	6,755,819	39,000	8,351,096
Operating	764,065	810,549	546,210	78,766	819,585
Capital Assets	0	10,000	0		100,000
Information Technology	0	100,000	99,892		150,000
<b>Total Line Items</b>	<b>7,003,342</b>	<b>8,324,879</b>	<b>7,401,921</b>	<b>117,766</b>	<b>9,420,681</b>
<b><u>Funding Source</u></b>					
General Funds	4,929,654	5,714,677	5,596,911	117,766	7,107,879
Federal Funds	707,779	929,131	724,224		974,678
Special Funds	1,365,909	1,681,071	1,080,786		1,338,124
<b>Total Funding Source</b>	<b>7,003,342</b>	<b>8,324,879</b>	<b>7,401,921</b>	<b>117,766</b>	<b>9,420,681</b>
<b>Total FTE</b>	<b>55.00</b>	<b>54.80</b>			<b>53.80</b>

### **Major Budget Variances of 2007-09 Current Estimates of Income and Expenditures**

The largest variance relates to special funds income for the Division of Local Government Audits. Employee turnover problems forced me to close the Bismarck branch office. The expenditure variance for the Division of Local Government relates to this closure. Operations continue from the Fargo branch office.

Federal funds income relates to our Division of Mineral Royalty Audit. This division incurred fewer reimbursable expenditures so revenue decreased.

**Major Budget Variances of 2009-11 Recommended Appropriations and Estimated Income Compared to the 2007-09 Biennium Appropriations and Estimated Income**

The Governor recommended an additional \$200,000 from the general fund for salary equity adjustments and \$135,000 from the general fund to restore funding reduced to achieve the hold-even budget request. Additional funding is needed to ensure our ability to retain and recruit highly qualified professionals. The 56<sup>th</sup> Legislative Assembly passed legislation requiring 150 credit hours as a minimum for candidates taking the CPA examination. Data shows this has resulted in significantly fewer people taking the CPA examination and fewer people pursuing accounting degrees. Further the Sarbanes-Oxley Act has significantly increased the demand for CPAs and accounting graduates. Additionally, the economy in North Dakota is growing and competition for these professionals has increased. These events have made attracting and retaining qualified professionals significantly more difficult.

The Governor also recommends \$150,000 from the general fund to implement electronic work papers to meet auditing standards and to create operational efficiencies. Some academicians estimate auditors spend up to 50% of their time on work paper documentation. Electronic work paper software companies estimate time savings of up to 40%. Our business case uses more conservative estimates, but it is easy to see a good system will result in significant time savings. This would allow auditors to spend less time documenting their work, and make supervisors review more efficiently, allowing both to add additional value to audits.

The additional \$50,000 general fund increase (to a total of \$150,000) for the statewide information technology security audit included in the Governors recommendation recognizes the increased cost of this type of contract work.

Relating to the closure of a Division of Local Government Audit branch office, three FTE and related operating expenses, funded entirely with special funds, have been removed from our budget.

### **Major Agency Initiatives and Program Changes for the 2009-11 Biennium**

Our major initiatives include our proposed electronic work paper system and continuing to recruit and retain highly qualified professionals. Each of these is explained below where we discuss improving our efficiency and effectiveness.

The 58<sup>rd</sup> Legislative Assembly passed legislation that gave us the power to conduct information technology compliance reviews as determined necessary by the information technology committee (NDCC section 54-10-28). These reviews would include information technology management, information technology planning, compliance with information technology plans, and compliance with information technology standards and policies and conducting statewide agency audits of compliance with specific information technology standards and policies. This legislation also allowed us to monitor major information technology projects for compliance with project management and information technology standards and policies. Given the state's spending on information systems this legislation is of critical importance.

Since no resources were provided, this legislation has not provided the benefits that it should. I believe these are extremely important functions and we have only been able to use existing resources to conduct one review and monitor web site accessibility at the request of the Information Technology Committee. Much more work should be done. I propose adding two FTE to my budget to fund these important functions.

### **Long-Term Plan for Improving the Efficiency and Effectiveness of Achieving our Mission and Purpose**

I'm proposing to implement an Electronic Work Paper system. The primary purpose of this project is to replace our existing paper based work papers with an electronic system. Work papers would be prepared, reviewed and stored electronically. This project will also replace our system for scheduling, staffing and tracking audits. Our best estimate is that we spend 35% of our audit time in documenting the audit. We estimate that we can save 25% of this time with an electronic system. The Governor included \$150,000 in the Executive Budget for this purpose.

As discussed above, the Governor recommended additional funding for our professional audit staff. We need to increase compensation to ensure we can attract and retain qualified professionals. There are fewer accountants and auditors available to meet increased demand

for these professionals. Qualified professionals must be recruited and retained to meet our goals and objectives relating to both performance and financial audits.

We are having difficulty getting qualified accountants to apply for our current starting salary of \$2,600 when private CPA firms in North Dakota have starting salaries of up to \$3,500 per month.



---

## **Program Goals 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**

This program includes all expenses associated with the State Auditor and the office manager, which consist primarily of salaries, travel expenses, professional development expenses, and professional services costs which benefit all programs of the office.

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

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

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

#### **Performance Audits -**

Performance auditing is an integral part of state government and has resulted in significant improvements to state entities. Performance audits have contributed to improving processes, efficiency and effectiveness of operations, and compliance with laws, rules and regulations. For example, we estimate that the implementation of five recommendations in the Department of Corrections and Rehabilitation performance audit report resulted in annual savings in excess of \$915,000 for the agency. Essentially performance audits determine if programs and/or entities are operating efficiently and effectively, determine if the programs are accomplishing what the Legislature intended them to accomplish, and provide information to management and the Legislature to make appropriate changes for improvement. A significant majority of states have performance audit functions.

During the 2007-2009 biennium the performance audit team completed a performance audit of the UND School of Medicine and Health Sciences and presented the report to the Legislative Audit and Fiscal Review Committee on November 19, 2007. The report contained 35 recommendations for improvement. This audit was mandated in UND's appropriation law passed by the 2007 Legislature.

In addition, during the current biennium the performance audit team completed a performance audit of the Wildlife Services Program administered by the Department of Agriculture. The performance audit report contained 11 recommendations and was presented to the Legislative Audit and Fiscal Review Committee on July 8, 2008. This audit was included in the Department of Agriculture's appropriation law passed by the 2007 Legislature.

The performance audit team also conducted follow-up audits of the following performance audits during the 2007-2009 biennium:

- Administrative Committee on Veteran's Affairs and Department of Veterans Affairs;
- Department of Corrections and Rehabilitation;
- Division of Emergency Management and 911 fees, and;
- Workforce Safety and Insurance.

In all instances the vast majority of recommendations from the original performance audits have either been fully or partially implemented.

Currently the performance audit team is conducting a performance audit of the North Dakota Department of Commerce. We anticipate completing this performance audit within the next few months.

Occasionally our work requires that we hire a consultant. This has proven to be an extremely valuable tool in conducting performance audits as it allows us to expand the scope of our work into specialized areas. For example, we hired a national consultant for the performance audit of the UND School of Medicine and Health Sciences who specifically reviewed the institution's research efforts and programs, educational training related to primary care, and the merger of the Department of Family Medicine and the Department of Community Medicine. The State Auditor's Office felt these areas were of interest to stakeholders and required specific expertise.

Consultants also allow us to leverage expensive consultant hours with our own work and as a result our staff increases their knowledge of the state entity's operations. The Legislative Audit and Fiscal Review Committee must approve (in advance) the hiring of a consultant for a performance audit. The state entity being audited pays for the consultant.

Every three years the State Auditor's Office is required to undergo a peer review process (also referred as a quality control review) by the National State Auditor's Association (NSAA). The NSAA organizes a team of management personnel from state audit organizations from around the country and reviews the audit process, audit reports and work papers from our office to ensure that our work meets nationally recognized standards. The performance audit division has not had a single finding in the last three NSAA peer review reports covering the past nine years.

#### **Operational Audits -**

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

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. Findings and recommendations range from improving computer security to protecting vulnerable citizens served by state agencies and improvements to make improvements to the State's system of adoption from foster care.

#### **Information Technology Audits -**

Our information systems auditors audit individual computer applications and computer environments.

During the current biennium we have completed these information technology audits:

- a) Tax Department's GenTax application
- b) Information Technology Department General Controls
- c) NDUS ConnectND Financials

These audits have resulted in critical findings and recommendations to make needed improvements to the state's computer system operated by ITD and to ConnectND Financials.

As part of the Information Technology Department audit we hired a consultant to conduct a security review of the state network. This audit resulted in a number of recommendations to improve the security of the state network and computer systems.

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

#### **Financial Statement Audits -**

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

Several important recommendations were made relating to our audits of the state's CAFR and the NDUS CAFR. For the 2007 State CAFR audit these findings included two material weaknesses in internal control and five other significant deficiencies. The NDUS audit resulted in seven material weaknesses and ten other significant deficiencies as well as a finding relating to abuse.

The statewide single audit of federal assistance received by all state agencies is a type of financial statement audit. This audit is required by federal law and is performed once every two years. The 2007-2008 single audit will require over 10,000 hours. All colleges and universities, and 34 state agencies receive and expend federal financial assistance. The 2005-2006 single audit covered \$2.4 billion of federal expenditures. The 2007-2008 federal single audit will be completed by March 31, 2009.

### **Program 3 – Division of Local Government Audits**

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

Due to employee turnover problems we were forced to close our Bismarck branch office in the summer of 2008. Operations continue in our Fargo branch office.

#### **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 50 audits, with public accounting firms performing about 325 local government audits.

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

Cities with less than 300 population, school districts with less than 100 enrolled students, park and soil conservation 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, school districts, rural fire protection districts, and rural ambulance service districts.

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

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

#### **Program 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 11 states and 7 Native American tribes participating in this program with the U.S. Department of Interior, Minerals Management Service Division.

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

Relating to our electronic work paper initiative, the entire \$150,000 included in the Executive Budget Recommendation was included under operating expenses. \$100,000 of that amount should have been included under capital assets (IT equipment and software over \$5,000). Therefore we are requesting the following amendment:

Increase "Capital assets" by \$100,000 and decrease "Operating expenses" by \$100,000.

To provide the resources to review information technology planning, compliance with information technology plans, and compliance with information technology standards and policies and to conduct statewide agency audits of compliance with specific information technology standards and policies in compliance with NDCC section 54-10-28, we propose adding two FTE along with additional operating expense appropriation.

Increase our FTE by 2 for additional Information Systems auditors and "Salary and wages" by \$226,050 and increase "Operating expenses" by \$9,600.

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

Page 1, line 12, replace "\$8,125,046" with "\$8,351,096"

Page 1, line 13, replace "909,985" with "819,585"

Page 1, line 14, replace "0" with "100,000"

Page 1, line 16, replace "\$9,185,031" with "\$9,420,681"

Page 1, line 18, replace "\$6,872,229" with "\$7,107,879"

Page 1, line 19, replace "51.80" with "53.80"



---

## STATE AUDITOR'S OFFICE FTE INFORMATION

---

The growth in the number of FTE in state government has contributed to the increased workload our office has experienced over the past several years. Increased FTE are generally tied to new programs or expansion of existing programs which translates into more government to audit. Other contributions to the growth in our workload include the increase in the complexity of operations of state government (i.e. more computerization etc) and the constant issuance of new standards in response to situations like Enron.

However, while the overall number of FTE in state government has grown over the past several years, the chart below clearly indicates that the State Auditor's Office has not contributed to the growth. In fact the State Auditor's Office currently has approximately 15% **fewer** FTE's than it did 16 years ago in the 1991-1993 biennium. The Governor's budget for the 2009-2011 biennium would provide approximately 52 FTE for our office which represents approximately 5% **fewer** FTE than our office had 10 years previously during the 1999-2001 biennium.

The number of the State Auditor's Office FTE's funded by the general fund (38) has essentially remained the same since the 1999-2001 biennium. As mentioned above, this is despite the significant increase in our workload. The State Auditor's Office has consistently been innovative and used technology to help us "do more with less" in order to fulfill our responsibilities.

---

BIENNIUM	TOTAL FTEs	GENERAL FUND FTEs
2009-2011	53.8*	37.8
2007-2009	54.8	37.8
2005-2007	55	38
2003-2005	55	38
2001-2003	55	38
99-2001	55	38
97-99	56	39
95-97	54	37
93-95	58	36
91-93	65	41

---

\* Presumes that we delete 3 FTE for political subdivision office closure, and we receive 2 additional FTE positions for IT audits.

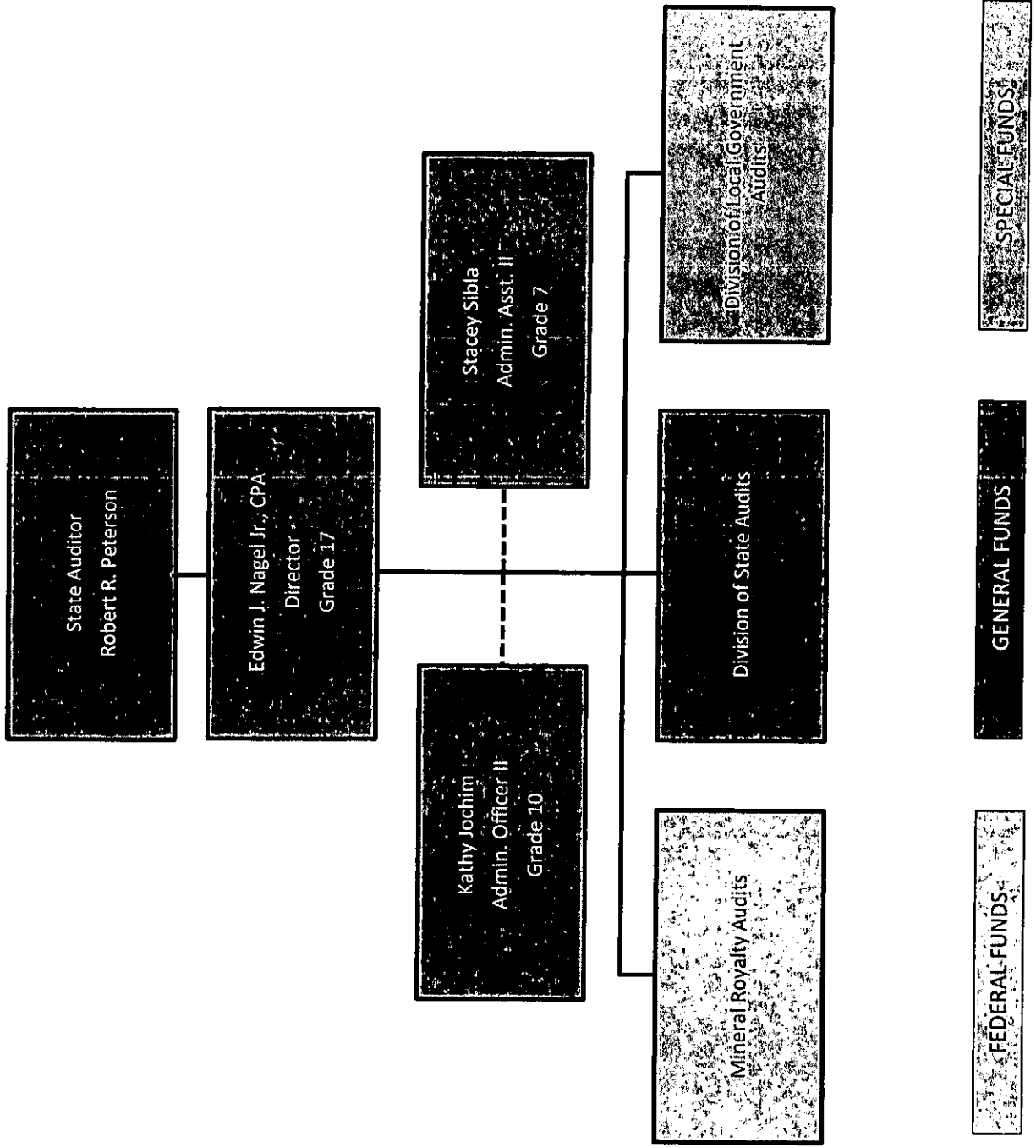
**HOUSE APPROPRIATIONS COMMITTEE**  
*GOVERNMENT OPERATIONS DIVISION*  
Representative Jeff Delzer, Chairman

State Auditor  
House Bill 1004

Information request from January 12, 2009

Organizational Charts by Division With  
Classifications, Pay Grades and Vacant Positions

OFFICE OF THE STATE AUDITOR

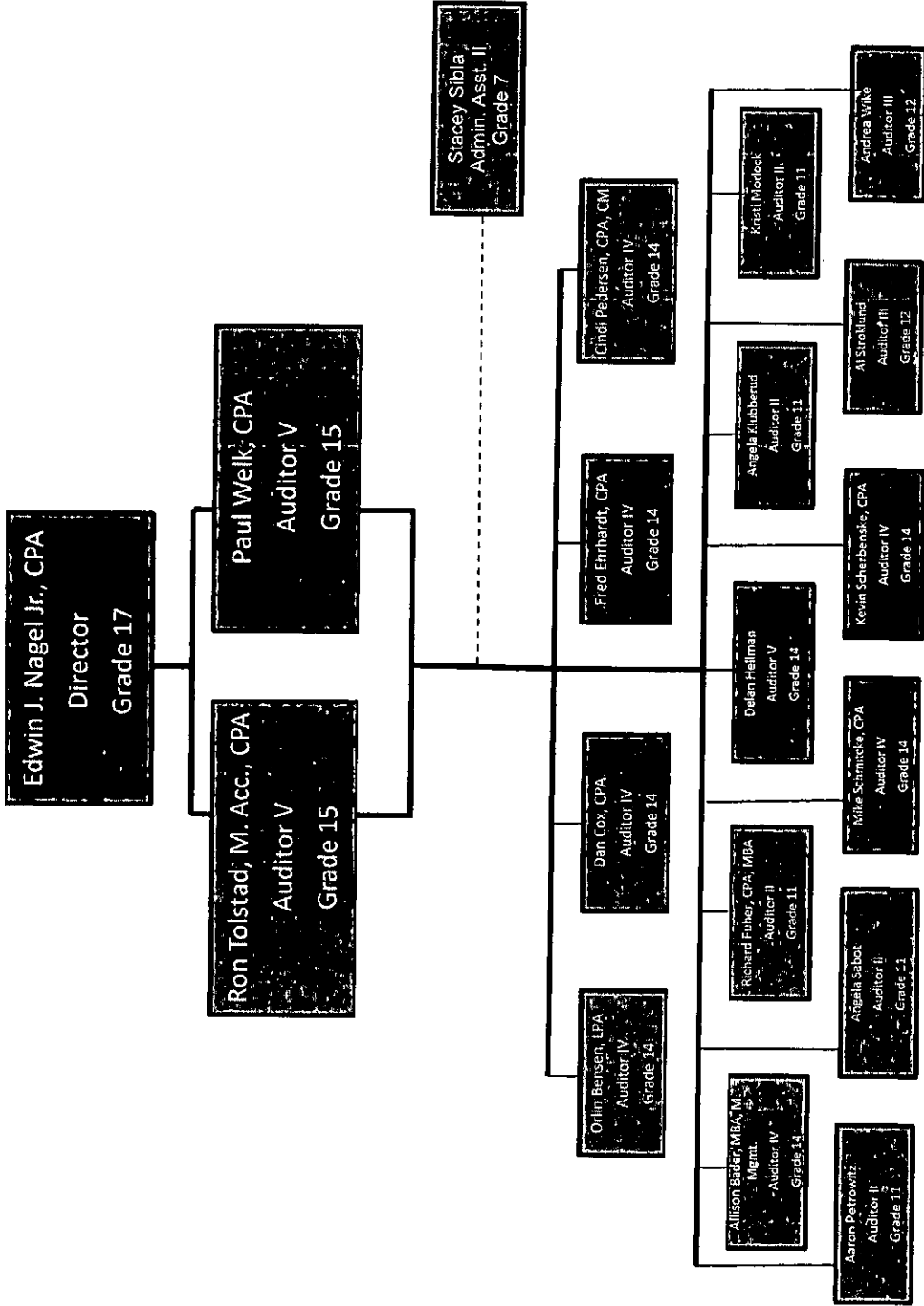


ADMINISTRATION  
1.8 FTE

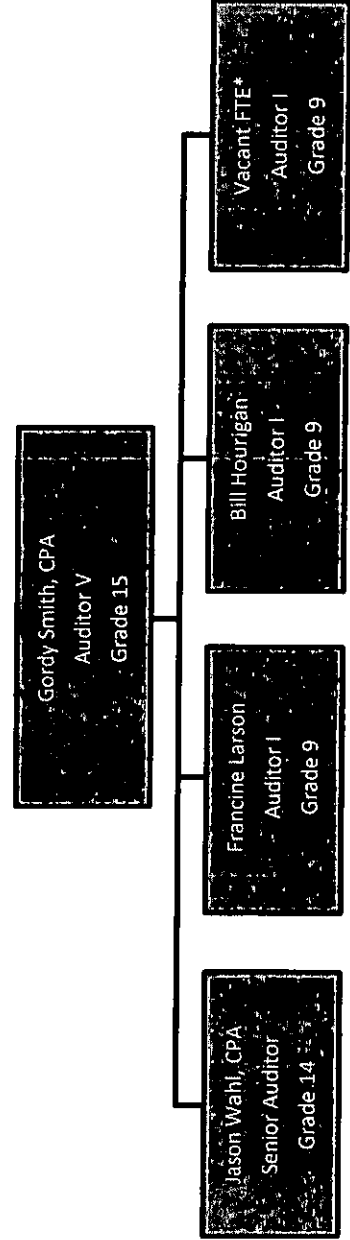
State Auditor  
Robert R. Peterson

Kathy Jochim  
Office Manger  
Grade 10  
.8 FTE

# AGENCY AUDITS 19 FTE (OF 36 STATE AUDIT FTE'S)

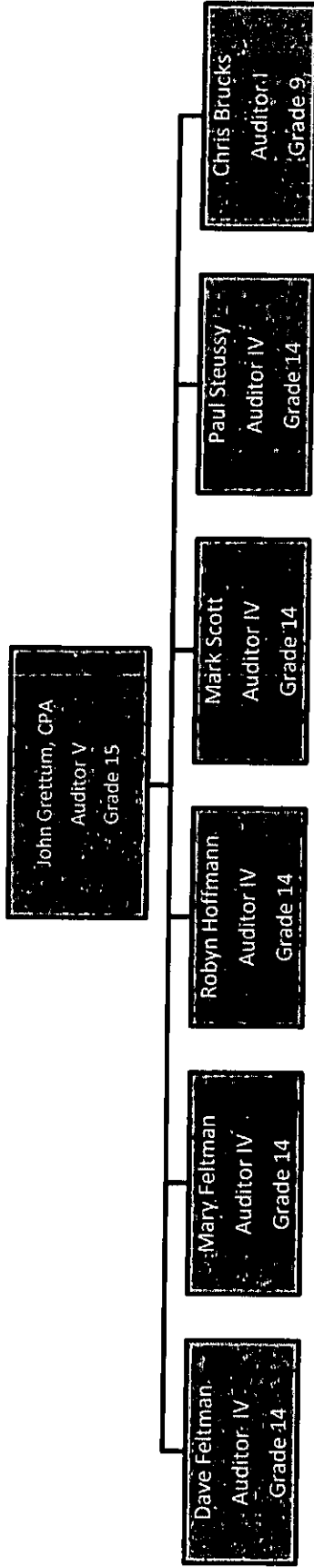


PERFORMANCE AUDITS  
5 FTE (OF 36 STATE AUDIT  
FTE'S)

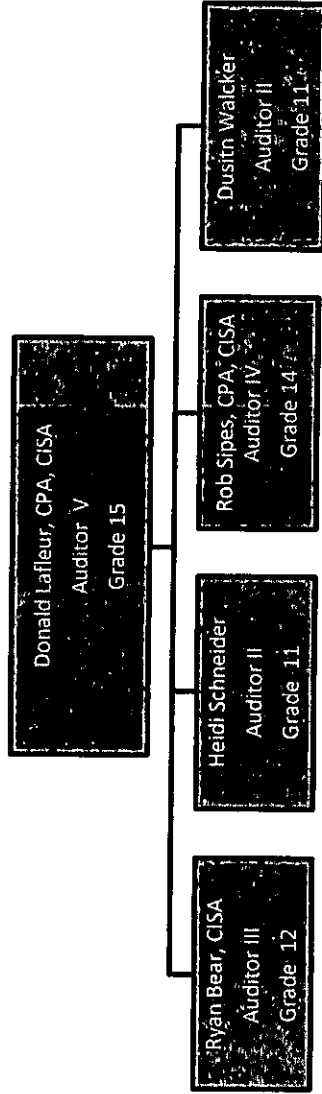


\*Position vacated September 2008, interviews to fill this position are scheduled for January 22, 2009

UNIVERSITY SYSTEM AUDITS  
7 FTE (OF 36 STATE AUDIT FTE)

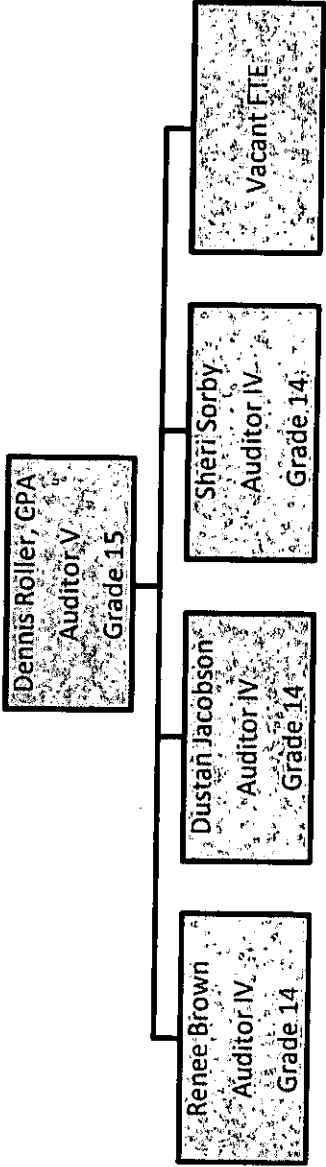


INFORMATION SYSTEMS AUDITS  
5 FTE (OF 36 SATE AUDIT FTE'S)

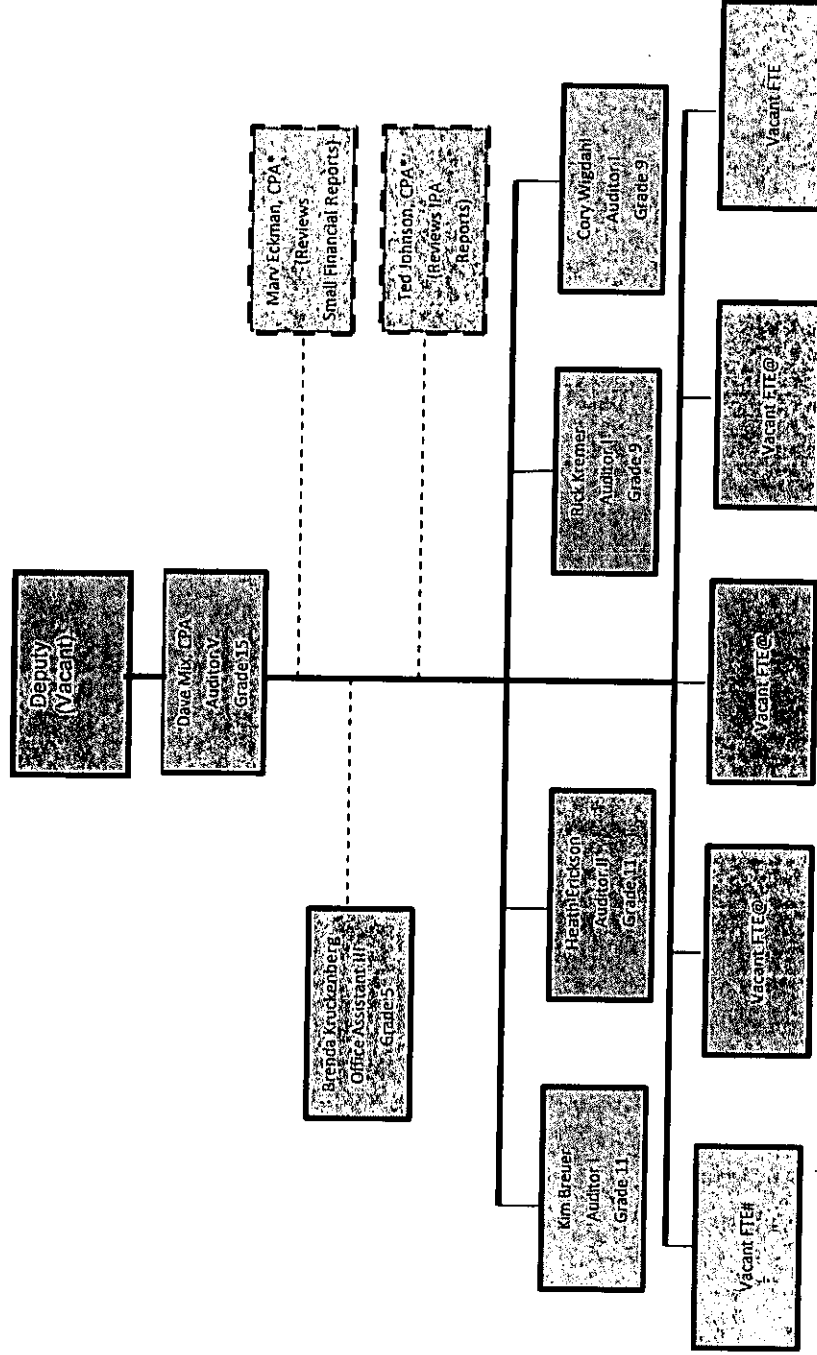




MINERAL ROYALTY AUDITS  
5 FTE



# Division of Local Government Audits



\* Part Time Temporary Employees

# Currently interviewing applicants for this position.

@ The Executive Budget removes three FTE.

Pay Grade  
and Salary Range

Director, Grade 17 5,222 - 8,703
Auditor V, Grade 15 4,174 - 6,956
Auditor IV, Grade 14 3,748 - 6,246
Auditor III, Grade 12 3,082 - 5,136
Auditor II, Grade 11 2,818 - 4,696
Auditor I, Grade 9 2,385 - 3,974
Admin. Officer II, Grade 10 2,588 - 4,314
Admin. Asst. II, Grade 7 1,923 - 3,205
Office Asst. III, Grade 5 1,572 - 2,620



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, CHAIR

February 25, 2009

---

H.B. No. 1004

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

---

The following testimony provides the information requested by Representative Jeff Delzer, Chairman House Appropriation's Government Operations Division, as identified in the December 19<sup>th</sup> letter from Mr. Allen Knudson, Legislative Budget Analyst and Auditor.

**Brief Historical Perspective**

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

- 1889 – North Dakota's first State Auditor took office. Much as county and city auditors function to this day, for the first 72 years of the state's existence the State Auditor functioned as a bookkeeper or accountant rather than a true "auditor."
- 1961 – The State Auditor's responsibilities were changed to performing the post audit of all financial transactions of state government. At the time this meant auditing 100 separate departments.
- 1969 – The State Auditor began performing audits of political subdivisions.
- 1971 – The Legislature gave counties the option to contract for their own audits and soon after that other political subdivisions were given the same power.
- 1973 – The State Auditor modernized operations of the office by adopting generally accepted auditing standards.

- 1975 – The State Auditor started to conduct performance audits to help improve the effectiveness and efficiency of state government.
- 1982 – The State Auditor was given the responsibility for performing royalty audits to ensure royalties are properly paid on federal oil, gas, and coal leases.
- 1984 – The Single Audit Act was passed. This act combined the responsibilities for auditing government financial statements with auditing compliance with requirements relating to Federal financial assistance. The State Auditor was given this responsibility, significantly increasing the auditors' work load.
- 1986 – Because of the demands associated with the Single Audit Act, performance audits were discontinued
- 1991 – The Legislature funded additional positions for the State Auditor to establish a performance audit function.
- 1991 – The Legislature required the State Auditor to audit the state-wide financial statements. At this time biennial agency audit reports went from including financial statements prepared in accordance with generally accepted accounting principles to only including reports on internal control and compliance with laws and regulations.
- 1991 – The State Auditor's Division of Local Government Audits became self-sufficient by the establishment of an operating fund for its revenues and expenditures.
- 1997 – Biennial agency audits started to include a statement of revenues and expenditures and an appropriations statement. These statements were audited in accordance with the financial statement audit standards.
- 2000 – Biennial agency audits switched to following the performance audit standards rather than the financial statement audit standards. This change was done in consultation with the Legislative Audit and Fiscal Review Committee. The objectives for biennial agency performance audits are to: provide reliable financial statements, identify and test controls for the most important areas of internal control; identify and test compliance for the most significant and high-risk areas of legislative intent, and; determine if there are areas of agency operations where we can help to improve efficiency or effectiveness.
- 2005 – The State Auditor received funding and authority to conduct the first statewide information technology security audit.

Each year new accounting and or auditing standards are issued. These new standards often increase the State Auditor's responsibilities and work load. The constant issuance of new standards from various standard setting bodies has caused many auditing firms nationally to complain about standards overload.

### **Mission and Purpose**

The mission of the State Auditor's Office 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.

An independent audit function is of critical importance to accountability in both business and government. The purpose of the State Auditor's office is to provide this critical element of accountability.

### **Budget Specific Information**

	2005-2007 Actual <u>Expend.</u>	2007-2009 <u>Approp.</u>	2007-2009 Estimated <u>Expend.</u>	2007-2009 Anticipated Unspent GF <u>Approp.</u>	2009-2011 Budget <u>Needs</u>
<b><u>Major Program</u></b>					
Administration	288,883	337,432	329,310	8,122	378,552
Division of Local Govt.	1,365,909	1,681,071	1,080,786		1,338,124
Division of State Audits	4,640,771	5,377,245	5,267,601	109,644	6,729,327
Mineral Royalty Auditing	707,779	929,131	724,224		974,678
<b>Total Major Programs</b>	<b>7,003,342</b>	<b>8,324,879</b>	<b>7,401,921</b>	<b>117,766</b>	<b>9,420,681</b>
<b><u>Line Item</u></b>					
Salaries & Wages	6,239,277	7,404,330	6,755,819	39,000	8,351,096
Operating	764,065	810,549	546,210	78,766	819,585
Capital Assets	0	10,000	0		100,000
Information Technology	0	100,000	99,892		150,000
<b>Total Line Items</b>	<b>7,003,342</b>	<b>8,324,879</b>	<b>7,401,921</b>	<b>117,766</b>	<b>9,420,681</b>
<b><u>Funding Source</u></b>					
General Funds	4,929,654	5,714,677	5,596,911	117,766	7,107,879
Federal Funds	707,779	929,131	724,224		974,678
Special Funds	1,365,909	1,681,071	1,080,786		1,338,124
<b>Total Funding Source</b>	<b>7,003,342</b>	<b>8,324,879</b>	<b>7,401,921</b>	<b>117,766</b>	<b>9,420,681</b>
<b>Total FTE</b>	<b>55.00</b>	<b>54.80</b>			<b>53.80</b>

### **Major Budget Variances of 2007-09 Current Estimates of Income and Expenditures**

The largest variance relates to special funds income for the Division of Local Government Audits. Employee turnover problems forced me to close the Bismarck branch office. The expenditure variance for the Division of Local Government relates to this closure. Operations continue from the Fargo branch office.

Federal funds income relates to our Division of Mineral Royalty Audit. This division incurred fewer reimbursable expenditures so revenue decreased.

**Major Budget Variances of 2009-11 Recommended Appropriations and Estimated Income Compared to the 2007-09 Biennium Appropriations and Estimated Income**

The Governor recommended an additional \$200,000 from the general fund for salary equity adjustments and \$135,000 from the general fund to restore funding reduced to achieve the hold-even budget request. Additional funding is needed to ensure our ability to retain and recruit highly qualified professionals. The 56<sup>th</sup> Legislative Assembly passed legislation requiring 150 credit hours as a minimum for candidates taking the CPA examination. Data shows this has resulted in significantly fewer people taking the CPA examination and fewer people pursuing accounting degrees. Further the Sarbanes-Oxley Act has significantly increased the demand for CPAs and accounting graduates. Additionally, the economy in North Dakota is growing and competition for these professionals has increased. These events have made attracting and retaining qualified professionals significantly more difficult.

The Governor also recommends \$150,000 from the general fund to implement electronic work papers to meet auditing standards and to create operational efficiencies. Some academicians estimate auditors spend up to 50% of their time on work paper documentation. Electronic work paper software companies estimate time savings of up to 40%. Our business case uses more conservative estimates, but it is easy to see a good system will result in significant time savings. This would allow auditors to spend less time documenting their work, and make supervisors review more efficiently, allowing both to add additional value to audits.

The additional \$50,000 general fund increase (to a total of \$150,000) for the statewide information technology security audit included in the Governors recommendation recognizes the increased cost of this type of contract work.

Relating to the closure of a Division of Local Government Audit branch office, three FTE and related operating expenses, funded entirely with special funds, have been removed from our budget.

### **Major Agency Initiatives and Program Changes for the 2009-11 Biennium**

Our major initiatives include our proposed electronic work paper system and continuing to recruit and retain highly qualified professionals. Each of these is explained below where we discuss improving our efficiency and effectiveness.

The 58th Legislative Assembly passed legislation that gave us the power to conduct information technology compliance reviews as determined necessary by the information technology committee (NDCC section 54-10-28). These reviews would include information technology management, information technology planning, compliance with information technology plans, and compliance with information technology standards and policies and conducting statewide agency audits of compliance with specific information technology standards and policies. This legislation also allowed us to monitor major information technology projects for compliance with project management and information technology standards and policies. Given the state's spending on information systems this legislation is of critical importance.

Since no resources were provided, this legislation has not provided the benefits that it should. I believe these are extremely important functions and we have only been able to use existing resources to conduct one review and monitor web site accessibility at the request of the Information Technology Committee. Much more work should be done. I propose adding two FTE to my budget to fund these important functions.

### **Long-Term Plan for Improving the Efficiency and Effectiveness of Achieving our Mission and Purpose**

I'm proposing to implement an Electronic Work Paper system. The primary purpose of this project is to replace our existing paper based work papers with an electronic system. Work papers would be prepared, reviewed and stored electronically. This project will also replace our system for scheduling, staffing and tracking audits. Our best estimate is that we spend 35% of our audit time in documenting the audit. We estimate that we can save 25% of this time with an electronic system. The Governor included \$150,000 in the Executive Budget for this purpose.

As discussed above, the Governor recommended additional funding for our professional audit staff. We need to increase compensation to ensure we can attract and retain qualified professionals. There are fewer accountants and auditors available to meet increased demand



for these professionals. Qualified professionals must be recruited and retained to meet our goals and objectives relating to both performance and financial audits.

We are having difficulty getting qualified accountants to apply for our current starting salary of \$2,700<sup>Mo</sup> when private CPA firms in North Dakota have starting salaries of up to \$3,500 per month.

---

## **Program Goals 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**

This program includes all expenses associated with the State Auditor and the office manager, which consist primarily of salaries, travel expenses, professional development expenses, and professional services costs which benefit all programs of the office.

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

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

#### **Performance Audits -**

Performance auditing is an integral part of state government and has resulted in significant improvements to state entities. Performance audits have contributed to improving processes, efficiency and effectiveness of operations, and compliance with laws, rules and regulations. For example, we estimate that the implementation of five recommendations in the Department of Corrections and Rehabilitation performance audit report resulted in annual savings in excess of \$915,000 for the agency. Essentially performance audits determine if programs and/or entities are operating efficiently and effectively, determine if the programs are accomplishing what the Legislature intended them to accomplish, and provide information to management and the Legislature to make appropriate changes for improvement. A significant majority of states have performance audit functions.

During the 2007-2009 biennium the performance audit team completed a performance audit of the UND School of Medicine and Health Sciences and presented the report to the Legislative Audit and Fiscal Review Committee on November 19, 2007. The report contained 35

recommendations for improvement. This audit was mandated in UND's appropriation law passed by the 2007 Legislature.

In addition, during the current biennium the performance audit team completed a performance audit of the Wildlife Services Program administered by the Department of Agriculture. The performance audit report contained 11 recommendations and was presented to the Legislative Audit and Fiscal Review Committee on July 8, 2008. This audit was included in the Department of Agriculture's appropriation law passed by the 2007 Legislature.

The performance audit team also conducted follow-up audits of the following performance audits during the 2007-2009 biennium:

- Administrative Committee on Veteran's Affairs and Department of Veterans Affairs;
- Department of Corrections and Rehabilitation;
- Division of Emergency Management and 911 fees, and;
- Workforce Safety and Insurance.

In all instances the vast majority of recommendations from the original performance audits have either been fully or partially implemented.

Currently the performance audit team is conducting a performance audit of the North Dakota Department of Commerce. We anticipate completing this performance audit within the next few months.

Occasionally our work requires that we hire a consultant. This has proven to be an extremely valuable tool in conducting performance audits as it allows us to expand the scope of our work into specialized areas. For example, we hired a national consultant for the performance audit of the UND School of Medicine and Health Sciences who specifically reviewed the institution's research efforts and programs, educational training related to primary care, and the merger of the Department of Family Medicine and the Department of Community Medicine. The State Auditor's Office felt these areas were of interest to stakeholders and required specific expertise.

Consultants also allow us to leverage expensive consultant hours with our own work and as a result our staff increases their knowledge of the state entity's operations. The Legislative Audit and Fiscal Review Committee must approve (in advance) the hiring of a consultant for a performance audit. The state entity being audited pays for the consultant.

Every three years the State Auditor's Office is required to undergo a peer review process (also referred as a quality control review) by the National State Auditor's Association (NSAA). The NSAA organizes a team of management personnel from state audit organizations from around the country and reviews the audit process, audit reports and work papers from our office to ensure that our work meets nationally recognized standards. The performance audit division has not had a single finding in the last three NSAA peer review reports covering the past nine years.

### **Operational Audits -**

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

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. Findings and recommendations range from improving computer security to protecting vulnerable citizens served by state agencies and improvements to make improvements to the State's system of adoption from foster care.

### **Information Technology Audits -**

Our information systems auditors audit individual computer applications and computer environments.

During the current biennium we have completed these information technology audits:

- a) Tax Department's GenTax application
- b) Information Technology Department General Controls
- c) NDUS ConnectND Financials

These audits have resulted in critical findings and recommendations to make needed improvements to the state's computer system operated by ITD and to ConnectND Financials.

As part of the Information Technology Department audit we hired a consultant to conduct a security review of the state network. This audit resulted in a number of recommendations to improve the security of the state network and computer systems.

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

#### **Financial Statement Audits -**

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

Several important recommendations were made relating to our audits of the state's CAFR and the NDUS CAFR. For the 2007 State CAFR audit these findings included two material weaknesses in internal control and five other significant deficiencies. The NDUS audit resulted in seven material weaknesses and ten other significant deficiencies as well as a finding relating to abuse.

The statewide single audit of federal assistance received by all state agencies is a type of financial statement audit. This audit is required by federal law and is performed once every two years. The 2007-2008 single audit will require over 10,000 hours. All colleges and universities, and 34 state agencies receive and expend federal financial assistance. The 2005-2006 single audit covered \$2.4 billion of federal expenditures. The 2007-2008 federal single audit will be completed by March 31, 2009.

### **Program 3 – Division of Local Government Audits**

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

Due to employee turnover problems I was forced to close our Bismarck branch office in the summer of 2008. Operations continue in our Fargo branch office.

#### **Financial and Compliance Audits -**

Section 54-10-14 of the North Dakota Century Code requires counties, cities, school districts, and other political subdivisions to be audited every two years. The governing board of these entities may select the Office of the State Auditor, or a public accounting firm to perform the audit. Over a two year period, our office performs about 127 audits, with public accounting firms performing about 325 local government audits.

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

Cities with less than 300 population, school districts with less than 100 enrolled students, park and soil conservation 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 718 of these reports each year. Smaller local government reports reviewed include: park districts, school districts, rural fire protection districts, and rural ambulance service districts.

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

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

#### **Program 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 11 states and 7 Native American tribes participating in this program with the U.S. Department of Interior, Minerals Management Service Division.

**WE ARE REQUESTING THE FOLLOWING AMENDMENTS BE MADE TO THE HOUSE  
VERSION OF HB1004**

The House cut salary monies from the State Auditor's Office budget. My office was to receive \$200,000 from the \$23 million equity pool set aside by the Governor. These equity dollars are critical to help reduce turnover. The Bismarck State Agency division has averaged 20% turnover for the past few years, which is double the overall statewide rate.

The House also cut \$158,301 of salary monies from the Governor's budget for our office. This represents 2% of the salary line item and we are asking that it be restored. Reportedly, one of the reasons for this cut is the belief by some that all agencies routinely leave positions vacant for excessive time periods in order to build "roll-up dollars". A review of the facts surrounding the State Auditor's Office vacant positions reveals this is not true. Over the past 3 fiscal years the Bismarck State Agency division has averaged about 3 and half months to fill vacant positions. Taking into account graduation of candidates is only twice a year from higher education, the time necessary to advertise the vacant positions, evaluate the resumes submitted, interview the candidates and make hiring decisions, this is very reasonable.

The House also cut \$25,000 from our operating expense line item. We are asking the Senate to restore those monies.

The House also reduced the IT consultant line item by \$50,000. The increasing costs associated with hiring experts to test IT security in the state require this money be restored in order to allow them to complete the work necessary every two years.

To provide the resources to review information technology planning, compliance with information technology plans, and compliance with information technology standards and policies and to conduct statewide agency audits of compliance with specific information technology standards and compliance with NDCC section 54-10-28, we propose adding two FTE along with additional salary and operating expense funds.

We have consistently been able to perform our duties while actually reducing the number of agency FTE over the past 16 years. During the 1991-1993 biennium the State Auditor's Office had 65 FTE positions. In the current biennium we have approximately 55 FTE which is more than



15% **fewer** FTE's than we did 16 years ago. This is despite the fact that our workload has increased significantly since then. The number of statewide FTE has grown and this generally translates into more government to audit. In addition, the issuance of many new auditing and accounting standards that we must implement has also contributed to the increase in our workload.

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

Page 1, line 12, replace "\$435,504" with "\$1,029,855"

Page 1, line 12, replace "\$7,756,745" with "\$8,351,096"

Page 1, line 13, replace "(25,564)" with "9,600"

Page 1, line 13, replace "784,985" with "820,149"

Page 1, line 15, replace "0" with "50,000"

Page 1, line 15, replace "100,000" with "150,000"

Page 1, line 16, replace "\$499,940" with "\$1,089,455"

Page 1, line 16, replace "8,741,730" with "9,331,245"

Page 1, line 17, replace "(312,198)" with "272,972"

Page 1, line 17, replace "2,273,576" with "2,312,802"

Page 1, line 18, replace "\$812,138" with "1,362,427"

Page 1, line 18, replace "\$6,468,154" with "\$7,018,443"

Page 1, line 19, replace "(3.00)" with "(1.0)"

Page 1, line 19, replace "51.80" with "53.80"

## REQUEST / RECOMMENDATION COMPARISON SUMMARY

Bill#: HB1004

117 OFFICE OF THE STATE AUDITOR

Biennium: 2009-2011

Description	Expenditures Prev Biennium 2005-2007	Present Budget 2007-2009	2009-2011 Requested		2009-2011 Requested Budget		2009-2011 Recommended		Executive Recommendation 2009-2011
			Incr(Decr)	% Chg	Incr(Decr)	% Chg	Incr(Decr)	% Chg	
ADMINISTRATION	288,883	337,432	11,116	3.3%	348,548	12.2%	41,120	12.2%	378,552
DIVISION OF LOCAL GOVERNMENT AUDITS	1,365,909	1,681,071	-445,001	-26.5%	1,236,070	-20.4%	-342,947	-20.4%	1,338,124
DIVISION OF STATE AUDITS	4,640,771	5,377,245	82,886	1.5%	5,460,131	20.8%	1,116,432	20.8%	6,493,677
MINERAL ROYALTY AUDITING	707,779	929,131	-26,215	-2.8%	902,916	4.9%	45,547	4.9%	974,678
<b>TOTAL MAJOR PROGRAMS</b>	<b>7,003,342</b>	<b>8,324,879</b>	<b>-377,214</b>	<b>-4.5%</b>	<b>7,947,665</b>	<b>10.3%</b>	<b>860,152</b>	<b>10.3%</b>	<b>9,185,031</b>
<b>BY LINE ITEM</b>									
SALARIES AND WAGES	6,239,277	7,404,330	-316,650	-4.3%	7,087,680	9.7%	720,716	9.7%	8,125,046
OPERATING EXPENSES	764,065	810,549	-50,564	-6.2%	759,985	12.3%	99,436	12.3%	909,985
CAPITAL ASSETS	0	10,000	-10,000	-100.0%	0	-100.0%	-10,000	-100.0%	0
INFORMATION TECHNOLOGY	0	100,000	0	.0%	100,000	50.0%	50,000	50.0%	150,000
CONSULTANTS									
<b>TOTAL LINE ITEMS</b>	<b>7,003,342</b>	<b>8,324,879</b>	<b>-377,214</b>	<b>-4.5%</b>	<b>7,947,665</b>	<b>10.3%</b>	<b>860,152</b>	<b>10.3%</b>	<b>9,185,031</b>
<b>BY FUNDING SOURCE</b>									
GENERAL FUND	4,929,654	5,714,677	94,002	1.6%	5,808,679	20.3%	1,157,552	20.3%	6,872,229
FEDERAL FUNDS	707,779	929,131	-26,215	-2.8%	902,916	4.9%	45,547	4.9%	974,678
SPECIAL FUNDS	1,365,909	1,681,071	-445,001	-26.5%	1,236,070	-20.4%	-342,947	-20.4%	1,338,124
<b>TOTAL FUNDING SOURCE</b>	<b>7,003,342</b>	<b>8,324,879</b>	<b>-377,214</b>	<b>-4.5%</b>	<b>7,947,665</b>	<b>10.3%</b>	<b>860,152</b>	<b>10.3%</b>	<b>9,185,031</b>
<b>TOTAL FTE</b>	<b>55.00</b>	<b>54.80</b>	<b>-3.00</b>	<b>-5.47%</b>	<b>51.80</b>	<b>-5.5%</b>	<b>-3.00</b>	<b>-5.5%</b>	<b>51.80</b>

117

# REQUEST / RECOMMENDATION COMPARISON DETAIL

117 OFFICE OF THE STATE AUDITOR

Biennium: 2009-2011

Bill#: HB1004

Date: 12/17/2008

Time: 11:22:05

Description	Expenditures Prev Biennium 2005-2007	Present Budget 2007-2009	2009-2011 Requested		Requested Budget 2009-2011	2009-2011 Recommended		Executive Recommendation 2009-2011
			Incr(Deer)	% Chg		Incr(Deer)	% Chg	
<b>SALARIES AND WAGES</b>								
SALARIES - PERMANENT	4,738,238	5,552,257	-263,605	-4.7%	5,288,652	-263,605	-4.7%	5,288,652
SALARY BUDGET ADJUSTMENT	0	0	0	0.0%	0	200,000	100.0%	200,000
SALARIES - OTHER	0	0	0	0.0%	0	135,000	100.0%	135,000
TEMPORARY SALARIES	73,236	86,700	-28,800	-33.2%	57,900	-28,800	-33.2%	57,900
FRINGE BENEFITS	1,427,803	1,765,373	-24,245	-1.4%	1,741,128	188,961	10.7%	1,954,334
SALARY INCREASE	0	0	0	0.0%	0	419,946	100.0%	419,946
BENEFIT INCREASE	0	0	0	0.0%	0	69,214	100.0%	69,214
<b>TOTAL</b>	<b>6,239,277</b>	<b>7,404,330</b>	<b>-316,650</b>	<b>-4.3%</b>	<b>7,087,680</b>	<b>720,716</b>	<b>9.7%</b>	<b>8,125,046</b>
<b>SALARIES AND WAGES</b>								
GENERAL FUND	4,440,419	5,184,899	115,295	2.2%	5,300,194	978,845	18.9%	6,163,744
FEDERAL FUNDS	622,105	772,610	-19,994	-2.6%	752,616	51,768	6.7%	824,378
SPECIAL FUNDS	1,176,753	1,446,821	-411,951	-28.5%	1,034,870	-309,897	-21.4%	1,136,924
<b>TOTAL</b>	<b>6,239,277</b>	<b>7,404,330</b>	<b>-316,650</b>	<b>-4.3%</b>	<b>7,087,680</b>	<b>720,716</b>	<b>9.7%</b>	<b>8,125,046</b>
<b>OPERATING EXPENSES</b>								
TRAVEL	168,280	233,058	-21,820	-9.4%	211,238	-21,820	-9.4%	211,238
SUPPLIES - IT SOFTWARE	19,704	22,750	-7,350	-32.3%	15,400	96,450	424.0%	119,200
SUPPLY/MATERIAL-PROFESSIONAL	6,203	9,841	-120	-1.2%	9,721	-120	-1.2%	9,721
FOOD AND CLOTHING	0	640	0	0.0%	640	0	0.0%	640
BLDG, GROUND, MAINTENANCE	2,114	1,015	0	0.0%	1,015	0	0.0%	1,015
MISCELLANEOUS SUPPLIES	75	6,100	-3,100	-50.8%	3,000	-3,100	-50.8%	3,000
OFFICE SUPPLIES	20,836	25,010	-310	-1.2%	24,700	-310	-1.2%	24,700
POSTAGE	9,043	12,600	-1,000	-7.9%	11,600	-1,000	-7.9%	11,600
PRINTING	4,441	7,300	3,700	50.7%	11,000	3,700	50.7%	11,000
IT EQUIP UNDER \$5,000	44,549	48,247	-3,097	-6.4%	45,150	-3,097	-6.4%	45,150
OTHER EQUIP UNDER \$5,000	7,801	1,693	-547	-32.3%	1,146	-547	-32.3%	1,146
OFFICE EQUIP & FURN SUPPLIES	26,616	9,731	-5,950	-61.1%	3,781	-5,950	-61.1%	3,781
INSURANCE	10,998	9,684	218	2.3%	9,902	218	2.3%	9,902
RENTALS/LEASES-EQUIP & OTHER	6,043	6,720	180	2.7%	6,900	180	2.7%	6,900
RENTALS/LEASES - BLDG/LAND	116,630	118,000	2,000	1.7%	120,000	2,000	1.7%	120,000
REPAIRS	10,395	10,600	700	6.6%	11,300	700	6.6%	11,300
IT - DATA PROCESSING	90,539	126,190	-22,190	-17.6%	104,000	11,010	8.7%	137,200
IT-COMMUNICATIONS	39,533	49,600	-2,900	-5.8%	46,700	-2,900	-5.8%	46,700
IT-CONTRACTUAL SERVICES AND RE	0	0	0	0.0%	0	13,000	100.0%	13,000
PROFESSIONAL DEVELOPMENT	34,950	45,650	4,950	10.8%	50,600	4,950	10.8%	50,600
OPERATING FEES AND SERVICES	4,966	50,827	6,373	12.5%	57,200	6,373	12.5%	57,200

# REQUEST / RECOMMENDATION COMPARISON DETAIL

117 OFFICE OF THE STATE AUDITOR  
Biennium: 2009-2011

Bill#: HB1004

Date: 12/17/2008  
Time: 11:22:05

Description	Expenditures Prev Biennium 2005-2007	Present Budget 2007-2009	2009-2011 Requested		2009-2011 Requested Budget		2009-2011 Recommended		Executive Recommendation 2009-2011
			Incr(Decr)	% Chg	Incr(Decr)	% Chg	Incr(Decr)	% Chg	
FEES - PROFESSIONAL SERVICES	107,318	15,293	-301	-2.0%	14,992	-2.0%	-301	-2.0%	14,992
OTHER EXPENSES	29,031	0	0	.0%	0	.0%	0	.0%	0
NON OPERATING EXPENSES	4,000	0	0	.0%	0	.0%	0	.0%	0
<b>TOTAL</b>	<b>764,065</b>	<b>810,549</b>	<b>-50,564</b>	<b>-6.2%</b>	<b>759,985</b>	<b>-6.2%</b>	<b>99,436</b>	<b>12.3%</b>	<b>909,985</b>
<b>OPERATING EXPENSES</b>									
GENERAL FUND	489,235	429,778	-21,293	-5.0%	408,485	-5.0%	128,707	29.9%	558,485
FEDERAL FUNDS	85,674	156,521	-6,221	-4.0%	150,300	-4.0%	-6,221	-4.0%	150,300
SPECIAL FUNDS	189,156	224,250	-23,050	-10.3%	201,200	-10.3%	-23,050	-10.3%	201,200
<b>TOTAL</b>	<b>764,065</b>	<b>810,549</b>	<b>-50,564</b>	<b>-6.2%</b>	<b>759,985</b>	<b>-6.2%</b>	<b>99,436</b>	<b>12.3%</b>	<b>909,985</b>
<b>CAPITAL ASSETS</b>									
IT EQUIP/SFTWARE OVER \$5000	0	10,000	-10,000	-100.0%	0	-100.0%	-10,000	-100.0%	0
<b>TOTAL</b>	<b>0</b>	<b>10,000</b>	<b>-10,000</b>	<b>-100.0%</b>	<b>0</b>	<b>-100.0%</b>	<b>-10,000</b>	<b>-100.0%</b>	<b>0</b>
<b>CAPITAL ASSETS</b>									
GENERAL FUND	0	0	0	.0%	0	.0%	0	.0%	0
FEDERAL FUNDS	0	0	0	.0%	0	.0%	0	.0%	0
SPECIAL FUNDS	0	10,000	-10,000	-100.0%	0	-100.0%	-10,000	-100.0%	0
<b>TOTAL</b>	<b>0</b>	<b>10,000</b>	<b>-10,000</b>	<b>-100.0%</b>	<b>0</b>	<b>-100.0%</b>	<b>-10,000</b>	<b>-100.0%</b>	<b>0</b>
<b>SPECIAL LINES</b>									
INFORMATION TECH. CONSULTANTS	0	100,000	0	.0%	100,000	.0%	50,000	50.0%	150,000
<b>TOTAL</b>	<b>0</b>	<b>100,000</b>	<b>0</b>	<b>.0%</b>	<b>100,000</b>	<b>.0%</b>	<b>50,000</b>	<b>50.0%</b>	<b>150,000</b>
<b>SPECIAL LINES</b>									
GENERAL FUND	0	100,000	0	.0%	100,000	.0%	50,000	50.0%	150,000
FEDERAL FUNDS	0	0	0	.0%	0	.0%	0	.0%	0
SPECIAL FUNDS	0	0	0	.0%	0	.0%	0	.0%	0
<b>TOTAL</b>	<b>0</b>	<b>100,000</b>	<b>0</b>	<b>.0%</b>	<b>100,000</b>	<b>.0%</b>	<b>50,000</b>	<b>50.0%</b>	<b>150,000</b>
<b>FUNDING SOURCES</b>									
GENERAL FUND	4,929,654	5,714,677	94,002	1.6%	5,808,679	1.6%	1,157,552	20.3%	6,872,229
FEDERAL FUNDS	707,779	929,131	-26,215	-2.8%	902,916	-2.8%	45,547	4.9%	974,678
SPECIAL FUNDS	1,365,909	1,681,071	-445,001	-26.5%	1,236,070	-26.5%	-342,947	-20.4%	1,338,124
<b>TOTAL FUNDING SOURCES</b>	<b>7,003,342</b>	<b>8,324,879</b>	<b>-377,214</b>	<b>-4.5%</b>	<b>7,947,665</b>	<b>-4.5%</b>	<b>860,152</b>	<b>10.3%</b>	<b>9,185,031</b>

# **CHANGE PACKAGE SUMMARY**

117 OFFICE OF THE STATE AUDITOR

Biennium: 2009-2011

Bill#: HB1004

Date: 1/2/2009

Time: 12:37:18

Description	FTE	General Fund	Federal Funds	Special Funds	Total Funds
<b>Cost To Continue</b>					
Cost To Continue		632,645	51,768	-309,897	374,516
<b>Total Cost to Continue</b>		<b>632,645</b>	<b>51,768</b>	<b>-309,897</b>	<b>374,516</b>
<b>Base Budget Changes</b>					
<b>One Time Budget Changes</b>					
R-B 10 Electronic Working Papers		150,000	0	0	150,000
<b>Total One Time Budget Changes</b>		<b>150,000</b>	<b>0</b>	<b>0</b>	<b>150,000</b>
<b>Other Budget Changes</b>					
A-A 6 Normal increases	.00	-21,293	-6,221	-23,050	-50,564
A-F 7 Remove Current Biennium Capital Assets	.00	0	0	-10,000	-10,000
R-A 11 Restore Funding for Existing Salaries	.00	136,200	0	0	136,200
R-A 12 Recommended Salary Equity	.00	210,000	0	0	210,000
R-A 13 IT Consultant Inflationary Adjustment	.00	50,000	0	0	50,000
<b>Total Other Budget Changes</b>		<b>374,907</b>	<b>-6,221</b>	<b>-33,050</b>	<b>335,636</b>
<b>Total Changes</b>	<b>-3.00</b>	<b>1,157,552</b>	<b>45,547</b>	<b>-342,947</b>	<b>860,152</b>

**RECOMMENDATION DETAIL BY PROGRAM**

117 OFFICE OF THE STATE AUDITOR

Biennium: 2009-2011

Bill#: HB1004

Date: 12/17/2008

Time: 11:22:05

Program: ADMINISTRATION		Reporting Level: 00-117-100-00-00-00-00000000				
Description	Expenditures 2005-2007 Biennium	Present Budget 2007-2009	Budget Request Change	Requested Budget 2009-2011 Biennium	Executive Recommendation 2009-2011	
<b>SALARIES AND WAGES</b>						
SALARIES - PERMANENT	209,427	228,740	7,432	236,172	236,172	
FRINGE BENEFITS	62,333	71,170	904	72,074	80,432	
SALARY INCREASE	0	0	0	0	18,516	
BENEFIT INCREASE	0	0	0	0	3,130	
<b>TOTAL</b>	<b>271,760</b>	<b>299,910</b>	<b>8,336</b>	<b>308,246</b>	<b>338,250</b>	
<b>SALARIES AND WAGES</b>						
GENERAL FUND	271,760	299,910	8,336	308,246	338,250	
FEDERAL FUNDS	0	0	0	0	0	
SPECIAL FUNDS	0	0	0	0	0	
<b>TOTAL</b>	<b>271,760</b>	<b>299,910</b>	<b>8,336</b>	<b>308,246</b>	<b>338,250</b>	
<b>OPERATING EXPENSES</b>						
TRAVEL	3,315	3,900	600	4,500	4,500	
SUPPLIES - IT SOFTWARE	247	350	50	400	400	
SUPPLY/MATERIAL-PROFESSIONAL	973	1,925	-25	1,900	1,900	
MISCELLANEOUS SUPPLIES	0	1,100	-100	1,000	1,000	
OFFICE SUPPLIES	0	500	0	500	500	
POSTAGE	0	100	0	100	100	
IT EQUIP UNDER \$5,000	711	1,000	150	1,150	1,150	
OFFICE EQUIP & FURN SUPPLIES	0	1,800	-950	850	850	
INSURANCE	353	270	32	302	302	
RENTALS/LEASES-EQUIP & OTHER	0	600	0	600	600	
REPAIRS	0	200	100	300	300	
IT-COMMUNICATIONS	1,374	1,700	300	2,000	2,000	
PROFESSIONAL DEVELOPMENT	9,880	12,350	1,450	13,800	13,800	
OPERATING FEES AND SERVICES	270	727	73	800	800	
FEES - PROFESSIONAL SERVICES	0	11,000	1,100	12,100	12,100	
<b>TOTAL</b>	<b>17,123</b>	<b>37,522</b>	<b>2,780</b>	<b>40,302</b>	<b>40,302</b>	
<b>OPERATING EXPENSES</b>						
GENERAL FUND	17,123	37,522	2,780	40,302	40,302	
FEDERAL FUNDS	0	0	0	0	0	
SPECIAL FUNDS	0	0	0	0	0	
<b>TOTAL</b>	<b>17,123</b>	<b>37,522</b>	<b>2,780</b>	<b>40,302</b>	<b>40,302</b>	

# RECOMMENDATION DETAIL BY PROGRAM

117 OFFICE OF THE STATE AUDITOR

Biennium: 2009-2011

Bill#: HB1004

Date: 12/17/2008

Time: 11:22:05

Program: ADMINISTRATION		Reporting Level: 00-117-100-00-00-00-00000000			
Description	Expenditures 2005-2007 Biennium	Present Budget 2007-2009	Budget Request Change	Requested Budget 2009-2011 Biennium	Executive Recommendation 2009-2011

## PROGRAM FUNDING SOURCES

FEDERAL FUNDS	0	0	0	0	0
SPECIAL FUNDS	0	0	0	0	0
GENERAL FUND	288,883	337,432	11,116	348,548	378,552
<b>PROGRAM FUNDING TOTAL</b>	<b>288,883</b>	<b>337,432</b>	<b>11,116</b>	<b>348,548</b>	<b>378,552</b>

## FTE EMPLOYEES

	2.00	1.80	.00	1.80	1.80
--	------	------	-----	------	------

## FUNDING DETAIL

GENERAL FUND	288,883	337,432	11,116	348,548	378,552
--------------	---------	---------	--------	---------	---------



**RECOMMENDATION DETAIL BY PROGRAM**  
**117 OFFICE OF THE STATE AUDITOR**  
**Biennium: 2009-2011**

**Bill#: HB1004**

**Date: 12/17/2008**  
**Time: 11:22:05**

**Program: DIVISION OF LOCAL GOVERNMENT AUDITS**

**Reporting Level: 00-117-210-00-00-00-00000000**

Description	Expenditures 2005-2007 Biennium	Present Budget 2007-2009	Budget Request Change	Requested Budget 2009-2011 Biennium	Executive Recommendation 2009-2011
<b>SALARIES AND WAGES</b>					
SALARIES - PERMANENT	857,720	1,035,297	-302,217	733,080	733,080
TEMPORARY SALARIES	32,934	29,100	0	29,100	29,100
FRINGE BENEFITS	286,099	382,424	-109,734	272,690	309,388
SALARY INCREASE	0	0	0	0	55,897
BENEFIT INCREASE	0	0	0	0	9,459
<b>TOTAL</b>	<b>1,176,753</b>	<b>1,446,821</b>	<b>-411,951</b>	<b>1,034,870</b>	<b>1,136,924</b>
<b>SALARIES AND WAGES</b>					
GENERAL FUND	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0
SPECIAL FUNDS	1,176,753	1,446,821	-411,951	1,034,870	1,136,924
<b>TOTAL</b>	<b>1,176,753</b>	<b>1,446,821</b>	<b>-411,951</b>	<b>1,034,870</b>	<b>1,136,924</b>
<b>OPERATING EXPENSES</b>					
TRAVEL	76,987	94,510	-20,000	74,510	74,510
SUPPLIES - IT SOFTWARE	0	1,400	-1,400	0	0
SUPPLY/MATERIAL-PROFESSIONAL	394	1,000	-1,000	0	0
MISCELLANEOUS SUPPLIES	75	3,000	-3,000	0	0
OFFICE SUPPLIES	6,276	6,500	4,700	11,200	11,200
POSTAGE	5,331	6,000	-1,000	5,000	5,000
PRINTING	1,421	3,000	0	3,000	3,000
IT EQUIP UNDER \$5,000	12,319	6,000	5,000	11,000	11,000
OTHER EQUIP UNDER \$5,000	4,543	137	0	137	137
OFFICE EQUIP & FURN SUPPLIES	600	353	0	353	353
INSURANCE	2,324	2,000	0	2,000	2,000
RENTALS/LEASES - BLDG/LAND	51,856	52,500	-2,500	50,000	50,000
REPAIRS	1,177	1,000	1,000	2,000	2,000
IT - DATA PROCESSING	7,923	16,150	-2,650	13,500	13,500
IT-COMMUNICATIONS	9,122	11,700	-2,200	9,500	9,500
PROFESSIONAL DEVELOPMENT	0	4,000	0	4,000	4,000
OPERATING FEES AND SERVICES	913	14,000	0	14,000	14,000
FEES - PROFESSIONAL SERVICES	120	1,000	0	1,000	1,000
OTHER EXPENSES	3,775	0	0	0	0
NON OPERATING EXPENSES	4,000	0	0	0	0
<b>TOTAL</b>	<b>189,156</b>	<b>224,250</b>	<b>-23,050</b>	<b>201,200</b>	<b>201,200</b>

# RECOMMENDATION DETAIL BY PROGRAM

117 OFFICE OF THE STATE AUDITOR

Biennium: 2009-2011

Bill#: HB1004

Date: 12/17/2008

Time: 11:22:05

Program: DIVISION OF LOCAL GOVERNMENT AUDITS

Reporting Level: 00-117-210-00-00-00-000000000

Description	Expenditures 2005-2007 Biennium	Present Budget 2007-2009	Budget Request Change	Requested Budget 2009-2011 Biennium	Executive Recommendation 2009-2011
<b>OPERATING EXPENSES</b>					
GENERAL FUND	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0
SPECIAL FUNDS	189,156	224,250	-23,050	201,200	201,200
<b>TOTAL</b>	<b>189,156</b>	<b>224,250</b>	<b>-23,050</b>	<b>201,200</b>	<b>201,200</b>
<b>CAPITAL ASSETS</b>					
IT EQUIP/SFTWARE OVER \$5000	0	10,000	-10,000	0	0
<b>TOTAL</b>	<b>0</b>	<b>10,000</b>	<b>-10,000</b>	<b>0</b>	<b>0</b>
<b>CAPITAL ASSETS</b>					
GENERAL FUND	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0
SPECIAL FUNDS	0	10,000	-10,000	0	0
<b>TOTAL</b>	<b>0</b>	<b>10,000</b>	<b>-10,000</b>	<b>0</b>	<b>0</b>
<b>PROGRAM FUNDING SOURCES</b>					
FEDERAL FUNDS	0	0	0	0	0
GENERAL FUND	0	0	0	0	0
SPECIAL FUNDS	1,365,909	1,681,071	-445,001	1,236,070	1,338,124
<b>PROGRAM FUNDING TOTAL</b>	<b>1,365,909</b>	<b>1,681,071</b>	<b>-445,001</b>	<b>1,236,070</b>	<b>1,338,124</b>
<b>FTE EMPLOYEES</b>	<b>11.00</b>	<b>12.00</b>	<b>-3.00</b>	<b>9.00</b>	<b>9.00</b>
<b>FUNDING DETAIL</b>					
<b>SPECIAL FUNDS</b>					
246 STATE AUDITORS OPERATING FUND 246	1,365,909	1,681,071	-445,001	1,236,070	1,338,124
<b>TOTAL</b>	<b>1,365,909</b>	<b>1,681,071</b>	<b>-445,001</b>	<b>1,236,070</b>	<b>1,338,124</b>

# RECOMMENDATION DETAIL BY PROGRAM

117 OFFICE OF THE STATE AUDITOR

Biennium: 2009-2011

Bill#: HB1004

Date: 12/17/2008

Time: 11:22:05

Program: DIVISION OF STATE AUDITS

Reporting Level: 00-117-220-00-00-00-00000000

Description	Expenditures 2005-2007 Biennium	Present Budget 2007-2009	Budget Request Change	Requested Budget 2009-2011 Biennium	Executive Recommendation 2009-2011
<b>SALARIES AND WAGES</b>					
SALARIES - PERMANENT	3,199,662	3,723,962	20,878	3,744,840	3,744,840
SALARY BUDGET ADJUSTMENT	0	0	0	0	200,000
SALARIES - OTHER	0	0	0	0	135,000
TEMPORARY SALARIES	29,192	28,800	0	28,800	28,800
FRINGE BENEFITS	939,805	1,132,227	86,081	1,218,308	1,365,916
SALARY INCREASE	0	0	0	0	301,723
BENEFIT INCREASE	0	0	0	0	49,215
<b>TOTAL</b>	<b>4,168,659</b>	<b>4,884,989</b>	<b>106,959</b>	<b>4,991,948</b>	<b>5,825,494</b>
<b>SALARIES AND WAGES</b>					
GENERAL FUND	4,168,659	4,884,989	106,959	4,991,948	5,825,494
FEDERAL FUNDS	0	0	0	0	0
SPECIAL FUNDS	0	0	0	0	0
<b>TOTAL</b>	<b>4,168,659</b>	<b>4,884,989</b>	<b>106,959</b>	<b>4,991,948</b>	<b>5,825,494</b>
<b>OPERATING EXPENSES</b>					
TRAVEL	47,452	48,004	4,883	52,887	52,887
SUPPLIES - IT SOFTWARE	19,457	19,000	-5,000	14,000	117,800
SUPPLY/MATERIAL-PROFESSIONAL	4,832	5,716	705	6,421	6,421
FOOD AND CLOTHING	0	640	0	640	640
BLDG, GROUND, MAINTENANCE	2,114	1,015	0	1,015	1,015
MISCELLANEOUS SUPPLIES	0	2,000	0	2,000	2,000
OFFICE SUPPLIES	13,430	14,010	-5,010	9,000	9,000
POSTAGE	3,100	4,100	0	4,100	4,100
PRINTING	3,015	4,300	-300	4,000	4,000
IT EQUIP UNDER \$5,000	31,180	36,247	-8,247	28,000	28,000
OTHER EQUIP UNDER \$5,000	3,258	1,009	0	1,009	1,009
OFFICE EQUIP & FURN SUPPLIES	24,913	6,919	-5,000	1,919	1,919
INSURANCE	7,301	5,850	150	6,000	6,000
RENTALS/LEASES-EQUIP & OTHER	6,043	6,120	180	6,300	6,300
RENTALS/LEASES - BLDG/LAND	40,743	40,500	3,500	44,000	44,000
REPAIRS	7,568	7,000	0	7,000	7,000
IT - DATA PROCESSING	76,439	100,000	-18,000	82,000	115,200
IT-COMMUNICATIONS	26,757	34,000	-1,000	33,000	33,000

# RECOMMENDATION DETAIL BY PROGRAM

117 OFFICE OF THE STATE AUDITOR

Biennium: 2009-2011

Bill#: HB1004

Date: 12/17/2008

Time: 11:22:05

Program: DIVISION OF STATE AUDITS		Reporting Level: 00-117-220-00-00-00-000000000			
Description	Expenditures 2005-2007 Biennium	Present Budget 2007-2009	Budget Request Change	Requested Budget 2009-2011 Biennium	Executive Recommendation 2009-2011
IT CONTRACTUAL SERVICES AND RE	0	0	0	0	13,000
PROFESSIONAL DEVELOPMENT	24,482	24,500	3,500	28,000	28,000
OPERATING FEES AND SERVICES	3,010	28,700	6,300	35,000	35,000
FEES - PROFESSIONAL SERVICES	105,032	2,626	-734	1,892	1,892
OTHER EXPENSES	21,986	0	0	0	0
<b>TOTAL</b>	<b>472,112</b>	<b>392,256</b>	<b>-24,073</b>	<b>368,183</b>	<b>518,183</b>
<b>OPERATING EXPENSES</b>					
GENERAL FUND	472,112	392,256	-24,073	368,183	518,183
FEDERAL FUNDS	0	0	0	0	0
SPECIAL FUNDS	0	0	0	0	0
<b>TOTAL</b>	<b>472,112</b>	<b>392,256</b>	<b>-24,073</b>	<b>368,183</b>	<b>518,183</b>
<b>SPECIAL LINES</b>					
INFORMATION TECHNOLOGY CONSULTANTS	0	100,000	0	100,000	150,000
<b>TOTAL</b>	<b>0</b>	<b>100,000</b>	<b>0</b>	<b>100,000</b>	<b>150,000</b>
<b>SPECIAL LINES</b>					
GENERAL FUND	0	100,000	0	100,000	150,000
FEDERAL FUNDS	0	0	0	0	0
SPECIAL FUNDS	0	0	0	0	0
<b>TOTAL</b>	<b>0</b>	<b>100,000</b>	<b>0</b>	<b>100,000</b>	<b>150,000</b>
<b>PROGRAM FUNDING SOURCES</b>					
SPECIAL FUNDS	0	0	0	0	0
GENERAL FUND	4,640,771	5,377,245	82,886	5,460,131	6,493,677
FEDERAL FUNDS	0	0	0	0	0
<b>PROGRAM FUNDING TOTAL</b>	<b>4,640,771</b>	<b>5,377,245</b>	<b>82,886</b>	<b>5,460,131</b>	<b>6,493,677</b>
<b>FTE EMPLOYEES</b>	<b>36.00</b>	<b>36.00</b>	<b>.00</b>	<b>36.00</b>	<b>36.00</b>
<b>FUNDING DETAIL</b>					
GENERAL FUND	4,640,771	5,377,245	82,886	5,460,131	6,493,677

# RECOMMENDATION DETAIL BY PROGRAM

117 OFFICE OF THE STATE AUDITOR

Biennium: 2009-2011

Bill#: HB1004

Date: 12/17/2008

Time: 11:22:05

Program: MINERAL ROYALTY AUDITING

Reporting Level: 00-117-230-00-00-00-00000000

Description	Expenditures 2005-2007 Biennium	Present Budget 2007-2009	Budget Request Change	Requested Budget 2009-2011 Biennium	Executive Recommendation 2009-2011
<b>SALARIES AND WAGES</b>					
SALARIES - PERMANENT	471,429	564,258	10,302	574,560	574,560
TEMPORARY SALARIES	11,110	28,800	-28,800	0	0
FRINGE BENEFITS	139,566	179,552	-1,496	178,056	198,598
SALARY INCREASE	0	0	0	0	43,810
BENEFIT INCREASE	0	0	0	0	7,410
<b>TOTAL</b>	<b>622,105</b>	<b>772,610</b>	<b>-19,994</b>	<b>752,616</b>	<b>824,378</b>
<b>SALARIES AND WAGES</b>					
GENERAL FUND	0	0	0	0	0
FEDERAL FUNDS	622,105	772,610	-19,994	752,616	824,378
SPECIAL FUNDS	0	0	0	0	0
<b>TOTAL</b>	<b>622,105</b>	<b>772,610</b>	<b>-19,994</b>	<b>752,616</b>	<b>824,378</b>
<b>OPERATING EXPENSES</b>					
TRAVEL	40,526	86,644	-7,303	79,341	79,341
SUPPLIES - IT SOFTWARE	0	2,000	-1,000	1,000	1,000
SUPPLY/MATERIAL-PROFESSIONAL	4	1,200	200	1,400	1,400
OFFICE SUPPLIES	1,130	4,000	0	4,000	4,000
POSTAGE	612	2,400	0	2,400	2,400
PRINTING	5	0	4,000	4,000	4,000
IT EQUIP UNDER \$5,000	339	5,000	0	5,000	5,000
OTHER EQUIP UNDER \$5,000	0	547	-547	0	0
OFFICE EQUIP & FURN SUPPLIES	1,103	659	0	659	659
INSURANCE	1,020	1,564	36	1,600	1,600
RENTALS/LEASES - BLDG/LAND	24,031	25,000	1,000	26,000	26,000
REPAIRS	1,650	2,400	-400	2,000	2,000
IT - DATA PROCESSING	6,177	10,040	-1,540	8,500	8,500
IT-COMMUNICATIONS	2,280	2,200	0	2,200	2,200
PROFESSIONAL DEVELOPMENT	588	4,800	0	4,800	4,800
OPERATING FEES AND SERVICES	773	7,400	0	7,400	7,400
FEES - PROFESSIONAL SERVICES	2,166	667	-667	0	0
OTHER EXPENSES	3,270	0	0	0	0
<b>TOTAL</b>	<b>85,674</b>	<b>156,521</b>	<b>-6,221</b>	<b>150,300</b>	<b>150,300</b>

# RECOMMENDATION DETAIL BY PROGRAM

117 OFFICE OF THE STATE AUDITOR

Biennium: 2009-2011

Bill#: HB1004

Date: 12/17/2008

Time: 11:22:05

Program: DIVISION OF STATE AUDITS		Reporting Level: 00-117-220-00-00-00-00000000				
Description	Expenditures 2005-2007 Biennium	Present Budget 2007-2009	Budget Request Change	Requested Budget 2009-2011 Biennium	Executive Recommendation 2009-2011	
<b>OPERATING EXPENSES</b>						
GENERAL FUND	0	0	0	0	0	
FEDERAL FUNDS	85,674	156,521	-6,221	150,300	150,300	
SPECIAL FUNDS	0	0	0	0	0	
<b>TOTAL</b>	<b>85,674</b>	<b>156,521</b>	<b>-6,221</b>	<b>150,300</b>	<b>150,300</b>	
<b>PROGRAM FUNDING SOURCES</b>						
FEDERAL FUNDS	707,779	929,131	-26,215	902,916	974,678	
GENERAL FUND	0	0	0	0	0	
SPECIAL FUNDS	0	0	0	0	0	
<b>PROGRAM FUNDING TOTAL</b>	<b>707,779</b>	<b>929,131</b>	<b>-26,215</b>	<b>902,916</b>	<b>974,678</b>	
<b>FTE EMPLOYEES</b>	<b>6.00</b>	<b>5.00</b>	<b>.00</b>	<b>5.00</b>	<b>5.00</b>	
<b>FUNDING DETAIL</b>						
<b>FEDERAL FUNDS</b>						
G022 ROYALTY AUDIT PROGRAM	707,779	929,131	-26,215	902,916	974,678	
<b>TOTAL</b>	<b>707,779</b>	<b>929,131</b>	<b>-26,215</b>	<b>902,916</b>	<b>974,678</b>	

1/20/2009 - Approp. Sub\_Comm.

Final budget by Intermediate Object		Dec-08	Expend	Total	OVER	Estimated
1/21/2009 7:15 AM		Actual	B-T-D	Revised	UNDER	Unspent
			Actual	BTD	BUDGET	Special
				Budget	BTD	Funds
<b>DEPT. 2100 Local Government</b>						
Salaries		23,660	528,876	768,504	239,628	
Temporary Salaries		3,900	40,082	21,900	-18,182	
Overtime			3,197	0	-3,197	
Benefits		9,962	192,547	283,724	91,177	
<b>Total Salaries</b>		<b>37,522</b>	<b>764,702</b>	<b>1,074,128</b>	<b>309,425</b>	<b>441,719</b>
TRAVEL		331	34,136	67,800	33,664	
IT-Software			0	1,400	1,400	
PROF. SUPPLIES & MAT.		0	458	1,000	542	
MISC. SUPPLIES			345	2,600	2,255	
OFFICE SUPPLIES		203	3,231	4,860	1,629	
POSTAGE		86	3,202	4,350	1,148	
PRINTING		216	1,354	2,125	771	
IT-EQUIP. UNDER \$5,000			2,904	4,250	1,346	
INSURANCE			835	2,000	1,165	
Lease/Rent - Equipment			334	400	66	
Lease/Rent - Bldg.		640	25,355	41,563	16,208	
REPAIRS			288	1,000	712	
IT Data Processing		779	7,269	11,390	4,121	
Telephone To ITD		254	6,918	8,296	1,378	
Dues & Prof. Development			1,390	4,000	2,610	
OPERATING FEES & SERVICES			2,095	9,945	7,850	
PROFESSIONAL SERVICES			0	1,000	1,000	
<b>Total Operating</b>		<b>2,508</b>	<b>90,114</b>	<b>167,979</b>	<b>77,864</b>	<b>113,536</b>
Equipment over \$5,000 (copier)			0	10,000	10,000	
<b>Total CC 2100</b>		<b>40,030</b>	<b>854,816</b>	<b>1,252,106</b>	<b>397,290</b>	<b>555,255</b>

State Auditor's Office - 117

Estimated unspent special funds.

For Rep. Delzer; Gov. Ops Division

Office of State Auditor  
Proposed Salary Increases  
2009-2011 Biennium

Auditor Class	Years of Service	Salary June '09	Salary Increase
Admin. Asst.	15	2,820	0
I	0	2,900	100
I	1	2,900	195
I	2	3,110	100
II	2	3,220	200
II	2	3,220	200
II	3	3,125	200
II	4	2,900	300
III	3	3,225	200
III	4	3,825	200
III	4	3,565	200
III	4	3,435	100
III	4	3,225	200
III	12	3,160	100
IV	6	3,480	300
IV	8	4,090	300
IV	9	4,495	300
IV	10	4,250	300
IV	11	4,415	300
IV	11	4,405	300
IV	11	4,665	300
IV	13	4,735	300
IV	13	5,120	200
IV	17	5,430	200
IV	18	4,735	100
IV	19	5,010	300
IV	21	5,700	100
IV	28	5,660	100
IV	29	5,015	100
IV	32	4,820	100
V	17	6,425	200
V	21	6,635	200
V	27	6,635	200
V	31	6,635	200
V	32	6,635	200
Director	30	7,250	200
Total per month			7,095
Biennium Total (w/o fringes)			170,280
Fringes (.1677%)			29,746
Biennium Total with Fringes			<u>200,026</u>

Note: Above does not include second year increase.



**ND SALARY RANGES**  
**July 1, 2008 - June 30, 2009**

2008  
 State  
 employees

Grade	Hourly					Monthly					Annually				
	Min	1st	Mid	3rd	Max	Min	1st	Mid	3rd	Max	Min	1st	Mid	3rd	Max
1	6.13	7.15	8.17	9.19	10.21	1,062	1,239	1,416	1,593	1,770	12,744	14,868	16,992	19,116	21,240
2	6.78	7.91	9.03	10.17	11.30	1,175	1,371	1,566	1,762	1,958	14,100	16,452	18,792	21,144	23,496
3	7.47	8.71	9.95	11.20	12.44	1,294	1,510	1,725	1,941	2,156	15,528	18,120	20,700	23,292	25,872
4	8.25	9.62	11.00	12.38	13.75	1,430	1,668	1,906	2,145	2,383	17,160	20,016	22,872	25,740	28,596
5	9.07	10.58	12.09	13.60	15.12	1,572	1,834	2,096	2,358	2,620	18,864	22,008	25,152	28,296	31,440
6	10.00	11.67	13.34	15.01	16.67	1,734	2,023	2,312	2,601	2,890	20,808	24,276	27,744	31,212	34,680
7	11.09	12.95	14.79	16.64	18.49	1,923	2,244	2,564	2,885	3,205	23,076	26,928	30,768	34,620	38,460
8	12.39	14.45	16.52	18.58	20.65	2,147	2,505	2,863	3,221	3,579	25,764	30,060	34,356	38,652	42,948
9	13.75	16.05	18.34	20.64	22.93	2,384	2,782	3,179	3,577	3,974	28,608	33,384	38,148	42,924	47,688
10	14.93	17.42	19.91	22.40	24.89	2,588	3,020	3,451	3,883	4,314	31,056	36,240	41,412	46,596	51,768
11	16.26	18.97	21.68	24.39	27.09	2,818	3,288	3,757	4,227	4,696	33,816	39,456	45,084	50,724	56,352
12	17.78	20.75	23.71	26.67	29.63	3,082	3,596	4,109	4,623	5,136	36,984	43,152	49,308	55,476	61,632
13	19.55	22.81	26.06	29.32	32.57	3,388	3,953	4,517	5,082	5,646	40,656	47,436	54,204	60,984	67,752
14	21.62	25.23	28.83	32.44	36.04	3,748	4,373	4,997	5,622	6,246	44,976	52,476	59,964	67,464	74,952
15	24.08	28.10	32.11	36.12	40.13	4,174	4,870	5,565	6,261	6,956	50,088	58,440	66,780	75,132	83,472
16	26.93	31.41	35.90	40.39	44.87	4,667	5,445	6,222	7,000	7,778	56,004	65,340	74,664	84,000	93,336
17	30.13	35.15	40.17	45.19	50.21	5,222	6,092	6,962	7,833	8,703	62,664	73,104	83,544	93,996	104,436
18	33.62	39.22	44.82	50.42	56.03	5,827	6,798	7,769	8,740	9,711	69,924	81,576	93,228	104,880	116,532
19	37.19	43.39	49.59	55.79	61.99	6,446	7,521	8,595	9,670	10,744	77,352	90,252	103,140	116,040	128,928
20	41.14	48.00	54.85	61.71	68.57	7,131	8,320	9,508	10,697	11,885	85,572	99,840	114,096	128,364	142,620

Attachment  
 1004.1.20.09F  
 1/20/09

## Information Technology Requests

### 1) Electronic Working Papers – Included in Executive Recommendation (\$150,000)

#### A. Benefits

- Reduce time spent documenting audits
- Spend more time on auditing
- Consolidate and improve audit planning and staffing

#### B. Savings

We estimate that after the system has been installed and our staff has been trained and had some experience with the system that we could save approximately 3,000 hours and \$80,000 per year. We would expect implementation by January, 2010 and allowing for 12-18 months of training and experience, we would estimate that this level of savings would be realized starting in calendar year 2011.

### 2) Additional money for security assessment - Included in Executive Recommendation (\$50,000)

#### A. Benefits

- Ensure security of the state network, computers systems and applications.
- Provide expertise to help the state to improve security

#### B. Savings

There are no real savings here, the objective is to prevent or quickly detect attacks on the state network. Increasing security will cost more money to implement. The savings for this is in decreased risk of successful attacks.

**See attached cost summary of 2005 bidders, qualifications for ManTech, and 2007 ManTech proposal.**

### 3) 2 Additional IS Auditors – Not included in Executive Recommendation (\$235,650)

#### A. ND Century Code 54-10-28

- At the request of the IT Committee conduct reviews of agencies technology management, planning, compliance with IT plans, and compliance with IT standards

- Monitor major technology projects for compliance with project management and IT standards

#### B. Benefits

- Ensure effective and efficient management of information technology by state agencies.

- Ensure compliance with IT standards.

- Ensuring major technology projects are following proper project management practices and comply with IT standards.

#### C. Savings

It is difficult to estimate savings, IT standards and project management were established to reduce overall costs to the state through standardization, increase security by ensuring necessary security practices are followed, and increase the success of projects through proper project management.

Projects defined as "large projects" are monitored by ITD, SITAC, and the Legislative IT Committee.

IT management, compliance with IT standards and project management for smaller projects are not monitored by any agency or group today.

**See attached list of current IT standards and guidelines.**

Yearly Audit  
Comparison of bidders

Costs									
	Security Assessment	Security Assessment	Penetration Testing	Wireless/Remote Access	Policy Assessment	Telephone Security	Applications (6)	Total Costs	Costs for work done
ManTech	\$25,500.00	\$32,380.00	\$21,300.00	\$11,430.00	\$7,600.00	\$3,124.00	\$32,376.00	\$133,710.00	\$79,180.00
CH2MHill	\$25,760.00	\$31,040.00	\$17,600.00	\$7,520.00	\$22,400.00	\$10,400.00	\$81,600.00	\$196,320.00	\$74,400.00
DynTek	\$4,200.00	\$9,800.00	\$2,400.00	\$4,200.00	\$4,200.00	\$4,200.00	\$21,000.00	\$50,000.00	\$16,400.00
ProVista	\$21,450.00	\$20,250.00	\$20,250.00	\$5,900.00	\$4,900.00	\$17,100.00	\$31,440.00	\$121,290.00	\$61,950.00

Parts contracted for

	Scoring		
	Technical (70)	Costs (30)	Total
ManTech	70.0	4.4	74.4
CH2MHill	69.0	4.7	73.7
DynTek	34.5	30.0	64.5
ProVista	27.2	5.7	32.9

## **2.0 Summary of Qualifications (RFP III, D)**

### **2.1 Subcontractor**

ManTech, the prime contractor, has partnered with SNS One, a Minority owned, Service Disabled Veteran Owned Small Business that specializes in FISMA audits and network security assessments. While partnering with KPMG, SNS One has staffed numerous FISMA audit teams when KPMG was unable to provide sufficient staff. SNS One has agreed to provide two assessors for this effort. A copy of our subcontract agreement is included as Appendix 2.

### **2.2 Team Member Qualifications and Experience**

The ManTech Team has a deep pool of experts ready to support the State of North Dakota and its assessment needs. We have a unique business model that affords us the ability to hire and maintain a highly educated and experienced staff. We believe in providing the right expertise to the customer and only using those experts when the customer needs them. It is not feasible for anyone to possess the vast amount of security knowledge needed to address all the various configurations, equipment, and software in use today. For this reason the ManTech Team employs more than 95 computer security experts, each with an expertise in a different area and each able to support our customers' needs. All of our engineers support all our customers, through a matrix approach. These individuals work on several large government contracts, but can be transitioned for short periods to other customers that can utilize their skills. This not only allows us to provide the right expertise to our customers, it gives our engineers an opportunity to work on other exciting work away from their normal contract. This model also allows us to support short term engagements such as this assessment without worrying about having the appropriate staff available. All individuals we are proposing to work on this assessment are current ManTech or SNS One employees.

All of our experts have at a minimum a deep background in security testing, security auditing, and system administration. This allows anyone of them to successfully run a suite of advanced assessment and penetration test tools and properly analyze the results. In addition to these individuals, we will provide the State of North Dakota with specialists to address some of your specific requirements. Our specialists will focus their attention on some of the more complex aspects to the assessment, including application testing, configuration reviews, wireless testing, and dial-in testing.

The ManTech Team feels this assessment can be accomplished with four Full Time Equivalents (FTEs) over an 11 week period. We propose that three mid-level security engineers conduct the State of North Dakota assessment and that they be augmented by our pool of senior security engineers to complete some of the more complex testing. Additionally, the ManTech Team will provide a Technical Director who will manage the project and ensure all deliverables are reviewed and properly delivered. If any substitutions are required, ManTech will obtain written approval from the State Auditor.

The following ManTech Key personnel and the positions they will fill have been identified to support this effort:

## RONALD BUSHAR

**Proposed Position:** Technical Director/Project Lead

**Clearance:** Top Secret (TS/SCI)

### QUALIFICATIONS

- Ten years experience in computer network security and Project Management
- Demonstrated ability to communicate effectively with customers and promote services and products
- Skilled in the use of a wide variety of security tools and "hacker" methodology
- Computer network vulnerability assessments
- Test infrastructure design and implementation
- Security tool development
- Educated in current business practices and operations
- Experience leading various types of auditing teams and managing large assessment teams

### PROFESSIONAL EXPERIENCE

**07/02 – Present**

**ManTech Security and Mission Assurance (SMA)**

**Technical Director**

Technical Director leading long term multi-million dollar assessment contract for the FBI. Technical expert for security assessments and reviews of highly sensitive computer networks. Lead teams of 2 to 4 security engineers in several target enumeration tasks. Design and test a variety of security tools and solutions for a large range of customers. Highlights of achievements:

#### Operations

- Technical Lead for the FBI assessment/security test team in support of major system certification and accreditation projects.
- Technical lead for 2 network security reviews of highly sensitive Department of Energy networks. Enhanced security and manageability of network access controls, routing, server access controls, and perimeter defense.
- Planned, led, and executed a 1 month Internet enumeration task utilizing custom tools and techniques resulting in unique capabilities and data that was previously unavailable to the customer.

#### Product Development

- Developed technical test plan for Certification and Accreditation efforts for the FBI Trilogy network.
- Developed a first of its kind network "target folder" greatly enhancing the customer's situational awareness for future Computer Network Operations.
- Aided in the development of unique network vulnerability testing tools.

**1998 to July 2002, 92 IWAS / CNO – Kelly AFB**

**Network Security Assessment Team Chief / Tech Lead (1999 to 2002)**

**Network Security Assessment Team Member (1998 to 1999)**

Assessment Team member rapidly promoted to Technical Lead / Team Chief. Lead network assessment teams of up to 5 members on missions involving the detection, exploitation, analysis, and correction of network and computer security issues. Design, create, and implement a wide variety of security tools and solutions for a large range of hosts and network topographies. Deploy worldwide for computer incident response and support of contingency operations. Train system administrators in a large range of security issues and methods of exploitation prevention. Highlights of achievements:

#### Operations

- Planned, led, and executed 1 to 4 week network assessments of over 10 Air Force Bases. Enhanced the network security posture and educated users and administrators at installations worldwide.
- Responded to several incidents at Air Force and DOD locations aiding law enforcement and resulting in the prevention of further attacks.

- Technical Lead in efforts to secure Air Force networks in Europe during the Kosovo Conflict. Resulted in an enhanced computer security posture for all Air Bases in Europe.
- Technical or Team lead on 5 Air Force or joint exercises participating as "Red Team" Information Operation forces. Successfully trained operators and command level personnel on adversary tactics and proper IO integration into the overall war fighting structure.
- Led a Team of four in a critical vulnerability assessment of the Air Force Information Operation Center (IOC) following the Sept. 11 attacks. Identified and corrected multiple weaknesses that resulted in secure operations during the war.
- Spearheaded design and implementation of a first of its kind Information Operations Tactics Development and Evaluation lab to test new information operation tactics.

#### **Product Development**

- Designed several techniques currently in use for the penetration and exploitation of Windows NT clients. Resulted in increased accuracy of threat emulation and better understanding of potential vulnerabilities.
- Collaborated with a colleague on the development of a Unix buffer overflow exploit. Currently in use.
- Developed techniques and procedures for use in Multidisciplinary Vulnerability Assessments, resulting in more thorough and accurate "Red Team" threat emulation.
- Principal author of Air Force defensive counter information Tactics, Techniques, and Procedures (TTP) for the Base Information Protection (BIP) suite of tools. Resulted in first successful effort to "operationalize" computer network defense.

#### **Training and Communications**

- Improved administrator and user knowledge of computer security practices at over 30 Air Force Bases. Seminars included security policies, recommendations, and fixes for vulnerabilities, and hands on help fixing specific problems.
- Trained new Team members on a breadth of knowledge including: operating systems, general networking, and techniques and procedures for network security assessments.
- Presented the results and recommendations from assessments to commanders at 15 Air Force bases. Briefed highly technical material to all audience levels in a clear and concise manner.

1995 – 1998 (part time)

#### **GATX CORPORATION**

##### **Automation Engineer**

Part time summer and winter break employee rapidly promoted to automation engineer. Local expert on PLC programming and maintenance. Responsible for hazardous chemical and oil storage automation systems as well as pipeline leak detection system. Highlights of achievements:

- Developed, populated and maintained a parts and order tracking database for \$30 million expansion project. Resulted in accurate accounting and on time delivery for job critical materials.
- Developed programming logic and maintained industrial PLC systems involving temperature and valve controls for several chemical storage sites. Resulted in 100% availability of product, increased loader safety, and prevented costly winter freeze problems.
- Developed automated leak detection systems for several major pipelines in the Northeast corridor. Enabled the quick detection of possible hazardous leaks in the system and reduced customer liability exposure.

#### **EDUCATION/TRAINING**

MS, Computer Information Systems - St. Mary's University  
BS, Electrical Engineering - Virginia Polytechnic Institute and State University  
Certified Information Systems Security Professional (CISSP) - 2001  
Information Systems Architecture Professional (ISSAP) - 2004  
Cisco Certified Network Associate (CCNA) - 2000  
Engineer in Training (EIT) - 1998  
Cisco Certified Security Professional (CCSP) in progress

## JAMES RODGERS

**Proposed Position:** Sr. CFIA Engineer

**Clearance:** Top Secret (TS/SCI)

### QUALIFICATIONS

More than nine years of professional experience in Information Operations, Information Assurance, Communications Intelligence, and Education & Training Development. Former Adjunct Faculty Technical Instructor at the NSA National Cryptologic School for the Technical Survey of Intrusion Techniques and Defensive Measures course. Certified Information Systems Security Professional (CISSP) and a Cisco Certified Network Associate (CCNA).

Has led teams ranging in size from five to 130 members on projects including penetration testing, computer surveillance & monitoring, vulnerability assessment, secure network design and incident response.

### PROFESSIONAL EXPERIENCE

#### 2003 – Present ManTech SMA

##### Senior Intrusion Engineer

- Security consultant providing network architecture review, configuration review, vulnerability assessment and penetration testing for the Federal Bureau of Investigation's Certification and Accreditation Unit.
- Conducts Application Security Assessments of various Web Based application as well as customer developed applications.
- Conducts firewall, router, switch, and other device configuration reviews to determine insecure configurations
- Conducts computer surveillance/monitoring, vulnerability assessments, penetration tests of information systems, secure network design, network enumeration, and audits of information security infrastructure and policy.
- Conducts network operations services to include computer reconnaissance; supports custom tool development, modification and analysis; target mapping and profiling, and network decoy and deception operations.
- Developed custom technical training modules for the Commander Naval Security Group's Advanced Digital Network Analysis course.
- Responsible for perimeter defense of the ManTech SMA corporate network to include configuration and monitoring of Cisco PIX firewalls and switches.
- Responsible setup and deployment of Cisco VPNs providing secure remote and site-to-site access for three operational requirements.

#### 2001 – 2002 United States Navy

##### Deputy Operations Branch Chief, NSA Red Team

- Technical supervisor directing a military and civilian branch conducting Information Assurance Readiness Assessments including penetration testing and opposing force simulation for the Department of Defense (DOD).
- Led development of a four-day, hands-on technical course covering Red Teaming techniques and procedures training personnel in seven classes increasing the number of trained operators by 70 percent.
- Technical Lead of an eight-member watch section for a military exercise directing network research, analysis, and penetration testing.
- Member of three network penetration testing teams conducting vulnerability assessments for DOD customers, resulting in improved security procedure implementation and increased protection of customer's information infrastructure.
- Installed and configured Windows and Linux networks providing training and simulation for Red Team Operations.

#### 1998 – 2001 United States Navy

##### Assistant Operations Officer Naval Security Group Activity, Fort Meade, MD

- Managed the operations, training and administration of the Signals Intelligence Operations Department providing cryptologic support to the U.S. Navy Fleet.

- Spearheaded initiative to develop a web-based interface for technical data, significantly improving access to 6,000 pages of data and the ability to deploy with the most current mission information.
- Directed the operations, logistics, travel, administration, and training of teams from three commands, while managing over \$400,000 of equipment.
- Provided daily positioning recommendations to commanding officers, ensuring mission accomplishment and mission safety.
- Instituted a side-by-side test of equipment, identifying and correcting mission critical deficiencies.
- Qualified and trained officers, increasing deployment readiness by 50 percent.

**1995 – 1998 United States Navy**

**HFDF Officer/Officer-in-Charge Naval Security Group Activity, Overseas Location**

- Oversaw the operational readiness, training and administration of a division providing 24-hour geolocation and search and rescue support to U.S. Navy Fleet and DOD customers.
- Cross trained and transitioned personnel after disposing of three geolocation subsystems while overseeing the mission transition of the division.
- Responsible for cryptologic counter-narcotic operations, equipment maintenance, administration and logistics of a shipboard detachment.
- Reduced classified material holdings by 25 percent and revised the ship's emergency destruction plan.

**EDUCATION/TRAINING**

BA, Magna cum Laude - University of South Carolina

Certified Information Systems Security Professional (CISSP)

Cisco Certified Network Associate (CCNA)

Network+ Certified

A+ Certified

**Various Technical Training Courses including:**

Cisco VPN Configuration

Cisco Secure Pix Firewall Configuration

Cisco Internetwork Technology

Cisco Network Technology

Implementing Cisco Multilayer Switched Networks

SANS Firewalls, Perimeter Protection, and VPNs

SANS Hacker Techniques, Exploits and Incident Handling

SANS Security Essentials

Implementing MS Windows 2000 Professional & Server

MS Windows 2000 Network & OS Essentials

Administering Windows NT 4.0



## WARREN WADDELL

**Proposed Position:** Security Engineer

**Clearance:** Department of Justice (DOJ) Interim Secret Security Clearance

### QUALIFICATIONS

Information System Security Professional with a diverse background providing information assurance services to Federal and quasi-Federal organizations including security vulnerability assessments and auditing. Experienced in reviewing controls; developing and executing testing programs and scripts; identifying vulnerabilities and mitigating associated risks; verification and validation testing at system, interface, unit, regression, and user acceptance levels; data mapping, conversion, and migration; training; and project management support. A flexible self-starter committed to improvement to better support the organization. Able to adapt to rapidly changing situations while remaining focused on goals and deadlines.

### PROFESSIONAL EXPERIENCE

**April 2005 - Present**

**SNS One, Inc**

**Sr. Security Network Consultant**

- Executed Application and General Control audits using the Federal Information System Controls Audit Manual (FISCAM) model on vital, multifaceted government financial systems.
- Created 250 work papers detailing audit findings and interviews.
- Performed vulnerability assessments and penetration testing utilizing Nessus, Netcat and Nmap
- Provided independent verification and validation of system security controls through security testing and evaluation
- Conducted Security Self-Assessments using Plan of Actions and Milestone (POA&M) tracking reports.
- Developed audit status reports, test plans, and security plans
- Delivered formal bi-weekly briefings to the DOJ Chief Information Officer (CIO) and Office of the Inspector General (OIG)
- Supervise Jr. Security Consultants in relation to FISCAM and FISMA audit activities.

**September 2004 – April 2005**

**SNS One, Inc**

**Security Network Consultant / Part time**

- Redesigned, configured, and installed secure network devices utilizing Virtual Private Networks (VPNs).
- Created Windows 2003 Active Directory Domain environments.
- Installed and maintained Windows 2003 Terminal Service License Servers with a VPN Network.
- Installed and configured Cisco 1700 Router/ VPN solution.
- Assisted in performing Certification and Accreditation (C&A) using the NIACAP model on a large geographically dispersed government system.

**May 2001 – October 2004**

**Northrop Grumman.**

**Internal Revenue Service Integration Support Contract/ Enterprise Test Control Center**

**Sr. Security Engineer – Operations Team Lead**

- Hands-on Team lead for a small group of Security Engineers supporting a large enterprise-level infrastructure across distributed architectures.
- Performed periodic risk and vulnerability assessments using automated tools on both Windows and UNIX based platforms.
- Design and implemented Security Action plans to mitigate known security risk and vulnerabilities
- Assisted in the drafting of Certification and Accreditation (C&A) documentation for IRS system critical General Support System (GSS) and Enterprise applications (EA).
- Performed System Test and Evaluations (ST&E) to assist in the C&A of IRS GSSs and EAs

- Planned, organized, and lead security tasks and projects and ensure the confidentiality, integrity, and availability of customer data.
- Serve as an internal expert and escalation point for system security related questions.
- Coordinate with outside vendors to ensure system/ networks are functioning to full capability.
- Responsible for day-to-day monitoring, maintenance, configuring and diagnosing of security device and LAN related integrity and functionality issues for 200+ users.
- Performed network monitoring, configuration management and Disaster Recovery on production and test Windows NT/2000 and Solaris 8 environments.
- Coordinated strategic Disaster Recovery Contingency Plan documentation for Windows NT/2000 and Solaris 8.
- Principal Engineer for system migration, implementation schedule and Standard Operating Procedures Guide.
- Configured and deployed Rational ClearCase 5.0 Vob servers and clients for Windows NT/2000 and Solaris 8 to be used as Development, Test, Quality Assurance and User Acceptance Test (UAT) for production and post-production environments in accordance to Security Implementation Guides (STIGs).
- Successfully lead several network facility upgrades, including documenting and configuring network security devices.
- Serve as a mentor, leader and coach for junior coworkers, focusing on improvement and development of technical skills while functioning independently

**June 1998 – May 2001**

**Lockheed Martin Missions Systems**

**Internal Revenue Service Integrated Submission and Remittance Contract**

**Network/Security Systems Administrator**

- Assisted in the C&A of several IRS Production Systems
- Responsible for the overall day-to-day LAN management operations of more than 100 Windows NT Servers and Workstations in a heterogeneous Distributed Computing Environment (DCE) to support the Software Development Environment (SDE) and testing site, over two locations
- Collected, Maintained and Analyzed system audit trail for security incidents.
- Maintained and administer network-based applications and Windows servers to enhance the security posture of the environment
- Conducted remote monitoring of routing and other network equipment
- Switch and Cisco Router IOS upgrade and configuration
- Configured and Maintained TCP/IP, DNS, DHCP, and WINS network connectivity
- Developed software bundles for distribution using Microsoft Systems Management Server (SMS) 1.2
- Managed test lab architecture using SMS
- Compiled documentation detailing maintenance, configuration, and setup processes for Windows NT environments
- Administered backups and restoration with Legato Networker 5.1, Veritas 8.0 and Norton Ghost 6.0
- Organized and Managed Storage Area Network configuration
- Executed workstation installations, rebuilds, and software build distributions to clients using SMS
- Provided 24hr direct MS Windows and UNIX on-call customer support for 3000 users
- Used Team Connection (a COTS product), to maintain, update and govern file variance, in addition to monitoring version overlay
- Gained full life cycle experience while working on IRS contract

**General Motors Corp, Production, Control & Logistics  
Systems Administrator**

**January 1997 – September 1997**

- Investigated and Troubleshoot hardware and software malfunctions to determine cause and initiate corrective action
- Assembled and Configured PC's and peripherals including printers, CD-ROM's, floppy drives, hard drives, tape backup systems, scanners, modems, and input devices
- Designed and Supported various workstations and servers, ranging from AMD K7, Pentium III with RAID configuration

**June 1996 – September 1996**

**AT & T Universal Card Services Division  
System Administrator (Internship)**

- Client/Server network maintenance
- Daily Software/Hardware capacity balancing
- UNIX, Novell, Netscape Intranet and Internet systems support
- System quality assurance checks
- Provided helpdesk support for approximately 1000 users
- Monitored network using HP OpenView

**EDUCATION/TRAINING**

**EDUCATION**

Morgan State University

Bachelors of Science: Industrial Engineering May 1998

**Training Courses**

- Introduction to the National Information Assurance Certification and Accreditation Program training
- Microsoft Certified Professional NT 4.0 (MCP)
- Cisco Certified Network Associate (CCNA)
- Sun Solaris 2.8 Administration
- Introduction to Computer Security Training
- Updating NT 4.0 to Windows 2000
- Rational ClearCase Administration 5.0
- Rational ClearCase Disaster Recovery.

**NICK JENSEN**

**Proposed Position:** Security Engineer

**Clearance:** Top Secret (TS/SCI)

**QUALIFICATIONS**

- Consistent and documented success with over 9 years of professional experience in:
  - Communications Intelligence
  - Information Assurance
  - Information Operations
  - Network Security & Administration
- NSA National Cryptologic School Adjunct Faculty Technical Instructor.
- Six years experience successfully leading teams ranging from two to ten members.

**PROFESSIONAL EXPERIENCE**

**United States Marine Corps, Staff Sergeant, Signals Intelligence (1996-2005)**

**Naval Research Laboratory, Washington, DC (2004-2005)**

**System Administrator & Network Technician, Optical Sciences Division**

- Developed an automated utility, which creates and maintains a Debian (Linux) package repository on a secure network enabling up-to-date support of experimental hardware platforms.
- Spearheaded categorization of over 3000 vulnerabilities, exploits, and tools in a database with a web-based user interface.
- Responsible for the administration of all networks for two laboratories.
- Installed Dell PowerEdge and PowerVault servers and migrated a peer-to-peer Windows workgroup to a Windows Server 2003 domain.

**National Security Agency, Fort Meade, MD (2001-2004)**

**Technical Leader, NSA Red Team**

- Technical Lead of a two to eight-member watch section for three military exercises directing network research, analysis, and penetration testing.
- Member of three network penetration testing teams conducting vulnerability assessments for DoD customers, resulting in improved security procedure implementation and increased protection of customer's information infrastructure.
- Authored an open source research and information gathering spider increasing the efficiency of Red Team research operations by 85%.

**Company Training Officer, Company L (2003-2004)**

- Designed and developed a database for tracking command training requirements which improved the quality and continuity of training and contributed to higher readiness and mission success.

**National Security Agency, Overseas Location (1999-2001)**

**Technical Team Leader, Signals Collection**

- Led a five-member joint-service work section producing near real-time status reports to national intelligence centers with a 98% accuracy rate.

**Platoon Sergeant/Commander, 2<sup>nd</sup> Platoon**

- Responsible for training and administration of 10 Marines during platoon commander's extended absence.

**Naval Security Group Activity, Overseas Location (1998-1999)**

**Morse Code Collection System Operator**

- Member of watch section performing search, detection and acquisition of target mission.

## EDUCATION/TRAINING

B.S. Degree in Computer Science (in transfer, 50% complete)

National Cryptologic School, National Security Agency

- Over 800 hours of formal technical training in the areas of:
  - Computer & Network Security
  - Signals Intelligence
  - Programming (C, Perl)
  - Instructor Training
  - Networking and Network Technologies
  - Operating Systems (Windows NT/2000 & Unix)

**ANTHONY DELANEY**

**Proposed Position:** SNS One Engineer

**Clearance:** Department of Defense (DoD) Top Secret Security Clearance

**QUALIFICATIONS**

Information System Security Professional with a diverse background providing information assurance services to Federal and quasi-Federal organizations including security vulnerability assessments and auditing. Experienced in reviewing controls; developing and executing testing programs and scripts; identifying vulnerabilities and mitigating associated risks; verification and validation testing at system, interface, unit, regression, and user acceptance levels; data mapping, conversion, and migration; training; and project management support. A flexible self-starter committed to improvement to better support the organization. Able to adapt to rapidly changing situations while remaining focused on goals and deadlines.

**PROFESSIONAL EXPERIENCE**

**March 2005 - Present**

**SNS One, Inc**

**Security Network Consultant**

- Conduct network security assessments and penetration testing of various DOJ client specific LAN/WANs to include the recommendation of secure, risk-mitigating solutions to discovered vulnerabilities via written and verbal reports and presentations
- Perform vulnerability analysis of various DOJ client specific LAN/WANs to include war dialing and password auditing
- Serve as senior technical representative for DOJ OIG during FISCAM and FISMA audits of various DOJ entities to include technical control testing and evaluation of technical policies

**May 2002 – March 2005**

**Windermere IT**

**Project Engineer – Information Assurance**

- Researched and examined networking devices installed in a LAN/WAN environment to determine system and/or component vulnerabilities
- Used networking utilities to evaluate devices installed in a LAN/WAN environment to passively and actively determine specific information about components
- Tested and evaluated custom developed networking tools to guarantee their acceptance in the CIOTE approval process

**Project Engineer/Network Design - E-Crime 3/03 – 12/04**

- Designed and configured LAN, WAN and simulated test networks to include IP addressing schemes and network diagrams
- Monitored global network of custom devices using intrusion detection systems and custom designed control software interfaces
- Designed, developed, and maintained websites used to facilitate the transfer of data via various communications protocols

**Project Engineer/Hardware Design - E-Crime 5/02 – 3/03**

- Researched and evaluated COTS communications devices, designed and developed miniaturized equivalents which met very specific and challenging program requirements
- Served as the lead engineer during the testing of custom developed communications devices and documented the procedures used and results obtained
- Developed custom applications and graphical user interfaces used to facilitate the control and testing of communications systems

**1994 – May 2002**

**Department of Defense Fort Meade, MD**

**Hardware Design Engineer 10/01 – 5/02**

- Researched and evaluated COTS communications devices which used various transmission channels and techniques to determine their value in meeting project requirements
- Designed and tested custom communications circuits to include milling printed circuit boards and circuit construction

**System Engineer 5/99 – 10/01**

- Served as the technical lead for a specific Personal Communications Systems technology
- Directed project development efforts to include the generation of requirements, evaluation of system architecture, and certification of field test acceptance
- Planned and implemented system deployments to include remote and field installations of various processing system components
- Configured system components to facilitate their integration into existing LAN architecture
- Maintained life cycle support by ensuring documentation and training were well defined and up to date

**Undergraduate Training Program Engineering Student 8/94 – 5/99 Summers**

- Designed, developed, and tested the functionality of populated PCBs
- Performed multi-chip run-closings, including arranging integrated circuits on wafer lithography masks using CAD tools such as Adobe Illustrator and CATS
- Tested the functionality of packages containing integrated circuits using Trillium Deltamaster test heads
- Upgraded and implemented network designs using Ethernet and FDDI network media

## **EDUCATION/TRAINING**

### **EDUCATION**

Tuskegee University

Bachelors of Science in Electrical Engineering 1999

Magna Cum Laude, 3.59 GPA

### **Training Courses**

- Department of Defense National Cryptologic School
- Nessus
- Foundscan
- Nmap
- L0phtCrack
- Telesweep
- Microsoft Front Page
- Adobe Illustrator
- LabView

## 2.3 Past Performance

The ManTech Team has broad and deep experience performing security assessments and audits. Our experience in the Federal and State sectors providing security certification and accreditation process implementation and business enterprise architecture services offers many advantages and synergies. The State of North Dakota will benefit from our depth of experience and knowledge of real world, large scale networks and the unique and difficult challenges in securing such networks.

<b>VULNERABILITY ASSESSMENT &amp; PENETRATION TESTING, AND INCIDENT RESPONSE</b>			
<b>Customer:</b> Federal Bureau of Investigations		<b>Contract Number (C):</b> A3G307948	
<b>Contract Type:</b> T&M	<b>Period of Performance:</b> 1 Oct 2003 – 30 Sep 2005 (Third option year awarded)		<b>Amount:</b> \$4,379,658.00
<b>Contract Point-of-Contact:</b>		<b>Technical Points-of-Contact:</b>	<b>Key Personnel:</b>
<b>Name:</b>	Ben Royston	Susan Anderson	Ronald Bushar
<b>Phone:</b>	(202) 324-6765	(202) 383-9643	James Rodgers, John Jowers
<b>Type of Task Area:</b> Incident Response, Vulnerability Assessment, Application Security Analysis, Certification and Accreditation, Security Policy and Procedure Review and Development			
<p><b>Description of Work:</b> ManTech SMA conducts Incidence Response, Network and Application Security Assessment, Network Vulnerability Evaluation, and Connectivity Vulnerability and Certification Testing for the FBI's Enterprise Security Operations Center. We develop Network and Application Security Assessment Plans, conduct site inspections, interviews, architecture and configuration reviews, and develop progress reports. We conduct Vulnerability Evaluations of hardware, software, databases, perimeter devices, IDS, encryption, long haul communications, and other items relating to the Trilogy system; and conduct Security Test and Evaluation (ST&amp;E) services in accordance with the Certification test results to address each vulnerability documented in the vulnerability analysis.</p> <p>Our Team provides System Certification Services: Assess the technical, administrative and operational security evaluation of the degree to which the information is being protected. A Risk Analysis and Security Test &amp; Evaluation (ST&amp;E) process will be conducted. We evaluate and formally advise the accrediting authority of the risk associated with operating the system; the steps that should be taken to further reduce the risk; and the security limitations and implications associated with accreditation. SMA develops test plans; performs the test; monitors and evaluates test performance; evaluates test results; and prepares test reports and recommendations for customers.</p> <p>We provide System Accreditation Services: Assist the risk management decision by the accrediting authority authorizing the operation of an information system: 1) within a specific mode of operation; 2) with prescribed administrative, environmental, and technical safeguards; 3) with a defined threat, stated vulnerabilities, and cost effective countermeasures; 4) in a given operational environment; and 5) with a stated operational concept. Conduct analyses of these factors during the preparation of requisite documentation prior to submission for accreditation by the Designated Approving Authority (DAA).</p>			

<b>VULNERABILITY ASSESSMENT, SECURE NETWORK REVIEW, AND NETWORK MONITORING</b>			
<b>Customer:</b> Comprehensive Health Services Inc.		<b>Contract Number (C):</b> Commercial	
<b>Contract Type:</b> T&M	<b>Period of Performance:</b> 9 Sep 2002 – Current		<b>Amount:</b> \$257,381.00
<b>Contract Point-of-Contact:</b>		<b>Technical Point-of-Contact:</b>	
<b>Name:</b>	Todd Hall	Todd Hall	
<b>Phone:</b>	703-760-0700	703-760-0700	



**Type of Task Area:** Vulnerability Assessment, Secure Architecture Support, Policy and Procedure Review, Intrusion Detection, and Technical Consultation & Support

**Description of Work:** ManTech Security and Mission Assurance (SMA) performed a multidisciplinary vulnerability assessment, secure network design, HIPAA compliancy, application testing, IA policy & procedure development, and IDS installation and monitoring for Comprehensive Health Services (CHS), headquartered in McLean, Virginia. The assessment included a comprehensive review of existing policies and practices as they relate to network security in accordance with Department of Health and Human Services rules and regulations. The scope of the work included their headquarters building and three geographically separated offices around the country. We conducted an in-depth network vulnerability assessment, performed network penetration testing, evaluated & implemented secure network designs, reviewed firewall and router configurations, conducted application testing, delivered training, installed Intrusion Detection Systems. We also provided solutions for enhancing network security and consulted during the upgrade and implementation of our secure network design. NSS-SMA offered continuous support throughout this process and performed several external and internal scans and examinations of the CHS network to validate implemented changes. Our support and recommendations allowed CHS to reach the high level of security necessary to mitigate the growing threat in a networked environment.

The development of realistic security policies was an interactive effort between our experts and client administrators, users, and managers. Our Team of experienced professionals interviewed critical personnel, surveyed the current and future network architecture, and evaluated actual and potential vulnerabilities to develop a threat posture that was used to assist in a review of the client's current IT security plans and policies. Our experts developed their Continuity of Operations plans as well as other HIPAA required policies and procedures. All recommended changes were based upon a cost benefit analysis.

Using state-of-the-art tools, the Team of technical experts identified existing vulnerabilities, both system and architectural, and recommended appropriate countermeasures, mitigating the risk of successful intrusions. We proposed a variety of IT security solutions based on their objectives, budget considerations, and operational concerns.

We specialize in designing and developing reliable, secure and cost-effective information networks. Working with the client our experts evaluated their requirements and provided the best possible solution without bias, as we are vendor neutral.

We are providing intrusion detection support through 24/7 monitoring of CHS's entire corporate network that includes four geographically separate offices throughout the United States. We have developed custom Snort sensors and have developed a full packet capture solution to assist in the investigation of alerts.

<b>VULNERABILITY ASSESSMENT AND SECURE NETWORK REVIEW</b>			
<b>Customer:</b> Indiana Secretary of State (SOS)		<b>Contract Number (C):</b> Commercial	
<b>Contract Type:</b> T&M	<b>Period of Performance:</b> 10 Sep 04 – 10 Nov 04		<b>Amount:</b> \$15,596.00
<b>Contract Point-of-Contact:</b>		<b>Technical Point-of-Contact:</b>	<b>Key Personnel:</b>
<b>Name:</b>	John Runte	Jim Roberts	Ronald Bushar
<b>Phone:</b>	(414) 777-5371	(414) 777-5346	James Rodgers
<b>Type of Task Area:</b> Baseline Security Assessment, Requirement Traceability Matrix, System Security Plan, Security Implementation Plan, Vulnerability Assessment, Independent Verification and Validations, Security Test and Evaluation			
<b>Description of Work:</b> ManTech Security and Mission Assurance (SMA) provides independent full system lifecycle security evaluation and certification services for the Indiana Secretary of State's (SOS) voter registration system. These services provide a framework to ensure the proper documentation and security testing is accomplished according to industry and government best practices. We developed a Security Implementation Plan and Timeline. We provide guidance and expert security knowledge to the State and assisted in developing a security testing methodology. The initial baseline assessment was well received and we were requested to perform the vulnerability assessments, security testing, and manage the certification package development. We provided a proposal that is currently under review in which we would provide the following: <ul style="list-style-type: none"> <li>• Security Certification Schedule</li> <li>• Security Certification Test Plan</li> <li>• Security Certification Test Report</li> <li>• Penetration Test Plan</li> <li>• Penetration Test Report</li> <li>• Risk Management Matrix</li> <li>• Security Certification Package</li> </ul>			

<b>FISMA AUDIT</b>			
<b>Customer:</b> Department of Justice (DEA/FBI)		<b>Contract Number (C):</b> GS-23F-8127H / DJJ-05-F-1222	
<b>Contract Type:</b> FFP		<b>Period of Performance:</b> 29 June 05 – Current	<b>Amount:</b> \$619,000.00
<b>Contract Point-of-Contact:</b>		<b>Technical Point-of-Contact:</b>	<b>Key Personnel:</b>
<b>Name:</b>	Gregory Newsome	Norman Hammond	Warren Waddell
<b>Phone:</b>	202.307.1962	202.616.3802	Melvin Murray
<p><b>Type of Task Area:</b> The Department, OIG, and CSITAO (DOJ) requested our services to perform an audit of the Drug Enforcement Administration's (DEA) and DEA's EPIC system (classified and unclassified) information security program and practices as required by FISMA and OMB. The Department, OIG and CSITAO also requested the performance of a performance audit of the information security program and practices of the DEA and DEA's EPIC system (classified and unclassified), in accordance with the Government Accountability Office's (GAO) Government Auditing Standards (GAS), as amended.</p> <p>The Department, OIG, and CSITAO (DOJ) also requested our services to perform an audit of the Federal Bureau of Investigation (FBI) and FBI's Automated Case Support (ACS) system -classified information security program and practices as required by FISMA and OMB. The Department, OIG and CSITAO also requested the performance of a performance audit of the information security program and practices of the FBI and FBI's Automated Case Support (ACS) system -classified, in accordance with the Government Accountability Office's (GAO) Government Auditing Standards (GAS), as amended.</p>			
<p><b>Description of Work:</b> SNS One's information security assessment methodology for FISMA addressed major FISMA independent evaluation requirements necessary for the development of an effective risk-based information security management framework at DOJ and for assessing the accuracy and completeness of DOJ in meeting FISMA's reporting requirements. This included:</p> <ul style="list-style-type: none"> <li>• Policies and procedures in establishing an enterprise-wide information security program</li> <li>• Certification and accreditation of individual systems (i.e., individual/subordinate information security programs)</li> <li>• Establishment and maintenance of standard security settings for DOJ major system platforms including an effective patch management process</li> <li>• Testing and evaluation of security controls</li> <li>• Continuity of operations</li> <li>• Incident response capability</li> </ul> <p>Applicable criteria incorporated into the development of SNS One's audit assessment methodology for FISMA included the following:</p> <ul style="list-style-type: none"> <li>• OMB Circular A-130, Management of Federal Information Resources, Appendix III, Security of Federal Automated Information Resources</li> <li>• FIPS Publication 199, Standards for Security Categorization of Federal Information and Information Systems</li> <li>• NIST Special Publication 800-61, Computer Security Incident Handling Guide</li> <li>• NIST Special Publication 800-60, Guide for Mapping Types of Information and Information Systems to Security Categories</li> <li>• NIST Special Publication 800-53, Recommended Security Controls for Federal Information Systems</li> <li>• NIST Special Publication 800-40, Procedures for Handling Security Patches</li> <li>• NIST Special Publication 800-37, Guide for Security Certification and Accreditation of Federal Information Systems</li> <li>• NIST Special Publication 800-34, Contingency Planning Guide for Information Technology Systems</li> <li>• NIST Special Publication 800-30, Risk Management Guide for Information Technology Systems</li> </ul>			

- NIST Special Publication 800-26, Security Self-Assessment Guide for Information Technology Systems
- NIST Special Publication 800-18, Guide for Developing Security Plans for Information Technology Systems
- NIST Special Publication 800-14, Generally Accepted Principles and Practices for Securing Information Technology Systems
- National Security Agency (NSA) Information Security (InfoSec) Assessment Methodology (IAM), and technology platform-specific methodologies in performing system vulnerability assessment reviews (Windows, Unix, CISCO operating systems).
- SANS/FBI Top Security Vulnerabilities for Windows 2000/XP and Unix Operating Systems

Note: Applicability of some of these guidelines will vary for major applications and general support systems evaluated particularly for legacy systems. Systems currently under development are required to follow recently published guidance that supercedes prior guidance (e.g., NIST 800-53 supercedes 800-18 and 800-26)

To implement this methodology both in the planning and detailed audit phase, we obtained relevant security management process documents and interviewed various persons associated with FISMA implementation – Chief Information Officer (CIO), Chief Information Security Officer or Director of Information Security, information system security officers (ISSOs), system administrators, and program officials. This information enabled us to assess the maturity of IT security governance practices established at DOJ. We also performed detailed tests of systems configurations through vulnerability assessments using a variety of freeware and commercial available software. The purpose of these tests enabled SNS One to determine whether systems were appropriately implemented in accordance to security program requirements established or ad hoc through individual expertise such as system administrators.

SNS One has had extensive experience in conducting FISMA audits, FISCAM general controls reviews, application controls evaluations of financial systems and OMB Circular A-130 reviews. The methodology we developed for such evaluations and reviews is very comprehensive. Building on this experience, SNS One has restructured its FISCAM methodology, correlated FISCAM to the requirements of FISMA, incorporated control techniques from related NIST guidance, such as NIST SP 800-30 and NIST SP 800-18, and created an integrated work program for the evaluation of information security controls. The integrated methodology can be selectively applied. It allows us to take an approach to security assessments that is based on experience, incorporates proven controls methodology, and enables us to provide flexible services to our clients to fit a variety of situations

<b>CERTIFICATION AND ACCREDITATION (C&amp;A) SUPPORT, FISMA COMPLIANCE REVIEW</b>			
<b>Customer:</b> U.S. Army Intelligence and Security Command (INSCOM)		<b>Contract Number (C):</b> SCT-04-013	
<b>Contract Type:</b> FFP	<b>Period of Performance:</b> 03/31/04 – 07/24/05		<b>Amount:</b> \$520,644.00
<b>Contract Point-of-Contact:</b>		<b>Technical Point-of-Contact:</b>	
<b>Name:</b>	Mike Uster	Debbie Pigg	
<b>Phone:</b>	703.253.1207	703.428.4522	
<b>Type of Task Area:</b> FISMA Audit			
<p>SNS One helps the Army Intelligence and Security Command (INSCOM) meet FISMA requirements by:</p> <ul style="list-style-type: none"> <li>• Conducting Certification and Accreditation (C&amp;A) activities</li> <li>• Conducting annual testing of security controls</li> <li>• Coordinating contingency planning</li> <li>• Implementing security configuration requirements</li> <li>• Ensuring the adequacy and effectiveness of information security controls</li> <li>• Developing and implementing policies and procedures that cost-effectively reduce information technology security risks to an acceptable level.</li> <li>• Conducting reviews of the agency's information security program</li> </ul> <p>These activities help INSCOM report the effectiveness of their information technology security programs to their respective agencies. Thus allowing their agencies to annually report to the Office of Management and Budget (OMB) per FISMA requirements.</p> <p>Provide Information Assurance (IA)/Certification and Accreditation (C&amp;A) support to the Army Intelligence and Security Command (INSCOM) Information Dominance Center (IDC). Current tasks include providing support through the four phases of the DoD Information Technology Security Certification and Accreditation Process (DITSCAP) and the DoD Intelligence Information System (DoDIIS) Process. The tasks involved are explained below.</p> <p>Conduct risk assessments for all information systems (IS) that comprise the LAN. Assessments include the following tasks:</p> <ul style="list-style-type: none"> <li>• Identification of all risks (threats and vulnerabilities) associated with the IS that may impact the confidentiality, integrity, or availability, to include users, user roles and user responsibilities</li> <li>• Understanding the mission of the IS and the risks associated with that mission</li> <li>• Review of the IS documentation for compliance to applicable standards</li> <li>• Review of the IS to ensure that documented standards are followed</li> <li>• Interviews of personnel responsible for administration and operational use of the IS to ensure they understand the applicable standards of the IS and how it is to be used to fulfill its mission</li> <li>• Conduct Vulnerability Assessments to identify potential system vulnerabilities. System vulnerabilities are categorized by severity of compromise should the vulnerability be exploited</li> <li>• Review of system vulnerabilities to determine the likelihood of those vulnerabilities being exploited by threats to the IS. The likelihood of system vulnerabilities being exploited are categorized as high, medium or low risks.</li> <li>• Review of potential threats to the IS to include natural, human and environmental threats</li> <li>• Review of threats and systems vulnerabilities to determine the effects of those vulnerabilities if they are exploited.</li> <li>• Review of controls utilized to mitigate threats and vulnerabilities to the IS</li> <li>• Review of accepted and unaccepted risks to the IS to determine their continued validity to the operating environment of the IS</li> </ul>			

- Prioritize and report all findings for appropriate mitigation/acceptance compliance
- Provide remediation for unacceptable risks and track residual risk

Develop Certification and Accreditation documentation for DoD Intelligence Information System (DoDIIS) and Defense Information Systems Agency (DISA) certified systems in accordance with the DoDIIS C&A Guide and the DoD Information Technology Security Certification and Accreditation Process (DITSCAP). Documentation development includes the following:

- Development of Systems Security Plans (SSP) and Systems Security Authorization Agreements (SSAA) to include:
  - System Security Test and Evaluation (ST&E) Plan  
The ST&E Plan is utilized to identify all testing assumptions, constraints, and dependencies. The ST&E Plan provides a proposed schedule that identifies which personnel, hardware, software, and other requirements will be utilized to accomplish full system security testing.
  - Requirement Traceability Matrix (RTM)/Security Requirements Traceability Matrix (SRTM)  
The RTM/SRTM identifies the requirements of the IS and also provides detailed test procedures to ensure all IT security functional and assurance requirements are fully tested.
  - Concept of Operations (CONOPS)  
The CONOPS is a user-oriented document that describes the characteristics for a proposed IS from the viewpoint of any individual or organization that will use the proposed IS in their daily work activities or who will operate or interact directly with the IS. The CONOPS describes the user organization(s), mission(s), and objectives for a proposed IS.

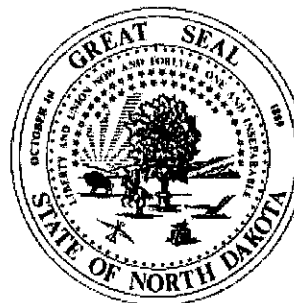
## 2.4 Distinct Value

The ManTech Team has had extensive experience in conducting network security assessments, penetration tests, wireless surveys, web-based application evaluations, security policy reviews, and phone assessments. Our approach and business model is simple and effective; we provide the necessary expertise to address the specific areas of interest. We are in the security business; that is all we do, and we do it very well. We understand the unique technical nuances in the security world and employ experts that solve those unique problems. As part of our services, our security experts will work side-by-side with the North Dakota IT staff to resolve any significant security issues before they create a bigger exposure. Our experts have been doing this type of work for a long time and for customers that require the best. It is not possible for a single person or even a handful of people to know everything they need to about security so we utilize a pool of experts, bringing in their specific skill set when needed and only for that part of the evaluation. In this manner, the customer enjoys the value of more than 95 experts while only paying for a handful of FTEs.

The Java Assessment GUI (JAG) is a utility developed by ManTech SMA to view the technical results of a network security assessment (e.g. vulnerability assessment, penetration test). During a network assessment, the results from various security are imported into a MYSQL database using the JAG. The results are saved to a database (.db) file, once the assessment is completed. This database file can be viewed by anyone using the JAG without the need for MYSQL. ManTech SMA will provide the State with a copy of the JAG for its internal use. State personnel can utilize the JAG to review scan results, system specific information and to search results. It also provides a means to track the status of vulnerabilities and remediation efforts. See [Appendix A](#) for screenshots of the JAG.

Cost Proposal																	
Position		Hourly Rate	Phase One		Phase Two (On-Site)										Phase Three		
			External Security Assets	Policy Assets	Internal Security Assets	BND Security Assets	PeopleSoft Financials	PeopleSoft HRMS	Child Support System	Individual Income Tax	Wireless Assets	Telephone Security Assets	Req. Pen. Testing	Optional Pen. Testing	Total Hours	Total Costs	
Estimated Number of Hours																	
Technical Director (Contractor Site)		\$175.00	26	2	2	2	2	2	2	2	2	2	2	(2)	48	\$8,400 (\$8,750)	
Lead Security Engineer (Contractor Site)		\$145.00	50	50											150	\$21,750 (\$29,000)	
Lead Security Engineer (Customer Site)		\$118.00			85	12	12	12	12	12	10	3			170	\$20,060	
Security Engineer A (Contractor Site)		\$137.00	50										50	(50)	100	\$13,700 (\$20,550)	
Security Engineer A (Customer Site)		\$110.00			150						20				170	\$18,700	
Subcontractor: Security Engineer A (Contractor Site)		\$137.00	50										50	(50)	100	\$13,700 (\$20,550)	
Subcontractor: Security Engineer A (Customer Site)		\$110.00			50	8	8	8	8	8	50	22			170	\$18,700	
Subcontractor: Security Engineer B (Contractor Site)		\$137.00													0	\$0	
Subcontractor: Security Engineer B (Customer Site)		\$110.00				25	25	25	25	25	20				170	\$18,700	
Travel Costs		\$10,000														\$10,000	
Software Licenses		\$5,400														\$5,400	
Totals for All:			176	52	287	47	47	47	47	47	102	27	152	152	1078	\$149,110 (\$170,410)	

**\*\*Note:** Service Categories for Technical Director, Lead Security Assessment Engineer, and Security Assessment Engineer map to the GSA CFIA labor categories of Principal Analyst, Senior Analyst and Analyst, respectively.



## PROPOSAL TO PROVIDE VULNERABILITY ASSESSMENT AND PENETRATION TESTING SERVICES FOR THE STATE OF NORTH DAKOTA

27 July 2007

Contract Point of Contact	Technical Point of Contact
Karen Schlottach 703-610-9204 <a href="mailto:karen.schlottach@ManTech.com">karen.schlottach@ManTech.com</a>	Mark Shaw 703-610-9326 <a href="mailto:mark.shaw@ManTech.com">mark.shaw@ManTech.com</a>
7799 Leesburg Pike, Suite 700 South Falls Church, VA 22043 Phone: 800-606-0648   Fax: 703-610-9353   <a href="http://www.mantechcfia.com">www.mantechcfia.com</a>	

*This proposal includes data that is proprietary to ManTech SMA. It will not be disclosed outside of the client's organization and will not be duplicated, used, or disclosed, in whole or in part, for any purpose by the client other than to evaluate this proposal. However, if a contract is awarded to ManTech SMA as a result of, or in connection with, the submission of these data, the client will have the right to duplicate, use, or disclose the data to the extent provided in the resulting contract. This restriction does not limit the client's right to use information contained in these data if they are obtained from another source without restriction. The data subject to this restriction are contained in pages marked 'Proprietary.'*

ManTech Security & Mission Assurance, a group of ManTech International Corporation

PH (703) 847-6070 • [www.mantech.com](http://www.mantech.com) • FAX (703) 847-5787

*Leading the Convergence of National Security and Technology*



## Table of Contents

<b>1.</b>	<b>INTRODUCTION.....</b>	<b>4</b>
<b>2.</b>	<b>COMPANY INFORMATION.....</b>	<b>4</b>
<b>3.</b>	<b>SCOPE OF WORK.....</b>	<b>6</b>
3.1	External Security Assessment .....	6
3.2	Internal Security Assessment .....	6
3.3	Penetration Testing .....	6
3.4	Application Security Assessment .....	6
3.5	Wireless/Remote Access Assessment .....	7
3.6	Policy Assessment .....	7
3.7	Telephone Security Assessment.....	7
<b>4.</b>	<b>TECHNICAL APPROACH.....</b>	<b>8</b>
4.1	External Security Assessment .....	8
4.2	Internal Security Assessment .....	10
4.3	Penetration Testing .....	10
4.4	Application Security Assessment .....	12
4.5	Wireless/Remote Access Assessment .....	14
4.6	Policy Assessment .....	15
4.7	Telephone Security Assessment.....	15
<b>5.</b>	<b>DELIVERABLES .....</b>	<b>16</b>
5.1	Project Plans and Schedules .....	16
5.2	Weekly Project Status Reports.....	16
5.3	Draft Reports.....	16
5.4	Final Reports and Briefings.....	16
<b>6.</b>	<b>SCHEDULE.....</b>	<b>17</b>

<b>6.</b>	<b>PRICING SUMMARY .....</b>	<b>18</b>
<b>6.1</b>	<b>Cost Breakdown .....</b>	<b>18</b>
<b>6.2</b>	<b>Invoicing.....</b>	<b>18</b>
<b>6.3</b>	<b>ManTech SMA Remittance Address .....</b>	<b>18</b>
<b>7.</b>	<b>SUMMARY .....</b>	<b>19</b>
<b>APPENDIX A.</b>	<b>DETAILED COST BREAKDOWN.....</b>	<b>20</b>

## 1. INTRODUCTION

ManTech Security and Mission Assurance (ManTech SMA) is pleased to submit this proposal to provide security assessment services for the North Dakota State Auditor. This proposal addresses the services described in the State's proposal requirements. ManTech will provide expert security support to identify and help resolve any security weaknesses while validating that proper security controls are in place.

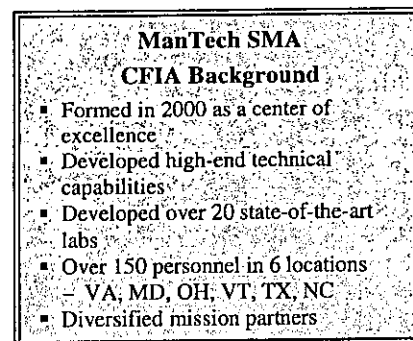
## 2. COMPANY INFORMATION

ManTech SMA is an independent business unit of ManTech International Corporation. With more than 6,000 employees, ManTech SMA delivers a broad array of security, technical services solutions, information technology (IT), and management support to federal government, state government and commercial clients. As a member of the ManTech family, ManTech SMA operates independently, while maintaining close corporate ties for reach-back to support surge or specialized security needs.

Founded in 2000 as a center of excellence for highly specialized cyber defense services, the Computer Forensics and Intrusion Analysis group of ManTech SMA is primarily focused on national security, federal government, and state government programs. The State of North Dakota's requirement will be serviced by the CFIA group.

CFIA is one of the most sophisticated and advanced technology groups in the marketplace with eight state-of-the-art computer laboratories and more than 150 subject matter experts in the following fields:

- Network Security
- IT Security Assessments
- Penetration Testing
- Application Security Assessments
- Wireless Security Assessments
- Dial-up/Remote Access Assessments
- Incident Response
- Computer Forensics
- Computer Crime Investigations
- Intrusion Analysis
- Network Vulnerability Research
- Reverse Engineering
- Software Security Engineering
- Customized Tool Development
- Customized Security Training



Our laboratories offer some of the most advanced system resources available for IT security assessments, penetration testing, intrusion detection, computer forensics, and hostile code analysis. CFIA currently provides direct operational support for numerous government laboratories and maintains a diversified portfolio of current mission partners in the National Security Community (CIA, NSA, and DIA), Department of Defense, Federal Bureau of Investigation, and other federal and state organizations. Our mission partners say we are the best kept secret in the network security business, whether for enterprise security solutions or IT assessment services. That is because we take security and privacy seriously; it is the essence of what we do.

### **3. SCOPE OF WORK**

ManTech fully understands the scope of this project. The following provide the specifics of each tasking identified by the State.

#### **3.1 External Security Assessment**

ManTech will evaluate the state network by performing an analysis of publicly available information about the state network, using tools to scan the network, assessing the behavior of security devices and screening routers and firewalls, and analyzing potential target hosts identified by reviewing software, bugs, patches, and configuration. Vulnerabilities should then be identified, verified and the implications assessed. ManTech will offer recommendations to improve the security of the state network from external threats.

#### **3.2 Internal Security Assessment**

ManTech will evaluate the state network by using tools to scan the network, assessing the behavior of security devices and screening routers and firewalls, and analyzing potential target hosts identified. Typical access to the network will be provided for this assessment. Vulnerabilities should then be identified, verified and the implications assessed. ManTech will offer recommendations to improve the security of the state network from internal threats.

#### **3.3 Penetration Testing**

ManTech will use the information gathered in the assessments performed, in compliance with NDCC 54-10-29 subsection 3, to penetrate targeted hosts or applications and attempt to access protected information or demonstrate that such information could be accessed. ManTech will work with the State Auditor's Office and Information Technology Department to identify a list of target hosts or applications. The final list of target hosts or applications will be at the sole discretion of the State Auditor's Office.

#### **3.4 Application Security Assessment**

Evaluation should be from both an external and internal perspective as appropriate. No application should be compromised or penetrated during this phase. Vulnerabilities should then be identified, verified and the implications assessed. ManTech will offer recommendations to protect the applications from internal and external threats. ManTech will evaluate the security of the listed applications:

- (1) PeopleSoft Financials
- (2) PeopleSoft Human Resource Management System (HRMS)
- (3) Websphere Infrastructure

### **3.5 Wireless/Remote Access Assessment**

ManTech will evaluate the security of the state wireless network and remote access. ManTech will perform a search for rogue wireless networks inside the state network. Vulnerabilities should then be identified, verified and the implications assessed. ManTech will offer recommendations to improve the security of the state wireless and remote access security.

### **3.6 Policy Assessment**

ManTech will evaluate the current information technology policies related to network security. ManTech will offer recommendations to improve existing policies or offer additional policies the state should put in place.

### **3.7 Telephone Security Assessment**

ManTech will evaluate the security of the state telephone system. This includes vulnerability to abuse of PBX's by outsiders to route calls at the target's expense, mailbox deployment and security, unauthorized modem use and associated risks. Vulnerabilities should then be identified, verified and the implications assessed. ManTech will offer recommendations to improve the security of the state telephone system.

## 4. TECHNICAL APPROACH

The methodology that ManTech proposes to accomplish these tasks is well vetted; it emphasizes a very thorough and detailed review of each task's requirements, assigning the appropriate expertise, testing for vulnerabilities, conducting in-depth reviews and if required, assisting the customer in fixing critical issues. Additionally, our methodology includes validating and assessing the threats from a realistic adversarial perspective rather than just running commercial tools and providing a "canned" report. Previous customers have praised the results produced by this methodology and the interaction with their administrators responsible for implementing and maintaining the system configurations. This approach provides administrators a hands-on review and encourages them to internalize the recommendations to enhance the configurations under their control. As each task is unique, a more detailed explanation of our methodology is provided under its respective section.

### 4.1 External Security Assessment

The Internet is an integral part of an organization's day-to-day business and operations. Due to its open nature, the Internet is also a tool that is often used by attackers to disrupt an organization's ability to perform normal business activities. Like most entities, North Dakota has an information infrastructure that utilizes the Internet, making it vulnerable to Internet-based attacks. These attacks can lead to a loss of sensitive data, data integrity, productivity, and time, and be costly to correct. ManTech has a deep understanding of Internet threats and how to identify systems vulnerable to those threats. We also maintain an expertise in researching the latest computer vulnerabilities ensuring we are always up-to-date with the latest security vulnerabilities and threats.

ManTech will conduct a thorough Internet security assessment of the State's external network. This assessment will study the external connections, emulate threats, and identify vulnerabilities in the State's network. Our approach consists of a limited knowledge assessment phase designed to systematically identify targets, identify vulnerabilities, and capture the responsiveness of security devices and personnel. The escalating nature of the assessment is necessary to accurately emulate a variety of network threats. The following steps detail some of the specific ways in which we conduct a limited knowledge approach, Internet security assessment.

**Passive Mapping:** This step emulates an outside threat (the average hacker) with limited knowledge of the network and involves enumerating the network and critical systems through open source techniques such as:

- Network and domain registrations
- Network administrator profiles (resumes, newsgroup postings, etc.)
- Web and news group postings
- Internet Research

This type of information gathering technique is frequently used by attackers to identify targets and obtain valuable information about a target. Passive mapping is an extremely effective data collection technique because the target is unaware intelligence is being collected.

**Active Mapping:** Once the passive mapping step is complete, ManTech will actively probe the network beginning with small stealthy probes and escalating to the use of very “loud” commercial tools to identify externally-facing systems on the State’s network. ManTech has developed a number of custom network enumeration tools that help us quickly and accurately identify critical resources that touch the Internet. Methods in this step including the following:

- DNS Zone transfers
- Single packet probes to specific targets
- Operating system identification scans
- Identifying server loads through custom packet probes
- Service and application scanning
- Using “bulk vulnerability” commercial scanning engines

ManTech’s tools and technologies go beyond traditional mapping techniques. We utilize a custom, stateless scanner to quickly scan enterprise networks (e.g. Class B and larger). In previous assessments we have used this scanner to perform per port OS identification of services relayed through a proxy firewall.

If enough data regarding the State’s network is obtainable through misconfigurations and security holes on externally-facing systems, ManTech will attempt to glean some preliminary data regarding the State’s internal network architecture. This phase will only look at vulnerabilities that are exploitable from the Internet.

Examples of such assets include limited reviews of the following if they are accessible:

- Databases
- Critical Servers
- Sensitive Data
- Access Credentials
- Network Nodes

**Vulnerability Analysis:** Once the various devices that are accessible from the Internet have been identified and information about those devices cataloged, the process of identifying potential vulnerabilities can occur. ManTech will use the data collected combined with the predefined goals to determine a course of action that will achieve the objectives. It should be noted this is often a very fluid process. In some cases misconfigurations can cause key data to be found during the mapping phase that allows for instant collection of data or access to systems directly from the Internet.



Once all information is correlated, we will confirm that any identified vulnerabilities are valid and do not represent false positives or are mitigated through other defenses.

## **4.2 Internal Security Assessment**

Upon completion of the external assessment, we will conduct an assessment of the internal resources. The internal network assessment will be similar to that of the Internet assessment but with a slightly different methodology.

ManTech will begin the internal assessment with a review of open ports, protocols, and shared resources on each system. This phase of the internal assessment emulates the insider threat as both a person with limited access and knowledge and also as the trusted – curious, malicious, or unwitting insider. Sources of these types of threats range from cleared cleaning crews, maintenance workers, temporary employees, and other individuals (who can gain some type of access to the facility and/or network but have no privileges on the system) to typical system users that use the network daily to fulfill their job duties.

After obtaining internal network access, we will conduct a thorough assessment, similar in nature, but much more comprehensive in scope than the external security assessment. The goal of the internal assessment is to identify potential vulnerabilities in the system, as well as potential risks to critical data and systems, and recommending solutions to mitigate those risks.

Due to the State's large network size, every system and server may not be tested. If any systems are not fully tested, ManTech will provide a sampling of similar systems and a cursory review of each system as a representative sample.

We will tailor the assessment to each target set. The objective is to emulate the given threat as closely as possible to provide an accurate risk assessment of the system and the data it contains. The goal is to evaluate the protection and detection mechanisms in place on the network that prevent unauthorized users from accessing sensitive data and systems.

The following list highlights a few of the components that will be tested:

- Architecture
- Transport
- Network device
- Access control list (ACL) permission settings

## **4.3 Penetration Testing**

ManTech's penetration testing methodology encompasses cutting-edge techniques, is well tested, and is lauded by our customers. Penetration testing will be conducted following the External and

Internal assessment phases and will be targeted to demonstrate the validity of findings identified during the earlier phases of the engagement. The test team will customize the approach to the state's systems and will attempt to break security controls of the firewalls, routers, web servers, databases, support systems, and any other targets identified by the Team or State.

To initiate the penetration testing portion of the assessment, ManTech's experienced staff will validate the network's access controls by sending specially crafted network packets to the pre-identified targets and intermediate points. We will analyze the responses to determine which security weaknesses can be further exploited, while maintaining a degree of stealth. We will test State's detection and response capabilities of identifying and countering future potential real-world attacks while we perform the penetration testing measures.

The testers will develop a detailed map of the State's network as it would appear from an outsider. Upon identification of any vulnerabilities, either through previous vulnerability assessment results or through the manual probes, the test team will develop detailed attack scenarios identifying the systems, vulnerabilities, and potential attack vectors. Vulnerabilities can include unpatched services, misconfigurations, and poor security practices. Exploiting the vulnerability will be dependent on several factors:

- **Impact** – Some exploits can cause services to crash. ManTech will take every precaution to safeguard the State's systems by performing exhaustive testing of all vulnerabilities within the safety of a closed test bed. Exploits that have the potential of causing an impact to the State's business process will not be used against production systems.
- **Availability** – Just because a server suffers from a public vulnerability does not mean that an exploit for that vulnerability is available. The ManTech test team has experience customizing exploits and may be able to build one that would match the state's system if it is necessary to demonstrate the capability.
- **Time** – Many vulnerabilities can be time dependent. A good example would be password cracking. Generally any password can be broken given enough time and computing power. The penetration test will have a start and end date and should the testers not be able to successfully exploit a vulnerability within the time allowed, the flaw will be documented, along with appropriate countermeasures.

ManTech's scenarios may encompass the use of custom written code, open source tools, and non-malicious proof-of-concept exploits, all of which have been thoroughly tested in closed networks at ManTech HQ. The test team's goal in most scenarios will be to obtain privileged access on the target systems. If the scenario ends there, the test team will record details showing the access, record the methodology used to exploit the system, and provide those details as findings in the penetration testing report.

Using the scenario methodology, should the test team only be able to obtain user-level access to a system, they will obtain approval to utilize other tools and techniques (within time constraints and reasonable effort) to obtain privileged access. Again, once privileged access is obtained, the Team will record all details and present findings in the final report.

If a scenario only requires the test team obtain user-level access, all actions for that target will end once the appropriate level of access is obtained. All details showing the access and methodology used to exploit the system will be provided as findings in the penetration testing report.

Should the scenario require acquisition of data from a system, ManTech testers will acquire non-critical, non-privacy related data that is specific to the target system to simulate information a malicious attacker could obtain from State's systems. ManTech will acquire the information without harming the integrity of the system's data or operations in any way.

Throughout the penetration testing phase and post-engagement, any data testers obtain (via any method) will be handled in the strictest confidence and will never be reviewed, archived, or prepared for the penetration testing report outside of official ManTech or State channels.

Upon completion of attack scenarios, ManTech will submit documentation to the state providing target systems IP addresses, hostnames, vulnerabilities and planned exploitation. The documentation will also contain information about the expected result of the test and the potential impact if any to the system or network.

After receiving approval to proceed with ManTech's scenarios from the State's management, the test team will coordinate with the State's trusted representative to conduct testing. It is advisable that the state have on hand during testing an individual intimately familiar with the systems and with the authority to stop the test at any time. The test team will then execute attack scenarios as outlined. Regardless of whether the test succeeds or fails, the Team will document the outcome and provide analysis. This documentation deliverable will be the penetration test report.

#### **4.4 Application Security Assessment**

One area in which we have noticed a significant lack of security testing is in regard to applications. An organization might have the most secure web server in the world, but if their web-based application that is hosted on the server can be compromised, then those protections are not effective. We have also seen a number of custom developed applications that are being developed by programmers that are focusing on the functionality of the application and not the security of the application. For this reason, ManTech focuses heavily on applications and some commonly unknown or undetected problems that may exist.

ManTech will use automated and manual methods to test the security of the three running applications. We use a two-tiered approach to application security testing. We begin by using industry leading automated tools such as WebInspect and/or AppScanner to capture a high-level security snapshot of the application. At this point most audits would end, however, we take testing one step further by providing expert analysis of these results and probing further into the application with manual techniques and custom written tools that can help find more elusive and less well known security flaws.

In one such example from a past assessment, testers manually used intermediary proxies to identify server-side code containing password-validation mechanisms that was erroneously transferred to the client during web-based authentication. ManTech quickly identified the flaw, exploited it, and gained access with minimal effort. We immediately provided the details to the customer, who quickly contacted the developer and had a potentially devastating security flaw corrected in a matter of hours.

In another example, testers manually reviewed contents of a secure web portal to obtain the page-naming convention. Testers were then able to manually bypass security mechanisms and browse to restricted pages of the portal using information gleaned about the names of secure pages and by manually exploiting a previously unknown design flaw.

ManTech's skilled testers will use advanced tools and techniques to find flaws in the following categories:

- Un-validated Input
- Non-Functioning Access Controls
- Authentication and Session Management Issues
- Cross Site Scripting Flaws
- Buffer Overflows
- Injection Flaws
- Improper Error Handling
- Insecure Storage of Data
- Denial of Service

Based on the business logic of the custom developed applications, ManTech will test the application using various roles. These roles correspond to differing levels of access to the system and the data it contains. ManTech will ensure that an account with one role (e.g. user) cannot access other portions of the application (e.g. administrator functions). These tests will be repeated for each role within the system, ensuring that access controls function properly at all levels.

## 4.5 Wireless/Remote Access Assessment

Wireless is increasingly common, with wireless access points “popping up” often without an organization’s knowledge. Due to their implementation, wireless networks are subject to a variety of attacks, which can be categorized as:

### Passive Attacks

- Eavesdropping
- Traffic Capture & Analysis
- Network Mapping

### Active Attacks

- Masquerading
- Replay
- Message Modification
- Denial-of-Service
- Unauthorized access

ManTech takes a phased approach to wireless testing, which is similar to a wired network assessment, with a few additional requirements created by the free-air environment.

Our initial phase is to conduct wireless discovery. We use current open source and commercial utilities (see tool list below) to conduct war-walking and war-driving exercises throughout a site and surrounding areas. The goal of this phase is to identify and map both authorized and unauthorized access points. High-gain omni and directional antennas are used for positive identification and localization of access points. GPS equipment is used to accurately document locations of discovered devices. This phase will provide the State a picture of its wireless presence as it appears to the outside environment.

The second phase involves conducting integrity testing of access points to ensure they are resistant to unauthorized access. We attempt to subvert existing security mechanisms in wireless devices by gathering enough information for a successful network penetration. This includes the collection and analysis of wireless traffic to conduct brute force attacks against encryption keys. No penetration of wireless networks will be performed without the permission of the State.

The final step is to review existing wireless network configurations. Results from Phase One will be examined to determine if deployed wireless networks match documented configurations. We apply industry standard best security practices such as NSA and CISCO guidelines to existing or planned configurations to ensure they have applied security, isolation capability, and don’t provide a malicious user with enough information to compromise the network.

#### **4.6 Policy Assessment**

Policy and documentation are an integral part in the evaluation of an organization's security. Specifically for State Government assessments, ManTech has incorporated control techniques from related NIST guidance, such as NIST SP 800-30 and NIST SP 800-18, and created an through review program for the evaluation of information security policy. We will review all pertinent policy documents and work closely with State representatives to analyze process and procedures critical to the security of the State network. ManTech will also recommend additional content to existing documents, and new documents which should be created to properly address all security issues related to the State's network.

#### **4.7 Telephone Security Assessment**

Telephone security assessments are an integral part in the evaluation of an organization's security. However, this element is overlooked when focusing strictly on network-based vulnerabilities. Remote Access Servers (RAS) provide legitimate users a means to access an organization's network remotely as well an avenue of attack. Unauthorized modems also provide an avenue of an attack and significantly increase an organization's exposure. These modems are often installed for the convenience of users or administrators and without regard to security. Poorly secured modems become "back-doors" into a network in effect bypassing all the network security measures an organization has put into effect to protect its network.

Discovery of unauthorized modems and testing of RAS servers is crucial in a security assessment. The ManTech test team uses automated dialing software to war-dial a range of numbers to identify any systems that are intentionally or inadvertently connected to an incoming telephone line. Any modems detected and any additional information such as device or system will be recorded. Once modem connections are identified and verified as valid targets, ManTech tests these connections for weak or default configurations (e.g. default username/password). The Team will also attempt to identify modems, which provide remote/maintenance access to the State's PBX systems. Remote/maintenance access is one of the most common ways to exploit a PBX and presents a serious risk. We will attempt to gain access to the PBX using the same techniques described above. Brute force techniques will only be used if agreed upon by the State and ManTech. ManTech recommends this testing be conducted after normal business hours to avoid any disruption of service.

War-dialing does have limitations as it only provides an organization with a snapshot of modems, which are active at the time of the call. Systems which have modems for outgoing connections (e.g. user dialing an ISP) may be busy, set to not answer incoming connections or turned off. The test team also recommends a walk-through inspection of primary State locations to identify these types of modems.

## **5. DELIVERABLES**

ManTech will provide the following deliverables.

### **5.1 Project Plans and Schedules**

ManTech SMA will coordinate with the State and develop a detailed project plan and schedule that will ensure the State's requirements are met. Once a final project plan and schedule are completed it will be submitted to the State for approval prior to the commencement of testing.

### **5.2 Weekly Project Status Reports**

ManTech will provide weekly status reports to the State for the duration of the engagement. These reports will include:

- Reporting period
- Project status (on schedule, number of days ahead of schedule, number of days behind schedule)
- Significant past week accomplishments
- Planned activities for next reporting period
- Updates to project plan and schedule

In addition, the ManTech team lead will conduct a weekly meeting via conference call to discuss the contents of these status reports with the State and answer any questions.

### **5.3 Draft Reports**

ManTech will provide the State with a detailed draft findings report for each network and host vulnerability, misconfiguration, and other identified weaknesses at the completion of each major task. These reports will allow the State to begin immediate remediation of findings as soon as possible after they are discovered. Each report will include an assessment of the impact to the State as a result of a successful penetration and recommendations for remediation, mitigation, or improvements to the State network. ManTech security experts pride themselves in working with systems administrators to identify and include solutions to fix all vulnerabilities, not just to find and report them.

### **5.4 Final Reports and Briefings**

After the State has had an opportunity to review and comment on the draft reports, ManTech will finalize all reports and deliver the final versions to the State. ManTech will also present the findings identified in the reports to the Legislative Audit and Fiscal Review Committee,

Legislative Information Technology Committee, and the State Information Technology Advisory Committee.

## 6. SCHEDULE

ManTech proposes the following aggressive schedule to complete the project under the State's timelines.

ID	Task Name	Start	Finish	Duration	August	September	October
1	Project Kick Off Meeting	Mon 8/6/07	Mon 8/6/07	1 day	I		
2	External Security Assessment	Tue 8/7/07	Tue 8/14/07	6 days	■		
3	Internal Security Assessment	Mon 8/20/07	Fri 8/31/07	10 days		■	
4	Penetration Testing	Thu 8/30/07	Thu 9/6/07	6 days		■	
5	Application Security Assessment	Thu 8/16/07	Fri 8/31/07	12 days	■		
6	Wireless/Remote Access Assessment	Mon 9/3/07	Fri 9/7/07	5 days		■	
7	Policy Assessment	Mon 9/3/07	Thu 9/13/07	9 days		■	
8	Telephone Security Assessment	Mon 9/3/07	Fri 9/7/07	5 days		■	
9	Draft Report Delivered to State	Fri 9/14/07	Fri 9/14/07	1 day		I	
10	State Review Draft Final Report	Mon 9/17/07	Fri 9/28/07	10 days		■	
11	Final Report Delivered to State	Fri 10/12/07	Fri 10/12/07	1 day			I
12	Formal Outbrief to Committees	Wed 10/24/07	Fri 10/26/07	3 days			■



## **6. PRICING SUMMARY**

### **6.1 Cost Breakdown**

Total estimated pricing for this project is **\$156,650.00**. A complete cost breakdown for each task is located in the table in Appendix A. This table includes all labor, travel, and software licensing costs.

### **6.2 Invoicing**

Invoices will be submitted on a monthly basis. Invoices will detail current amount being billed and cumulative amount invoiced to date. Invoices will be submitted directly to the customer payment office in accordance with contractual instructions.

### **6.3 ManTech SMA Remittance Address**

ManTech SMA requests that remittance under any resultant contract to be submitted by electronic funds transfer (EFT). The remittance routing information is provided below:

<b>Account Name:</b>	<b>ManTech International Corp.</b>
<b>Acct #:</b>	<b>6101 721 861</b>
<b>Bank Name:</b>	<b>Citizens Bank</b>
<b>Address:</b>	<b>701 Market Street Philadelphia, PA 19101</b>
<b>ABA #:</b>	<b>036 076 150</b>
<b>SWIFT Code:</b>	<b>CTZIUS33</b>
<b>EIN/TIN:</b>	<b>54-1395845</b>

In the event that it is not possible to accomplish payment via EFT, the following remittance address should be used:

**ManTech Security & Mission Assurance  
P.O. Box 7777-W2155  
Philadelphia, PA 19175-2155**

## **7. SUMMARY**

ManTech appreciates the opportunity to be considered to support the State of North Dakota and its security assessment requirements. Our experience and vast pool of security experts are unmatched and we are dedicated to providing the State Auditor with an assessment that meets the State's requirements and includes actionable recommendations to help secure its infrastructure. We will assist the State's IT staff in implementing specific recommendations that will improve the security of the State's network.

## APPENDIX A. DETAILED COST BREAKDOWN

Cost Proposal											
Position	Hourly Rate	External Security Assess.	Internal Security Assess.	Penetration Test	Application Assessment	Wireless Assess.	Policy Assess.	Telephone Security Assess.	Final Report Outbriefs	Total Labor Hours	Total Costs
Estimated Number of Hours											
Senior Security Engineer A	\$175.00	10	20	10	15	10	20	5	48	138	\$24,150.00
Senior Security Engineer B	\$175.00	60	85	50	75	50	20	25	0	365	\$63,875.00
Senior Security Engineer C	\$175.00	50	75	40	60	40	10	20	0	295	\$51,625.00
Est. Travel Costs											\$11,500.00
Est. Software Licenses											\$5,500.00
<b>Totals:</b>		<b>\$21,000.00</b>	<b>\$31,500.00</b>	<b>\$17,500.00</b>	<b>\$26,250.00</b>	<b>\$17,500.00</b>	<b>\$8,750.00</b>	<b>\$8,750.00</b>	<b>\$8,400.00</b>	<b>\$139,650.00</b>	<b>\$156,650.00</b>

North Dakota

nd.gov | Official Portal for  
North Dakota State GovernmentNorth Dakota  
Enterprise Architecture

## Standards and Guidelines

- Technical Recommendations
- Exceptions to Standards and Guidelines

## Current Standards and Guidelines:

Search Current Standards and Guidelines:



Policy Code	Approved Standards	Effective Date	Revision Date	Size/Format
<b>Information Technology Department - ITD</b>				
G002-99	IT Contract Guideline	September 1, 2000		39 kb rtf
S004-02.1	Acceptable Use of Electronic Communication Devices	May 14, 2002	December 15, 2008	65 kb rtf
STD-ITD-001	IT Procurement	January 12, 2004		60 kb rtf
STD009-05.2	IT Project Management	July 1, 2005		45 kb pdf
TC001-98	911 Data base Update Policy	November 10, 1998		7 kb rtf
<b>Application Software Team - AST</b>				
AST001-04.5	Application Development Tools/Languages	November 3, 2004	June 4, 2008	128 kb rtf
AST002-04.1	Application Development Methodology	March 10, 2004		19 kb rtf
AST003-05.5	Public On-Line Services User Authentication	July 23, 2005	December 15, 2008	76 kb rtf
<b>Communications Team - CT</b>				
OAT001-04.2	Enterprise Groupware System	January 31, 2004	July 19, 2005	43 kb rtf
OAT002-04.3	Groupware System Configuration & Usage	September 30, 2004	May 15, 2006	66 kb rtf
<b>Data / Information Team - DIT</b>				
DIT001-04.1	Databases	March 10, 2004		46 kb rtf
DIT002-04.1	Electronic Data Backup	July 6th, 2004		26 kb rtf
DIT003-06.1	Enterprise Database Security	May 15, 2006		31 kb rtf
DIT-BP001	Database Security Best Practices	May 15, 2006		21 kb rtf

DIT-G001	Business Intelligence Tools Guideline	July 23, 2007		67 kb rtf
<b>Desktop Team - DT</b>				
DT001-04.2	Operating System Critical Updates	March 15, 2004	August 9, 2006	9 kb rtf
DT002-04.1	Desktop Management Suite	December 1, 2004		29 kb rtf
DT003-06.1	Desktop Operating Systems	May 15, 2006		35 kb rtf
DT004-06.1	Desktop Search Tools	Jul 23, 2007		40 kb rtf
OAT003-04.2	Desktop Application Suite	December 9, 2004	May 15, 2006	53 kb rtf
G003-02.1	PC Life Cycle Guideline	May 14, 2002	December 15, 2008	61 kb rtf
<b>Document Management Team - DMT</b>				
DMT001-04.1	Document Imaging	November 3, 2004		32 kb rtf
DM002-04.1	Workflow	July 6, 2004		12 kb rtf
DMT003-06.1	Document Management	May 15, 2006		22 kb rtf
DM004-04.1	Record Migration	July 6, 2004		13 kb rtf
DM005-04.1	Signature Demonstration Symbol	July 6, 2004		17 kb rtf
DM006-04.2	Record of Postmark Date	December 9, 2004		17 kb rtf
<b>E-Government Team - EGT</b>				
EGT001-04.2	E-Services Privacy	March 15, 2004	November 3, 2004	63 kb rtf
EGT002-04.1	E-Services Security	July 19, 2005		34 kb rtf
EGT003-04.6	Web Development	November 3, 2004	October 25, 2006	80 kb rtf
EGT004-04.1	Accessible Web Development	November 3, 2004		40 kb rtf
EGT005-04.2	Web Domain Name	July 19, 2005	May 15, 2006	572 kb rtf
EGT-BP001	Web Development Best Practices	February 10, 2004	May 26, 2006	68 kb rtf
EGT-BP002	E-Services Privacy Policy Best Practices	March 15, 2004	March 31, 2005	56 kb rtf
EGT-BP003	Web Domain Name Best Practices	May 10, 2006		30 kb rtf
EGT-G001	Copyright & Trademarks Guideline	May 14, 2002		21 kb rtf
<b>Network Team - NT</b>				
N001-95	Inter-LAN Communications Protocol	October 20, 1995		7 kb rtf

N002-95	Network Maintenance	October 31, 1995		12 kb rtf
N003-96	Ethernet	October 20, 1995		7 kb rtf
N006-99	Domain Naming and IP Addressing	November 1, 1999		17 kb rtf
N007-00	Dynamic Host Configuration Protocol (DHCP)	February 2, 1996		8 kb rtf
N008-02	Wireless/LAN	January 15, 2002		11 kb rtf
STD002-98	Network Services	March 3, 1998		16 kb rtf
<b>Security Team - ST</b>				
ST001-04.1	Anti-Virus	March 15, 2004		24 kb rtf
ST002-04.1	Remote Access	May 12, 2004		24 kb rtf
ST003-04.1	Incident Response	May 12, 2004		24 kb rtf
ST004-04.1	Active Directory	May 12, 2004		23 kb rtf
ST005-04.1	State Government Network Security	May 12, 2004		26kb rtf
ST006-04.6	Access Control	December 9, 2004	December 15, 2008	99 kb rtf
ST007-05.1	Encryption	July 19, 2005		22 kb rtf
ST008-05.1	Auditing	July 19, 2005		29 kb rtf
ST009-05.1	Employee Security Awareness	July 19, 2005		25 kb rtf
ST010-05.1	Physical Access	July 19, 2005		24 kb rtf
ST011-05.1	Public Workstation Access	July 19, 2005		24 kb rtf
ST012-06.1	Anti-Spyware	November 15, 2007		65 kb rtf
ST013-07.1	Mobile Device Access Control	November 15, 2007		66 kb rtf
<b>Servers and Storage Team - SST</b>				
STD001-06.1	Server Operating Systems	October 25, 2006		34 kb rtf