

STATE AUDITOR  
ROBERT R. PETERSON



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

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

## **Testimony Before the Legislative Audit and Fiscal Review Committee**

**October 1, 2010**

Testimony presented by  
Gordy L. Smith, CPA  
State Auditor's Office

Good morning Mr. Chairman and members of the Legislative Audit and Fiscal Review Committee (LAFRC). We were asked to make a presentation relating to the status of the political subdivision section of our office.

Political subdivisions in North Dakota can choose to have their audits conducted by the N.D. State Auditor's Office or by a CPA firm. The State Auditor's Office conducts approximately 85 political subdivision audits every two years, while CPA firms conduct approximately 600 political subdivision audits every two years. It is difficult to provide exact numbers as some political subdivisions elect to be audited annually while others are audited once every two years.

The 1991 Legislature changed the way the political subdivision section was funded. The division was changed to be self-funded by the monies earned from audit and review fees. Prior to that time the division was funded with state general funds.

In April of 2008 the State Auditor closed the Bismarck branch of the political subdivision section of the office leaving the Fargo branch as the sole remaining section. The Bismarck branch was closed because of numerous problems caused by excessive turnover (turnover was 77% in 2008 and 66% in 2007).

The Fargo branch of the political subdivision staff have the following experience: the manager has over 19 years, 2 staff members have approximately 3 years; 2 members have approximately 2 years; and one staff member has less than 1 year. None of the current staff is interested in relocating to Bismarck.

Travel and pay are the largest hurdles facing political subdivision audit staff. The Fargo staff estimate they travel between 35-50% of the time. It's likely the staff from the Bismarck branch traveled at least as much. It is difficult to hire good auditors who are willing to travel this much.

There are fewer CPA firms conducting audits of governmental entities receiving federal funds due to the requirements set forth by generally accepted governmental auditing standards and federal requirements surrounding federal funds. The American Recovery and Reinvestment Act (ARRA) funding requirements will most likely mean more of the smaller CPA firms will cease to conduct audits of political subdivisions that receive federal funds.

That concludes my testimony I will gladly answer questions the committee may have.