



STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
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BISMARCK, ND 58505

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

**October 21, 2010**

Testimony Presented By  
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State Auditor's Office

We were requested to present information relating to the political subdivision section of the State Auditor's Office. The State Auditor closed the Bismarck branch of the Political Subdivision section in April of 2008 due to problems related to excessive turnover. The Fargo branch remains open.

In addition to auditing political subdivisions, the Political Subdivision section is also required by law to review audits done by CPA firms as well as reports filed by the smaller political subdivisions. There are approximately 600 smaller political subdivisions that annually file reports in lieu of audits as they do not meet thresholds established in state law requiring audits. In addition, every two years there are approximately 600 audits of political subdivisions done by CPA firms that are reviewed by the Political Subdivision section. In addition, the State Auditor's Office audits approximately 85 political subdivisions every two years.

A very general rule of thumb for charges for reviewing the reports of the smaller political subdivisions is as follows: cities-\$200, school districts-\$125, all other political subdivisions-\$75. If the review entails additional work to correct information or obtain more information, the charge may be increased. The law does not specify a maximum amount that can be charged for reviewing the smaller political subdivision reports. However our internal policy has been not to exceed \$500 for a review.

One of the questions asked during our last presentation was how much money would be required from the state general fund if legislators decided to pay the costs of reviewing the small political subdivision reports filed in lieu of an audit. We estimate that the political subdivision section of our office would need approximately \$184,800 of

state general funds per biennium to cease billing the political subdivisions for this required service.

Additionally we were asked to provide the different types of political subdivisions that are required to have an audit or to file a report if they do not meet the statutory thresholds requiring an audit. Attachment 1 provides this information. North Dakota Century Code (Section 54-10-14) specifically identifies these entities as political subdivisions that are required to either have an audit or file a report if they meet established thresholds.

During my discussions with representatives of our Fargo Political Subdivision section they informed me that they have not turned down a single request in the past year to conduct an audit of a political subdivision as a result of the location of the entity. They further informed me that they would be able to conduct a limited additional number of political subdivision audits of clients in the western part of the state.

During my meeting with representatives of the Association of Counties and the League of Cities they indicated they were not aware of any crisis in this area relating to their members. During my meeting with them, I presented them with a listing of the management personnel in the Fargo office as well as their phone numbers and email addresses. These representatives indicated they will provide this information to their members so that any political subdivision that needs an audit will be able to use our office as an option if they so choose.

## Attachment 1

### NDCC 54-10-14 - Political Subdivisions

The State Auditor shall audit the following political subdivisions once every two years, except as provided in this section or otherwise by law:

1. Counties
2. Cities
3. Park Districts
4. School Districts
5. Firefighters Relief Associations
6. Airport Authorities
7. Public Libraries.
8. Water Resource Districts
9. Garrison Diversion Conservancy District
10. Rural Fire Protection Districts
11. Special Education Districts
12. Area Career and Technology Centers
13. Correction Centers
14. Recreation Service Districts
15. Weed Boards
16. Irrigation Districts
17. Rural Ambulance Service Districts
18. Southwest Water Authority
19. Regional Planning Councils
20. Soil Conservation Districts

Note: NDCC 54-10-14 states that a political subdivision that meets certain thresholds may file an annual report in lieu of an audit. Those thresholds are:

- Cities with less than 500 population;
- School districts with less than 100 students;
- Park districts and soil conservation districts with less than \$200,000 of annual receipts; and
- Other political subdivisions with less the \$100,000 of annual receipts.