



# **PERFORMANCE REVIEW OF NORTH DAKOTA STATE AUDITOR'S OFFICE**

North Dakota Legislative Council

January 9, 2025

**forv/s  
mazars**

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January 9, 2025

Representative Mike Lefor, Chairman, Legislative Management  
John Bjornson, Director, Legislative Council  
North Dakota Legislative Council  
State Capitol  
600 East Boulevard Avenue  
Bismarck, ND 58505-0360

Dear Representative Lefor and Mr. Bjornson:

We have performed the procedures in the Objective, Scope, Engagement Approach, and Procedures section of this report, which were agreed to by the North Dakota Legislative Council (the Council) in our contract dated May 24, 2024, solely to assist with assessing the performance of the North Dakota's State Auditor's Office (the Office).

The engagement was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS) established by the Government Accountability Office (GAO). This engagement did not constitute an examination, audit, attestation, or agreed-upon procedures engagement. Accordingly, we do not provide an audit or attest opinion or other form of assurance and did not verify or audit any information provided to us.

In addition, we were not engaged to provide an opinion with respect to the effectiveness of the Office's controls or the degree of compliance with the Office's policies and procedures or applicable laws and/or regulations.

This report summarizes the scope of the engagement, the procedures performed, and the results of our procedures. The procedures we performed were approved by the Council. The results of our procedures were discussed with the Office and Council at the conclusion of our engagement and are included in the Performance Review Summary section of the report.

We would like to thank North Dakota State Auditor Joshua Gallion and his management team who provided all requested information and support during our engagement. We also would like to express our appreciation to the staff of the North Dakota Legislative Council for their assistance in completing our engagement.

Our report is intended for use only by the North Dakota State Legislative Branch and North Dakota State Auditor's Office with respect to the procedures performed by us. This report is not intended to be, and should not be, used by anyone other than these specified parties unless express written consent is obtained from **Forvis Mazars, LLP**.

**Forvis Mazars, LLP**

Forvis Mazars, LLP

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# Executive Summary

The North Dakota 2023 Legislative Assembly approved House Bill No. 1541 which appropriated funds for the North Dakota Legislative Council (the Council) to contract for a performance audit of the North Dakota State Auditor's Office (the Office) addressing the efficiency and effectiveness of the Office relative to industry best practices.

Our engagement assessed the overall performance of the North Dakota State Auditor's Office during fiscal years 2020 through 2023 in the areas of audit quality, efficiency, communications during and after audit engagements, compliance with professional standards, and effectiveness in achieving audit objectives. We also performed limited assessments on workpaper and invoicing activities in 2024.

Our procedures indicated meeting performance by the Office in the following areas:

- The Office's compliance with laws, regulations, contracts, and agreements as per their mandate and with their clients;
- Internal audit quality assurance and quality review processes;
- Overall internal audit engagement resource monitoring and oversight; and
- The appropriateness of the number of hours to complete internal audits.

Our procedures identified opportunities for improvement in:

- Internal department invoicing and cost allocation processes for billing North Dakota agencies and localities for audit services and
- Communication and status reporting processes for management and stakeholders related to the invoicing process.

The Office's audit invoicing process prior to January 2024 lacked specificity of total estimated costs and provided invoices lacking detail on audit costs to entities audited by the Office or when the Office reviewed local government financial statement audits. In January 2024, the Office improved its invoicing processes by issuing cost proposals before initiation of audits and providing clients with invoices that include detailed information that clearly outlines the cost and services provided and eliminated charges for performing reviews of local government financial statement audits. Additionally, the office improved its communications by providing engagement letters that included overall engagement costs in advance of their work and the use of change orders to notify clients of any changes in work and cost in writing. Our procedures confirmed these revisions to the invoice processes have been implemented as of this report's date.

# Objective, Scope, Engagement Approach, and Procedures

The following provide an overview of the review's Objective, Scope, Engagement Approach, and Procedures.

## Objective

Assisted the North Dakota Legislative Council (Council) with conducting a performance review of the North Dakota State Auditor's Office (Office).

## Scope

The scope of work included evaluating the following areas of the Office's operations:

- The Office's compliance with laws, regulations, contracts, and agreements;
- Internal audit quality assurance and quality review processes;
- Overall internal audit engagement resource monitoring and oversight;
- The appropriateness of the number of hours to complete internal audits;
- Internal department invoicing and cost allocation processes for billing North Dakota agencies and localities for audit services;
- Communication and status reporting processes for management and stakeholders related to the invoicing process and reporting of engagement results; and
- Other areas identified during the performance review.

The timeframe under review considered the Office's audit plans for Fiscal years 2020 through 2023. We also performed limited assessments on workpaper and invoicing activities in 2024.

## Approach

Our approach to the engagement considered the following:

- 1.) We conducted onsite and virtual interviews with Representative Emily O'Brien, Representative Mike Lefor, members of the North Dakota Legislative Council (, Allen Knudson, and Grant Gader) and the State Auditor's office (State Auditor Joshua Gallion, Daniel Cox, Lindsey Slappy, and James Carroll),. The purpose of the meetings and visit was to gain an understanding of operations, documentation, and responsibilities of the office and interview applicable management.

Areas of focus as finalized by the Council:

- Processes over compliance with contracts and agreements
  - Internal audit quality assurance and quality review processes
  - Annual audit plan development
  - Resource and time management including how audit hours are tracked and monitored.
  - Audit engagement project management
  - Inter-agency billing processes for audit services provided
  - Process over communication with stakeholders and reporting
- 2.) We reviewed workpapers and other records and performed walkthroughs with management and staff in the State Auditor's office to identify key processes, risks, and controls over operations. This additional work was conducted virtually/off-site.

## Procedures

Our procedures for the engagement included the following:

1. For applicable compliance requirements, contracts and agreements inspected supporting documentation to determine if there was proper adherence.
2. Judgmentally selected a sample of audits, from Fiscal year 2020 through fiscal year 2023 audit plans, and inspected the supporting documentation and workpapers.
3. Analyzed audit hours and completion times for their respective audits and benchmarked that information against the budget and plan.
4. Inspected the audit project status tracking document to determine whether the status of all audits on the annual audit plans were being tracked.
5. Judgmentally selected a sample of invoices prepared by the Office and determined if there was adequate support for the invoice and if any needed collection efforts were employed. The focus was on the completeness, accuracy, and timeliness of the invoices evaluated.
6. Sent out surveys to stakeholders of the Office to gauge the adequacy and timeliness of communication from the Office, analyzed and compiled the results.
7. Conducted closing meetings with the Office and Council to discuss initial audit findings discovered throughout the fieldwork phase.

# Performance Review Summary

The following section provides a performance review summary for each area considered as part of the scope.

## 1. The Office's Compliance with Laws, Regulations, Contracts, and Other Agreements & Internal Audit Quality Assurance and Quality Review Processes

**Background:** The North Dakota State Auditor's Office must follow North Dakota enabling legislation N.D.C.C. 54-10. Article V, Section 2 of the North Dakota Constitution establishes an independently elected State Auditor. That section states that the powers and duties of the State Auditor shall be prescribed by law. Chapter 54-10 of North Dakota Century Code outlines the powers, duties, and responsibilities of the State Auditor.

These include:

- Perform the post-audit of all financial transactions of state government, detecting and reporting any defaults, and determining that expenditures have been made in accordance with law and appropriation acts.
- Perform or provide the audit of the state's financial statements and a review of the material included in the annual comprehensive financial report of the state.
- Determine the scope and report contents of agency audits.
- Perform or provide audits and reviews of state agencies once every two to four years.
- Conduct audit work required by the federal government.
- Perform or provide performance audits of state agencies as determined necessary by the Legislative Assembly or the Legislative Audit and Fiscal Review Committee (LAFRC).
- Perform audit-related functions of the state board of higher education.
- Perform or review audits of local governments.
- Being a member of the State Board of Equalization (N.D.C.C. 57-13-01).
- Perform audits ordered by LAFRC, the governor, the state court administrator, or a citizen-led petition.
- Review annual financial reports of local governments.

Auditing standards provide a framework for conducting high-quality audits and help auditors comply with laws, regulations, and standards. In addition to the Office's enabling legislation, the Office must follow other related laws, regulations, and standards, including North Dakota enabling legislation, uniform guidance, individual compliance supplements by program, The American Institute of Certified Public Accountants (AICPA) requirements for single and financial audits, and the General Accepted Government Auditing Standards (GAGAS) also known as the Yellow Book. The AICPA is a non-profit professional organization representing certified public accountants (CPA) in the United States; and the Yellow Book contains standards for financial audits, attestation engagements, performance audits, and specific requirements for individual auditors and audit organizations.

The Office has established an auditing framework using guidance from the AICPA, GAGAS (Yellow Book), and other related laws, regulations, and standards. The Office has an audit process where they conduct planning activities, perform fieldwork, and create internal budgets, risk assessments, work papers, drafts, and final reports. Each step has an appropriate review and approval process in place for the audit process. They meet with clients to discuss findings and recommendations to produce the final report.

The audit cycle for the agency division runs on a two-year cycle as North Dakota operates on a biennial basis, while the audit cycle for the local government division runs on an annual basis. State law requires the Office to audit every state agency once every two to four years, with exceptions where needed. Taking these timeframes into account, audits are planned and tracked to that effect.

As outlined on the North Dakota State Auditor's office website, the performance audit process includes:

- **Making A Plan** – The audit team confirms the scope, identifies objectives, and develops a plan to move forward.
- **Collecting Data** – The audit team conduct research and interviews, gather information, study records, and validate evidence to support audit's objectives.
- **Analyzing Results** – The audit team evaluates the collected data against the audit objectives to determine if an agency has operated as required by law.
- **Drafting the Report** – After an internal review, the audit team interpret what they found and write a report that citizens can understand.
- **Creating Findings** – When the audit team find areas of improvement or deficiencies, this is called a "finding." Findings explain what the issue was and what effect it could have.
- **Creating Recommendations** – If the audit team has findings, the report will also outline suggestions on how to fix the issues for the future, which are called "recommendations."
- **Publishing the Report** – The agency is given a two-week opportunity to respond to the findings. Then, the report is given a seven-day review window for Legislative Audit Fiscal Review Committee members (LAFRC). At the end of the seven-day window, it is published for the public

The Office sends out engagement letters to inform clients that an audit will be conducted which generally includes the timeframe and specific areas the audit will cover, the type of audit that will be performed, audit objectives, management responsibilities, audit procedures, and fee statement depending on the type of agency receiving the audit. The fee statement is not a detailed outline of fees but one that expresses that a standard hourly rate plus travel and out-of-pocket expenses will be included in the final fees. The Office conducts planning activities, performs fieldwork, and creates internal budgets, risk assessments, work papers, drafts, and final reports. As part of the final report process, for performance audits; a copy of the draft report is provided to the agency contact and they are given two weeks to respond to audit findings and provide any suggested changes to the report. It is then uploaded to the system to be viewed by members of the LAFRC committee for seven days. The report is then finalized and made public. Reports are later presented to the LAFRC committee during one of their quarterly public meetings.

For local government audits prior to January 2023, the client contact was provided a draft of the report to review and provide a response to the wording and recommendations. A discussion about the report was had with the client contact and typically a member of the board during an exit conference. Once final, the report was made public and provided to the client contact who was responsible for disseminating it to the board. The Office revised this process in January 2023. After the client contact provides their responses to the Office's reporting wording and recommendations, a draft copy of the report is provided by the Office to the entire board for review during a seven-day window. After the review window is closed for the client, the report is finalized and made available to the public.

**Procedures:** We reviewed a sample of templates, audit reports, communication records, peer review results, and other audit documentation provided by the North Dakota State Auditor's Office. Forvis Mazars judgmentally selected a sample of 25 audits performed by the state auditor's office for fiscal year 2020 through fiscal year 2023 and inspected the supporting documentation and work papers.

**Results:** We found that the Office has processes and documentation in place that show that they follow North Dakota enabling legislation, and guidance from AICPA standards, GAGAS standards, and other audit standards as required. We also found that the Office conducts an annual review of its system of quality control. We found that the Office followed the audit process outlined above.

**Observations:** The review encompasses the office's organizational structure, policies adopted, and procedures established to provide reasonable assurance of performing and reporting in conformity with applicable professional standards. The North Dakota State Auditor's Office should continue to conduct annual quality reviews and implement improvements as needed. There is an appropriate review and approval process in place for each step of the audit process. The North Dakota State Auditor's Office should continue to follow the outlined process and continue the review and approval process at each step in the audit process.

**North Dakota State Auditor's Office Response:** 1. North Dakota State Auditor's Office will continue to follow our established policies and procedures that ensure the quality of audits and compliance with laws and standards.

## 2. Overall Internal Audit Engagement Resource Monitoring and Oversight & Appropriateness of Number of Hours to Complete Audits

**Background:** State law requires the Office to audit every state agency once every two to four years, with the exception of certain financial audits. The Annual Comprehensive Financial Report (ACFR) is worked on from October to December of every year. The Federal Single Audit (done as a biennial audit) is worked on between May to February of every even-numbered year. The state agency audits are completed during the months outside of the ACFR and Single Audits.

The agency audits are divided between three audit managers who are responsible for completing these audits during the biennium. The audit cycle for the local government division runs on an annual basis. While there are a few local government clients who receive a biennial audit (allowable per NDCC 54-10-14(1)), the majority of the local government clients prefer to be audited annually. The local government teams also conduct Single Audits when necessary, as an additional audit function. The local government audits are divided up between two audit managers who are responsible for scheduling their audits during the year. Petition audits are worked into the schedule depending on the urgency of the audit. All audit documentation is tracked in TeamMate and additional information is also tracked on the Office server.

The Office utilizes an audit management software application called TeamMate to assist the audit teams to efficiently and effectively conduct, manage, and oversee the audit life-cycle workflow. The software tracks audit activities like planning and fieldwork along with time spent on audits. TeamMate timesheet information is utilized to document the budgeted and actual hours of the team members who work on a particular audit. Additionally, this report is also utilized to forecast the total cost of an audit and document all costs and expenses. These processes are utilized to monitor staff time and allocate hours.

**Procedures:** During the workpaper review of 25 engagements referenced in the preceding section, we reviewed both the use of the TeamMate software as well as the overall timeframe of the audits by looking at the dates of the engagement letter and the final report and the total the time spent on the selected engagements, as well as evidence of engagement supervision, oversight, and quality reviews.

**Results:** We found that the time to complete the audits appeared reasonable and that audit engagement and audit plan oversight mechanisms are implemented. Quality review processes are in place.

**Observations:** The TeamMate audit management software assists the Office to be effective and efficient in the conduct of engagements and provides for oversight and documentation of all steps in the audit process in a secure environment. Some audits were longer than others depending on the areas of coverage, timeliness of documentation provided, discussions around the documentation, findings that were discovered, and if additional work was required.

**North Dakota State Auditor's Office Response:** North Dakota State Auditor's Office will continue using our audit management software to conduct and monitor engagements.

## 3. Internal Department Invoicing and Cost Allocation Processes for Billing North Dakota Agencies and Localities for Audit Services

**Background:** All local government audit clients and certain state agencies based on their funding sources are charged by the Office for audit services.

### **Audit Invoicing Processes Prior to January 2024:**

There was not a formal cost proposal or change order process in place. The audit managers would have verbal discussions about costs with clients who requested this information. Each auditor would charge time spent on an audit to their TeamMate timesheets. A TeamMate report was generated to show the total project hours by program and auditor. This information was used to calculate the billing amount for each client using hours and the auditor's

billing rate. At the time of billing, whether it was a progress or a final bill, the invoice provided to the client did not contain the detail behind the amount.

### **Audit Invoicing Processes January 2024 to Current:**

As of January 2024, the Office updated its audit invoicing processes. Under the new procedure, a cost proposal is sent to clients as part of the initial communication that provides an estimate of the maximum cost for the audit. The cost proposal includes the estimated level of staff, estimated hours and rates for each staff member, and an estimated total for both audit and non-audit services and costs. If actual Office costs are less than the estimated amount, the Office will only bill for the actual costs.

Additionally, as part of this process, progress bills are sent to clients throughout the duration of the audit before it is completed. This allows clients to see the current cost status of their audit as it is progressing. The progress bill invoice has detailed information that includes the types of services provided, audit hours for each service, and the corresponding cost for each service. The final invoice has the same information, which helps clients better understand how the total cost of the audit was calculated. Furthermore, the Office sends written change orders to clients if additional work is required when completing an audit which outlines the additional work required and associated total costs.

### **IPA Invoicing:**

The Independent Public Accountant Review (IPA) Process at the Office is required by state law (N.D.C.C. 54-10-14(4)) to review financial audits done on local governments to ensure they are in the required form and content and that the audit meets Generally Accepted Government Auditing Standards (GAGAS). The Office also may periodically review the public accountant's workpapers to determine if the audit meets GAGAS standards. Per state law, the Office may charge the local government a fee of up to ninety dollars an hour, but not to exceed \$750 per review, for the related costs of reviewing the audit report and work papers. A local government may not pay a public accountant for an audit until the state auditor has accepted the audit. However, they may make progress payments to the public accountant. A local government shall retain 20% of any progress payment until the audit report is accepted by the state auditor (N.D.C.C. 54-10-14(5)).

Since June 2024 the Office has stopped charging for IPA reviews as they have found efficiencies that allowed them to repurpose a general fund position that will perform the reviews at no cost to the client. The Office also provides a link on their website that provides the status of IPA reviews which is updated twice a week.

**Procedures:** We reviewed a sample of 25 invoices and corresponding hours reports for audit engagements completed before January 2024. We reviewed a sample of 19 cost proposals, invoices and corresponding hours reports for audits in-progress or completed under the new cost proposal and invoicing process since January 2024.

We reviewed a random sample of 10 IPA review invoices between Fiscal Years 2020-2023 to identify the details of fees charged and corresponding hours reports to determine the invoice calculations.

**Results:** We found that audit invoices before January 2024 were not itemized and lacked important details like hours, rates of staff at each level, and type of services rendered; however, we did find the North Dakota Auditor's office appropriately charged the correct fee based on the hours put into the audit and the respective billing rates.

We found that the final costs of all audits completed since January 2024 did not exceed the amount provided on the cost proposal, even when the actual cost was higher.

We found that the IPA review letters and corresponding invoices did not include important details like hours and rates. However, the North Dakota Auditor's office appropriately charged the correct fee for the IPA reviews per state law.

**Observations/Recommendation:** The North Dakota State Auditor's Office should continue to provide detailed audit cost proposals and invoices that clearly outline costs and services rendered and communicate in writing when additional work and costs are needed to complete audits adequately. If clients are charged in the future for an IPA review, IPA cost proposals and invoices should include hours and rates to ensure clients understand and plan for the cost of the review.

**North Dakota State Auditor’s Office Response:** North Dakota State Auditor's Office will continue to use the cost proposal, change order, and billing detail processes developed for audits completed by the local government division. If the Office starts to charge for reviews of IPA reports in the future, we will mirror the level of detail provided in the local government invoices.

## 4. Communication and Status Reporting Processes for Management and Stakeholders

**Background:** Formal and informal communication by the Office to audit client management occurs at the following key stages of an audit engagement:

- Notification to client of upcoming audit;
- Entrance or initiation meetings at the beginning of an audit engagement;
- Interviews to understand internal processes;
- Discussions to be able to conclude on potential errors;
- Periodic status meetings and emailed status reports for larger and/or longer engagements;
- Presentation and discussion of initial findings and conclusions;
- Presentation and discussion of draft audit report;
- Formation of management responses to the audit report; and
- Formal issuance of final report.

As of January 2024, the State Auditor's Office conducts a client experience survey at the end of each audit and review. This survey allows each client to provide feedback. They have the ability to submit the survey anonymously if desired.

**Procedures:** We created an anonymous survey to gather feedback from stakeholders about the Office’s overall performance, including its communication process in general and specific to the invoicing process. Stakeholders were identified by both the North Dakota Legislative Council and the Office’s staff and sent an electronic request to provide feedback through a survey. Stakeholders were given the option to respond to the survey online, by phone or virtual meeting. Stakeholders were also given the option to self-identify if they chose to. All responses were only received by Forvis Mazars.

The survey explained that the audit process included all interactions from the notification of an upcoming audit until the issuance of the final report. Forvis Mazars distributed via email 240 surveys to stakeholders and received 105 responses (representing 44% overall response rate). For questions that allowed open responses, we categorized the results by theme and listed the top responses in no particular order. The category identified as “Other” were responses that expressed the question did not pertain to their particular experience or were left blank.

**Results:** 240 surveys were sent with a response rate of 44%. Responses were only received by Forvis Mazars. Several stakeholders did exercise the option to meet and speak directly with Forvis Mazars.

**Observations:** The results of the survey found that most respondents received financial audit services from the North Dakota State Auditor’s Office. The questions and analysis of the responses from the survey are provided in the appendix of this report.

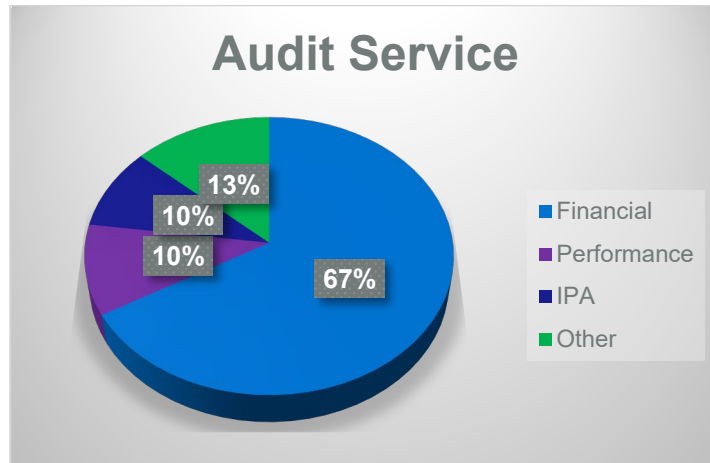
It should be noted that some of the identified areas for improvement in the responses pertained to areas that were recently changed as described in Performance Review Summaries 1 and 3 above.

**North Dakota State Auditor’s Office Response:** North Dakota State Auditor's Office will continue to provide communication with clients for services received from the Office.

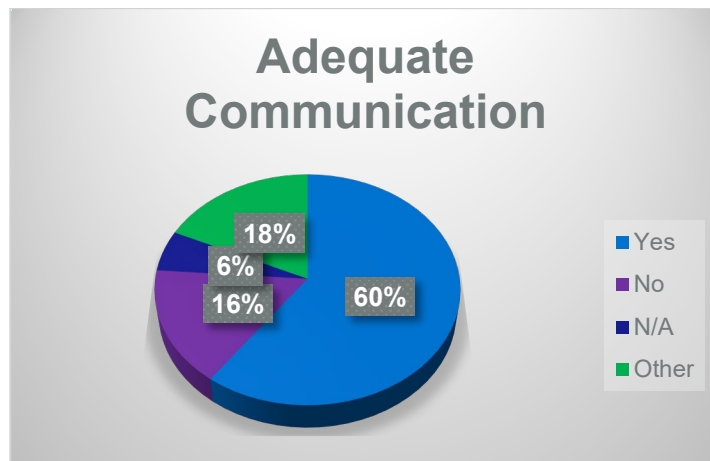
## Appendix:

The following provides a summary of the questions asked in the survey and an analysis of the responses:

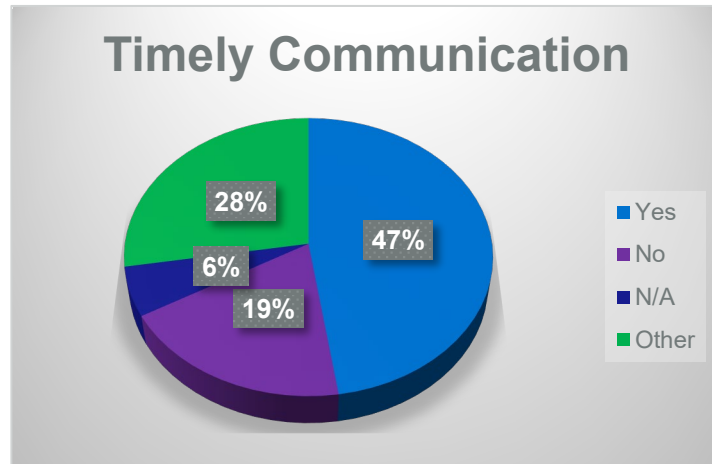
**Question 1:** What type of audit services has the North Dakota State Auditor's Office provided to your organization?



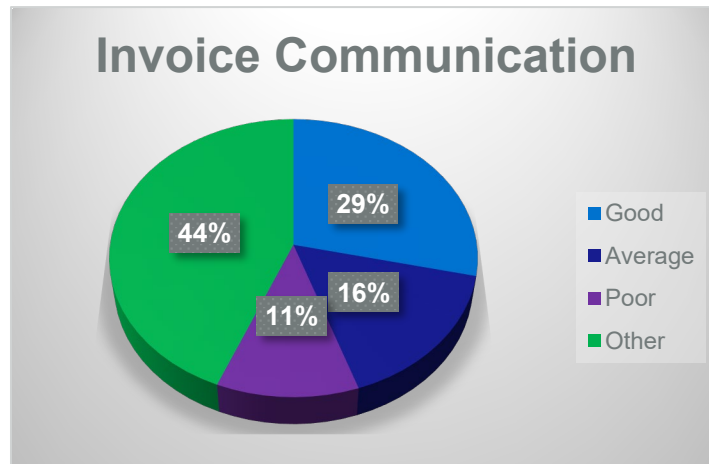
**Question 2:** Would you consider the communications throughout your audit process with the North Dakota State Auditor's Office adequate?



**Question 3:** Would you consider the communications throughout your audit process with the North Dakota State Auditor's Office timely?



**Question 4:** If applicable, describe your communications experience around the invoicing process with the North Dakota State Auditor's Office.



**Question 5:** If applicable, please select the answers that best describe your experience around the invoicing process with the North Dakota State Auditor's office.

**Note:** For this question, some respondents answered only the main question, but did not answer the follow-up question and vice versa, which will not make the numbers total as it would suggest.

Question	# of Responses
The invoice was as quoted.	36
The invoice you received had enough detail and the details were explained to you by the auditor's office.	38
The invoice you received did NOT have enough detail and was NOT explained to you by the auditor's office.	29

Question	# of Responses
The invoice was NOT as quoted.	16
If the invoice was not as quoted, additional charges were communicated to you before receiving the final invoice.	6
If the invoice was not as quoted, additional charges were NOT communicated to you before receiving the final invoice.	14

**Question 6:** How was your overall communications experience with the North Dakota State Auditor's Office, including communications of findings and recommendations?



**Question:** From your interactions with the North Dakota State Auditor's Office, what do you think they do well?

Top Five Responses
They understand the audit process.
The staff is professional, knowledgeable, and courteous.
They help to improve the organization's processes.
They are thorough and have a detailed process.
They are very helpful.

**Question:** From your interactions with the North Dakota State Auditor's Office, what improvements can be made to the audit process?

Top Five Responses
Overall communications surrounding the audit process.
Take less time to complete audits.
Help completing the forms.
More than one person requesting the same information.
More details on the invoices.