

2021 HOUSE APPROPRIATIONS

HB 1004

**Department 117 - State Auditor
House Bill No. 1004**

Executive Budget Comparison to Prior Biennium Appropriations

	FTE Positions	General Fund	Other Funds	Total
2021-23 Executive Budget	58.00	\$9,521,824	\$5,076,295	\$14,598,119
2019-21 Legislative Appropriations ¹	58.00	10,122,860	4,173,178	14,296,038
Increase (Decrease)	0.00	(\$601,036)	\$903,117	\$302,081

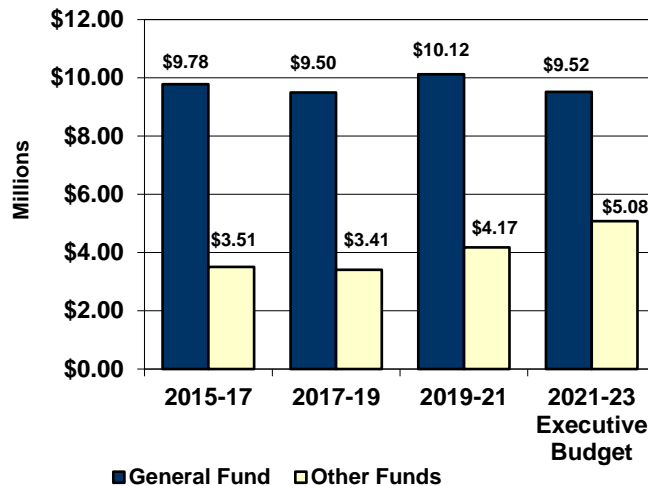
¹The 2019-21 biennium agency appropriation amounts have not been adjusted for the following:

- A 2019-21 biennium general fund appropriation for a copier (\$16,000) spent during the 2017-19 biennium pursuant to an emergency clause.
- Additional general fund authority of \$5,672 transferred to the department for the student internship program.
- Additional federal Coronavirus (COVID-19) funds authority of \$10,866 resulting from Emergency Commission action during the 2019-21 biennium.

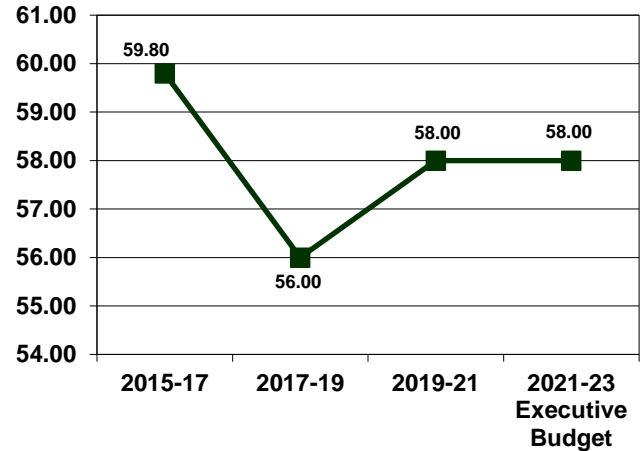
Ongoing and One-Time General Fund Appropriations

	Ongoing General Fund Appropriation	One-Time General Fund Appropriation	Total General Fund Appropriation
2021-23 Executive Budget	\$9,521,824	\$0	\$9,521,824
2019-21 Legislative Appropriations	10,106,860	16,000	10,122,860
Increase (Decrease)	(\$585,036)	(\$16,000)	(\$601,036)

Agency Funding



FTE Positions



Executive Budget Comparison to Base Level

	General Fund	Other Funds	Total
2021-23 Executive Budget	\$9,521,824	\$5,076,295	\$14,598,119
2021-23 Base Level	10,106,860	4,173,178	14,280,038
Increase (Decrease)	(\$585,036)	\$903,117	\$318,081

Attached as an appendix is a detailed comparison of the executive budget to the agency's base level appropriations.

Executive Budget Highlights

	General Fund	Other Funds	Total
1. Adds funding for state employee salary and benefit increases, of which \$312,642 is for salary increases, \$2,822 is for health insurance increases, and \$64,355 is for retirement contribution increases	\$254,437	\$125,382	\$379,819
2. Adjusts base payroll	(\$126,478)	(\$90,826)	(\$217,304)
3. Removes 4 FTE higher education audit positions	(\$854,231)	\$0	(\$854,231)

4. Adds 4 FTE Local Government Division audit positions, including salaries and wages (\$702,770) and operating expenses (\$41,688)	\$0	\$744,458	\$744,458
5. Adjusts base budget operating expenses, including general fund savings of \$79,368 related to the elimination of the higher education audit division	(\$29,977)	\$122,700	\$92,723
6. Adds funding for proposed Capitol complex rent model	\$165,456	\$0	\$165,456
7. Adds funding for Microsoft Office 365 licensing expenses	\$5,757	\$1,403	\$7,160

**Other Sections Recommended to be Added in the Executive Budget
(As Detailed in the Attached Appendix)**

Salary of the State Auditor - Section 2 would provide the statutory changes to increase the State Auditor's salary. The State Auditor's annual salary would increase from the current level of \$110,582 to \$112,794, effective July 1, 2021, and to \$115,050, effective July 1, 2022, to reflect a 2 percent recommended salary increase each year of the biennium.

Continuing Appropriations

There are no continuing appropriations for this agency.

Deficiency Appropriation

There are no deficiency appropriations for this agency.

Significant Audit Findings

The financial audit for the State Auditor's office conducted by Eide Bailly LLP, Certified Public Accountants, for the biennium ended June 30, 2019, revealed one audit finding and related material weakness resulting from an error in the State Auditor's work in process worksheet. Eide Bailly LLP, recommended the work in process and accounts receivable worksheets be appropriately reviewed to ensure correct formulas and to prevent job balances from being improperly included. This was also a prior audit finding during the financial audit for the biennium ended June 30, 2017. In addition, certain errors resulting in misstatements of amounts previously reported for capital assets as of June 30, 2017, were discovered during the current year. Accordingly, adjustments were made to beginning net position as of July 1, 2017, to correct the errors. The audit opinions were not modified with respect to these matters.

Major Related Legislation

House Bill No. 1093 - Removes a requirement that the State Auditor evaluate blanket bond coverage.

House Bill No. 1094 - Removes a requirement that the State Auditor obtain centralized desktop support services from the Information Technology Department. A fiscal note submitted by the State Auditor indicates a total savings of \$44,000, of which \$34,000 is from the general fund, for the 2021-23 biennium.

Senate Bill No. 2090 - Defines state agency for purposes of the duties of the State Auditor; increases the threshold under which the State Auditor may require an annual report for various political subdivisions; and increases the hourly fee and maximum fee for the review of political subdivision annual reports. A fiscal note submitted by the State Auditor indicates increased fee revenue of \$30,000 for the 2021-23 biennium.

State Auditor - Budget No. 117
House Bill No. 1004
Base Level Funding Changes

	Executive Budget Recommendation			
	FTE Positions	General Fund	Other Funds	Total
2021-23 Biennium Base Level	58.00	\$10,106,860	\$4,173,178	\$14,280,038
2021-23 Ongoing Funding Changes				
Base payroll changes		(\$126,478)	(\$90,826)	(\$217,304)
Salary increase		209,436	103,206	312,642
Retirement contribution increase		43,111	21,244	64,355
Health insurance increase		1,890	932	2,822
Removes 4 FTE Higher Education Division audit positions	(4.00)	(854,231)		(854,231)
Adds 4 FTE Local Government Division audit positions, including salaries and wages (\$702,770) and operating expenses (\$41,688)	4.00		744,458	744,458
Adjusts base budget operating expenses, including general fund savings of \$79,368 related to the elimination of the Higher Education Division		(29,977)	122,700	92,723
Adds funding for proposed Capitol grounds rent proposal		165,456		165,456
Adds funding for Microsoft Office 365 licensing expenses		5,757	1,403	7,160
Total ongoing funding changes	0.00	(\$585,036)	\$903,117	\$318,081
One-time funding items				
No one-time funding items				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	0.00	(\$585,036)	\$903,117	\$318,081
2021-23 Total Funding	58.00	\$9,521,824	\$5,076,295	\$14,598,119
<i>Total ongoing changes as a percentage of base level</i>	<i>0.0%</i>	<i>(5.8%)</i>	<i>21.6%</i>	<i>2.2%</i>
<i>Total changes as a percentage of base level</i>	<i>0.0%</i>	<i>(5.8%)</i>	<i>21.6%</i>	<i>2.2%</i>

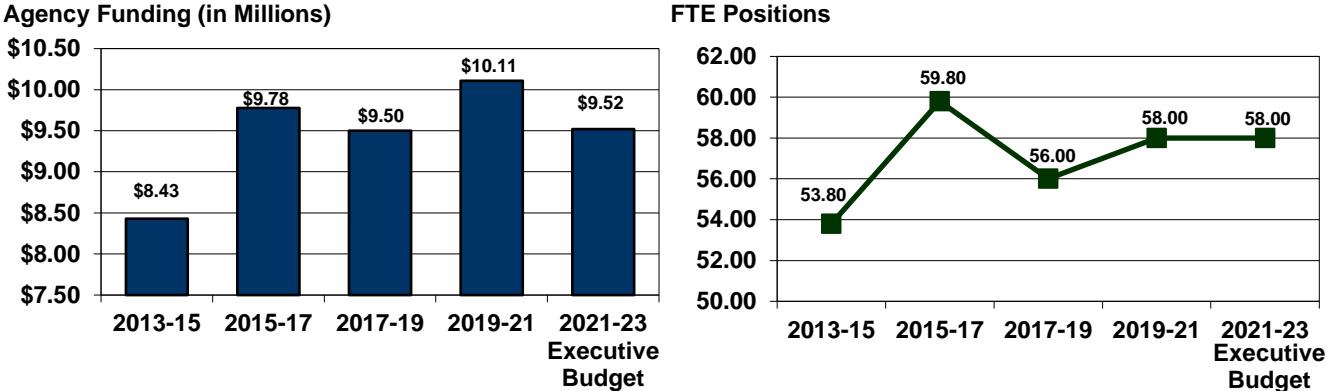
Other Sections in State Auditor - Budget No. 117

	Executive Budget Recommendation
Salary of the State Auditor	Section 2 would provide the statutory changes to increase the State Auditor's salary by 2 percent on July 1, 2021, and by 2 percent on July 1, 2022.

Department 117 - State Auditor

Historical Appropriations Information

Ongoing General Fund Appropriations Since 2013-15



Ongoing General Fund Appropriations					
	2013-15	2015-17	2017-19	2019-21	2021-23 Executive Budget
Ongoing general fund appropriations	\$8,428,489	\$9,776,582	\$9,498,608	\$10,106,860	\$9,521,824
Increase (decrease) from previous biennium	N/A	\$1,348,093	(\$277,974)	\$608,252	(\$585,036)
Percentage increase (decrease) from previous biennium	N/A	16.0%	(2.8%)	6.4%	(5.8%)
Cumulative percentage increase (decrease) from 2013-15 biennium	N/A	16.0%	12.7%	19.9%	13.0%

Major Increases (Decreases) in Ongoing General Fund Appropriations

2015-17 Biennium

- 1. Added funding for 6 FTE auditor positions and related operating expenses to provide audit services to the State Board of Higher Education and its institutions (This item was affected by the August 2016 budget reductions.) \$1,221,914

2017-19 Biennium

- 1. Restored funding for 4 FTE North Dakota University System audit positions removed by the State Auditor as part of the 2015-17 biennium budget reductions, including salaries and wages of \$611,300 and operating expenses of \$41,392 \$652,692
- 2. Removed 2 FTE University System audit positions, including salaries and wages of \$297,135 and operating expenses of \$12,500 (\$309,635)
- 3. Removed 1 FTE performance audit manager position (\$277,191)
- 4. Removed a 0.80 FTE administrative officer II position due to salaries and wages funding reductions \$0
- 5. Reduced funding for operating expenses (\$101,615)
- 6. Removed funding for information technology consultants (\$250,000)

2019-21 Biennium

- 1. Added funding for information technology reviews of the Information Technology Department and the University System to provide a total of \$450,000 for technology reviews, of which \$300,000 is from special funds from the University System \$150,000

2021-23 Biennium (Executive Budget Recommendation)

- 1. Removes 4 FTE higher education audit division positions (\$854,231)
- 2. Adjusts base budget operating expenses, including general fund savings of \$79,368 related to the elimination of the higher education audit division (\$29,977)
- 3. Adds funding for a proposed Capitol grounds rent proposal \$165,456

**GOVERNOR'S RECOMMENDATION FOR THE
STATE AUDITOR AS SUBMITTED
BY THE OFFICE OF MANAGEMENT AND BUDGET**

SECTION 1. APPROPRIATION. The funds provided in this section, or so much of the funds as may be necessary, are appropriated out of any moneys in the general fund in the state treasury, not otherwise appropriated, and from special funds derived from federal funds and other income, to the state auditor for the purpose of defraying the expenses of the state auditor, for the biennium beginning July 1, 2021, and ending June 30, 2023, as follows:

	<u>Legislative Base level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and Wages	\$12,668,218	\$ 11,054	\$12,679,272
Operating Expenses	1,161,820	307,027	1,468,847
Information Technology Consultants	<u>450,000</u>	<u>0</u>	<u>450,000</u>
Total All Funds	\$14,280,038	\$ 318,081	\$14,598,119
Less Estimated Income	<u>4,173,178</u>	<u>903,117</u>	<u>5,076,295</u>
Total General Fund	\$10,106,860	(\$585,036)	\$ 9,521,824
Full-time Equivalent Positions	58.00	0.00	58.00

SECTION 2. AMENDMENT. Section 54-10-10 of the North Dakota Century Code is amended and reenacted as follows:

54-10-10. Salary of state auditor. The annual salary of the state auditor is ~~one hundred seven thousand eight hundred eighty-five dollars through June 30, 2020, and one hundred ten thousand five hundred eighty-two dollars~~ one hundred twelve thousand seven hundred ninety-four dollars through June 30, 2022, and one hundred fifteen thousand fifty dollars thereafter.

2021 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

HB1004
1/13/2021

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor.
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10:55 Chairman Vigesaa brought the committee to order. Members present:

Chairman Vigesaa, Vice Chairman Brandenburg, Representative Kempenich, Representative Howe, Representative Meier, Representative Bellew and Representative Mock.

Discussion Topics:

- Appropriation request for the 2021-2023 biennium budget.

10:56 Joshua Gallion – State Auditor – ND Office of State Auditor – Testimony #658. Testimony #832 was submitted but not discussed.

11:34 Chairman Vigesaa adjourned the meeting.

Sheri Lewis, Committee Clerk



TESTIMONY TO HOUSE APPROPRIATIONS – GOVERNMENT OPERATIONS DIVISION
HB 1004 – STATE AUDITOR’S OFFICE APPROPRIATIONS
1/13/2021

Good morning, Chairman Vigesaa, members of the committee, my name is Joshua Gallion, and I serve as North Dakota’s State Auditor. I’m here today to discuss how the State Auditor’s Office can better serve North Dakota and provide information regarding our efforts to fulfill our statutory obligations while improving accountability and promoting transparency of our state’s government, local governments, and institutions of higher education.

As you are aware, the State Auditor is a constitutional state official elected by North Dakota citizens. My job is to lead the way in providing truthful, objective and independent information to you and the citizens of North Dakota. Our mission is to produce informative audits that improve government, and our team is committed to generating greater value for taxpayers.

Today I am providing information surrounding our request to move four full-time employees from general fund dollars to special funds to better meet local governments’ needs. All operations from the local government division are specially funded, meaning no general funds are needed. Revenues generated from conducting our audits are deposited into a special fund and all related expenses — including salaries — are paid from that special fund.

Currently, we are aware of 40 local governments who need an auditor. In 2008, 128 audit firms were licensed to do government audits in North Dakota. Today, only 14 are conducting government audits.

As of January 1st, those 14 firms have 371 outstanding county, city, and school district audit reports due to our office. In addition, there are numerous water, fire, park, and political subdivision audit reports due to our office. Recent retirements have left 24 local governments without an auditor, and when remaining independent CPAs retire, 79 local governments may not have the ability to provide assurance to the public that their tax dollars are being used properly.

As the number of audit firms conducting government audits consistently declines, the number of entities requiring audits continues to increase. Our office currently has 23 local governments requesting us to conduct their audit. We regularly receive notices from local governments that cannot find anyone to complete their audit or cannot afford an audit conducted by a private firm. Our services are typically lower in cost than a private firm, which keeps costs down for both local governments and taxpayers.

Moving these four positions from general fund to special fund allows us to serve the local governments better by completing more audits. Our team estimates we could complete approximately 20-24 more audits with four additional staff auditors.

This concludes my testimony and I’m happy to answer any questions you may have. Thank you.

APPENDIX A – AGENCY OVERVIEW & ACCOMPLISHMENTS

The duties and responsibilities of the State Auditor are included in Article V, § 2 of the North Dakota Constitution and Chapter 54-10 of the North Dakota Century Code.

The activities of the Office of the State Auditor are carried out through 58 employees in five divisions: Administration, Division of State Audits, Higher Education Performance Audit Division, Division of Local Government Audits, and Division of Mineral Royalty Audits.

1. Administration Division

The Administration Division provides oversight and support for the other divisions of the Office of the State Auditor.

Accomplishments

- Awarded second place for Most Improved Publication from the National Association of Government Communicators.
- Awarded Top 10 Workplace for Young Professionals by the Bismarck-Mandan Young Professionals Network.
- Out of 1,400 nominations our office was awarded 50 Best Places to Work from Prairie Business Magazine.
- Received the highest possible rating from the National State Auditors Association in the peer-review process.

2. Division of State Audits

The Division of State Audits conducts performance, operational, information technology, and financial statement audits of state agencies as authorized by:

- N.D.C.C. 54-10-01 (2) “Perform or provide for the audit of the general purpose financial statements and a review of the material included in the comprehensive annual financial report of the state and perform or provide for the audits and reviews of state agencies. Except for the annual audit of the North Dakota lottery required by section 53-12.1-03, the state auditor shall audit or review each state agency once every two years.”
- N.D.C.C. 54-10-01 (4) “Perform or provide for performance audits of state agencies, or the agencies' blended component units or discretely presented component units, as determined necessary by the state auditor or the legislative audit and fiscal review committee.”

Accomplishments

- 42 - Agency operational audits are conducted every biennium.
- 12 - Higher education operational audits are conducted every biennium.
- 22 - Agency financial audits are conducted every biennium.
- 1 - Agency performance audit was conducted this biennium.

- 1 - Federal single audit is conducted every biennium.
- 2 - Comprehensive Annual Financial Report (CAFR) is conducted every biennium.
- 5 - Special investigations were conducted this biennium.

3. Higher Education Performance Audit Division

The Higher Education Performance Audit Division conducts performance audits of the North Dakota University System as authorized by:

- N.D.C.C. 54-10-30 “The state auditor shall establish a higher education audit division and employ a division audit manager to perform all audit-related functions of the state board of higher education, including the examination and evaluation of the adequacy and effectiveness of the board's governance, risk management, internal controls, performance of constitutionally and statutorily required duties, and other areas as determined by the state auditor.”

Accomplishments

- 11 higher education performance audits were conducted this biennium.

4. Division of Local Government Audits

The Division of Local Government Audits — which is entirely self-funded — conducts audits of political subdivisions, small government reviews, and reviews of audit reports as authorized by:

- N.D.C.C. 54-10-14 (1) “The state auditor shall audit the following political subdivisions once every two years.”
- N.D.C.C. 54-10-14 (3) “In lieu of conducting an audit every two years, the state auditor may require annual reports from school districts with less than one hundred enrolled students; cities with less than five hundred population; and other political subdivisions subject to this section, or otherwise provided by law, with less than three hundred thousand dollars of annual receipts, excluding any federal funds passed through the political subdivision to another entity.”
- N.D.C.C. 54-10-14 (4) “A political subdivision, at the option of its governing body, may be audited by a certified public accountant or licensed public accountant rather than by the state auditor.” “The state auditor shall review the audit report to determine if the report is in the required form and has the required content, and if the audit meets generally accepted government auditing standards.”

Accomplishments

- 78 local government audits are conducted every biennium.

- First petition audit completed. This audit was the Belcourt Public Schools 2019. Our audit reported 15 findings, some of which could have been identified by a previous auditor.
- First Governor Requested Audit (that we are aware of) for the Oberon Public School District 2020-2019. Governor Burgum requested this audit because of financial discrepancies from the Oberon Public School District that were uncovered during an investigation by the Bureau of Criminal Investigation.
- The First Stewardship award was given to the City of Devils Lake 2020. This award celebrates excellence in auditing and is given to entities the State Auditor's Office has worked with conducting audits. The criteria for the award includes no significant deficiencies that are identified, no ethical or financial concerns, and a strong commitment to serving the taxpayers of North Dakota.

5. Division of Mineral Royalty Audits

The Mineral Royalty Division of the State Auditor's Office conducts compliance reviews and audits of federal royalty payments and revenue from oil, gas, and coal leases across North Dakota. The Mineral Royalty Division of the State Auditor's Office is fully funded by the federal government. There are currently 10 states and seven Native American tribes participating in this program with the Office of Natural Resources Revenue through the U.S. Department of the Interior.

Accomplishments

- 5 mineral royalty audits and 123 compliance reviews were conducted this biennium.
- Over \$230 Million in Federal Royalty Payments were verified by our office for State and Federal Funding during calendar years 2015 and 2016.

APPENDIX B – HISTORY OF THE STATE AUDITOR’S OFFICE

Brief Historical Perspective

1889 – North Dakota's first State Auditor took office. Much as county and city auditor’s 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 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’ workload.

1986 – Because of the demands of the Single Audit Act, performance audits were discontinued.

1991 – The Legislature funded 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 also known as the comprehensive annual financial review (CAFR). 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.

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.

2005 – The State Auditor received funding and authority to conduct the first information technology security audit of the state.

2013 – The first information technology security audit of the North Dakota University System was completed.

2015 – The Higher Education Audit Division established by N.D.C.C. section 54-10-30. Desktop support of computers was taken over by the Information Technology Department.

2021 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

HB1004
2/15/2021

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor.
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11:17 **Chairman Vigesaa** brought the committee to order. Members present: Chairman Vigesaa, Vice Chairman Brandenburg, Representative Howe, Representative Kempenich, Representative Bellew, Representative Meier, Representative Mock.

Discussion Topics:

- Base level funding changes
- Vacant positions

11:17 **Representative Mock** explained the worksheet. Testimony #6833.

11:32 Chairman Vigesaa adjourned the meeting.

Sheri Lewis, Committee Clerk

**State Auditor - Budget No. 117
House Bill No. 1004
Base Level Funding Changes**

	Executive Budget Recommendation				House Version			
	FTE Positions	General Fund	Other Funds	Total	FTE Position	General Fund	Other Funds	Total
2021-23 Biennium Base Level	58.00	\$10,106,860	\$4,173,178	\$14,280,038	58.00	\$10,106,860	\$4,173,178	\$14,280,038
2021-23 Ongoing Funding Changes								
Base payroll changes		(\$126,478)	(\$90,826)	(\$217,304)				\$0
Salary increase		209,436	103,206	312,642				0
Retirement contribution increase		43,111	21,244	64,355				0
Health insurance increase		1,890	932	2,822				0
Removes 4 FTE Higher Education Division audit positions	(4.00)	(854,231)		(854,231)				0
Adds 4 FTE Local Government Division audit positions, including salaries and wages (\$702,770) and operating expenses (\$41,688)	4.00		744,458	744,458				0
Adjusts base budget operating expenses, including general fund savings of \$79,368 related to the elimination of the Higher Education Division		(29,977)	122,700	92,723				0
Adds funding for proposed Capitol grounds rent proposal		165,456		165,456				0
Adds funding for Microsoft Office 365 licensing expenses		5,757	1,403	7,160				0
Total ongoing funding changes	0.00	(\$585,036)	\$903,117	\$318,081	0.00	\$0	\$0	\$0
One-time funding items								
No one-time funding items				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	0.00	(\$585,036)	\$903,117	\$318,081	0.00	\$0	\$0	\$0
2021-23 Total Funding	58.00	\$9,521,824	\$5,076,295	\$14,598,119	58.00	\$10,106,860	\$4,173,178	\$14,280,038
<i>Total ongoing changes as a percentage of base level</i>	0.0%	(5.8%)	21.6%	2.2%	0.0%	0.0%	0.0%	0.0%
<i>Total changes as a percentage of base level</i>	0.0%	(5.8%)	21.6%	2.2%	0.0%	0.0%	0.0%	0.0%

2021 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

HB1004
2/17/2021

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor.
--

3:44 **Chairman Vigesaa** brought the committee to order. Members present: Chairman Vigesaa, Vice Chairman Brandenburg, Representative Kempenich, Representative Howe, Representative Bellew, Representative Meier, Representative Mock.

Discussion Topics:

- Base level funding changes
- Vacant FTE's

3:44 **Representative Mock** explained the worksheet. Testimony #6833.

3:57 **Representative Mock** made a motion to adopt the amendment. LC# 21.0263.01001.

3:57 **Vice Chairman Brandenburg** seconded the motion.

3:57 Voice vote.

3:57 Motion carried.

3:58 **Chairman Vigesaa** adjourned the meeting.

Sheri Lewis, Committee Clerk

21.0263.01001
Title.

Prepared by the Legislative Council staff for
the House Appropriations - Government
Operations Division Committee
February 17, 2021

Fiscal No. 1

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1004

Page 1, line 1, after "auditor" insert "and to amend and reenact section 54-10-10 of the North Dakota Century Code, relating to the salary of the state auditor"

Page 1, replace lines 8 through 16 with:

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and wages	\$12,668,218	(\$787,730)	\$11,880,488
Operating expenses	1,161,820	100,727	1,262,547
Information technology consultants	<u>450,000</u>	<u>0</u>	<u>450,000</u>
Total all funds	\$14,280,038	(\$687,003)	\$13,593,035
Less estimated income	<u>4,173,178</u>	<u>494,607</u>	<u>4,667,785</u>
Total general fund	\$10,106,860	(\$1,181,610)	\$8,925,250
Full-time equivalent positions	58.00	(4.00)	54.00"

Page 1, after line 21, insert:

"SECTION 3. AMENDMENT. Section 54-10-10 of the North Dakota Century Code is amended and reenacted as follows:

54-10-10. Salary of state auditor.

The annual salary of the state auditor is one hundred ~~seventwelve~~ thousand ~~eighttwo~~ hundred ~~eighty-five~~ ~~forty-one~~ dollars through June 30, ~~2020~~2022, and one hundred ~~tenthirteen~~ thousand ~~five~~ ~~nine~~ hundred ~~eighty-two~~ ~~twenty-five~~ dollars thereafter."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1004 - State Auditor - House Action

	Base Budget	House Changes	House Version
Salaries and wages	\$12,668,218	(\$787,730)	\$11,880,488
Operating expenses	1,161,820	100,727	1,262,547
Information technology consultants	450,000		450,000
<hr/>			
Total all funds	\$14,280,038	(\$687,003)	\$13,593,035
Less estimated income	<u>4,173,178</u>	<u>494,607</u>	<u>4,667,785</u>
General fund	\$10,106,860	(\$1,181,610)	\$8,925,250
<hr/>			
FTE	58.00	(4.00)	54.00

Department 117 - State Auditor - Detail of House Changes

	Adjusts Funding for Base Payroll Changes ¹	Adds Funding for Salary and Benefit Increases ²	Removes Higher Education Division Audit Positions ³	Adds Local Government Division Audit Positions ⁴	Removes Auditor IV Positions ⁵	Adjusts Funding for Operating Expenses ⁶
Salaries and wages	(\$217,304)	\$272,392	(\$854,231)	\$351,385	(\$339,972)	\$92,723
Operating expenses				20,844	(20,000)	
Information technology consultants						
Total all funds	(\$217,304)	\$272,392	(\$854,231)	\$372,229	(\$359,972)	\$92,723
Less estimated income	(90,826)	89,101	0	372,229	0	122,700
General fund	(\$126,478)	\$183,291	(\$854,231)	\$0	(\$359,972)	(\$29,977)
FTE	0.00	0.00	(4.00)	2.00	(2.00)	0.00

	Adds Funding for Microsoft Office 365 License Expenses ⁷	Total House Changes
Salaries and wages	\$7,160	(\$787,730)
Operating expenses		100,727
Information technology consultants		
Total all funds	\$7,160	(\$687,003)
Less estimated income	1,403	494,607
General fund	\$5,757	(\$1,181,610)
FTE	0.00	(4.00)

¹ Funding is adjusted for base payroll changes.

² The following funding is added for 2021-23 biennium salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250 for both years, and increases in health insurance premiums from \$1,427 to \$1,429 per month:

	General Fund	Other Funds	Total
Salary increase	\$181,401	\$88,169	\$269,570
Health insurance increase	1,890	932	2,822
Total	\$183,291	\$89,101	\$272,392

³ Four FTE Higher Education Division audit positions are removed.

⁴ Two FTE Local Government Division audit positions, including salaries and wages and operating expenses, are added.

⁵ Two vacant FTE auditor IV positions and related salaries and wages and operating expenses are removed.

⁶ Funding is adjusted for various operating expenses, including a general fund reduction of \$79,368 related to the elimination of the Higher Education Division.

⁷ Funding is added for Microsoft Office 365 licensing expenses.

This amendment also adds a section to provide the statutory changes necessary to increase the State Auditor's salary from the current salary of \$110,582 to \$112,241 (1.5 percent) in fiscal year 2022 and to \$113,925 (1.5 percent) in fiscal year 2023.

**State Auditor - Budget No. 117
House Bill No. 1004
Base Level Funding Changes**

	Executive Budget Recommendation				House Version			
	FTE Positions	General Fund	Other Funds	Total	FTE Position	General Fund	Other Funds	Total
2021-23 Biennium Base Level	58.00	\$10,106,860	\$4,173,178	\$14,280,038	58.00	\$10,106,860	\$4,173,178	\$14,280,038
2021-23 Ongoing Funding Changes								
Base payroll changes		(\$126,478)	(\$90,826)	(\$217,304)				\$0
Salary increase		209,436	103,206	312,642				0
Retirement contribution increase		43,111	21,244	64,355				0
Health insurance increase		1,890	932	2,822				0
Removes 4 FTE Higher Education Division audit positions	(4.00)	(854,231)		(854,231)				0
Adds 4 FTE Local Government Division audit positions, including salaries and wages (\$702,770) and operating expenses (\$41,688)	4.00		744,458	744,458				0
Adjusts base budget operating expenses, including general fund savings of \$79,368 related to the elimination of the Higher Education Division		(29,977)	122,700	92,723				0
Adds funding for proposed Capitol grounds rent proposal		165,456		165,456				0
Adds funding for Microsoft Office 365 licensing expenses		5,757	1,403	7,160				0
Total ongoing funding changes	0.00	(\$585,036)	\$903,117	\$318,081	0.00	\$0	\$0	\$0
One-time funding items								
No one-time funding items				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	0.00	(\$585,036)	\$903,117	\$318,081	0.00	\$0	\$0	\$0
2021-23 Total Funding	58.00	\$9,521,824	\$5,076,295	\$14,598,119	58.00	\$10,106,860	\$4,173,178	\$14,280,038
<i>Total ongoing changes as a percentage of base level</i>	<i>0.0%</i>	<i>(5.8%)</i>	<i>21.6%</i>	<i>2.2%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>
<i>Total changes as a percentage of base level</i>	<i>0.0%</i>	<i>(5.8%)</i>	<i>21.6%</i>	<i>2.2%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>

2021 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

HB1004
2/18/2021

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor.
--

08:41 **Chairman Vigesaa** brought the committee to order. Members present: Chairman Vigesaa, Vice Chairman Brandenburg, Representative Kempenich, Representative Howe, Representative Bellew, Representative Meier, Representative Mock.

Discussion Topics:

- Vacant positions
- Higher education division audit positions
- Local government division audit positions

08:41 **Representative Mock** explained the amendment and the worksheet. LC# 21.0263.01001 and testimony 6964.

08:43 **Representative Mock** made a motion to adopt the amendment 21.0263.01001.

08:43 **Representative Howe** seconded the motion.

08:44 Voice vote.

08:44 Motion carried

08:45 **Representative Mock** made a motion for a "Do Pass as Amended".

08:45 **Representative Bellew** seconded the motion.

08:45 Roll call vote 7 Yeas 0 Nays 0 Absent

<i>Representatives</i>	Yes	No
<i>Chairman Vigesaa</i>	X	
<i>Vice Chairman Brandenburg</i>	X	
<i>Representative Kempenich</i>	X	
<i>Representative Howe</i>	X	
<i>Representative Meier</i>	X	
<i>Representative Bellew</i>	X	
<i>Representative Mock</i>	X	

08:45 Motion carried.

08:53 **Chairman Vigesaa** closed the meeting.

Sheri Lewis, Committee Clerk

21.0263.01001
Title.

Prepared by the Legislative Council staff for
the House Appropriations - Government
Operations Division Committee
February 17, 2021

Fiscal No. 1

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1004

Page 1, line 1, after "auditor" insert "and to amend and reenact section 54-10-10 of the North Dakota Century Code, relating to the salary of the state auditor"

Page 1, replace lines 8 through 16 with:

"	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and wages	\$12,668,218	(\$787,730)	\$11,880,488
Operating expenses	1,161,820	100,727	1,262,547
Information technology consultants	450,000	0	450,000
Total all funds	\$14,280,038	(\$687,003)	\$13,593,035
Less estimated income	4,173,178	494,607	4,667,785
Total general fund	\$10,106,860	(\$1,181,610)	\$8,925,250
Full-time equivalent positions	58.00	(4.00)	54.00"

Page 1, after line 21, insert:

"SECTION 3. AMENDMENT. Section 54-10-10 of the North Dakota Century Code is amended and reenacted as follows:

54-10-10. Salary of state auditor.

The annual salary of the state auditor is one hundred ~~seventwelve~~ thousand ~~eighttwo~~ hundred ~~eighty-five~~ ~~forty-one~~ dollars through June 30, ~~2020~~2022, and one hundred ~~ten~~thirteen thousand ~~five~~nine hundred ~~eighty-two~~ ~~twenty-five~~ dollars thereafter."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1004 - State Auditor - House Action

	<u>Base Budget</u>	<u>House Changes</u>	<u>House Version</u>
Salaries and wages	\$12,668,218	(\$787,730)	\$11,880,488
Operating expenses	1,161,820	100,727	1,262,547
Information technology consultants	450,000		450,000
Total all funds	\$14,280,038	(\$687,003)	\$13,593,035
Less estimated income	4,173,178	494,607	4,667,785
General fund	\$10,106,860	(\$1,181,610)	\$8,925,250
FTE	58.00	(4.00)	54.00

Department 117 - State Auditor - Detail of House Changes

	Adjusts Funding for Base Payroll Changes ¹	Adds Funding for Salary and Benefit Increases ²	Removes Higher Education Division Audit Positions ³	Adds Local Government Division Audit Positions ⁴	Removes Auditor IV Positions ⁵	Adjusts Funding for Operating Expenses ⁶
Salaries and wages	(\$217,304)	\$272,392	(\$854,231)	\$351,385	(\$339,972)	\$92,723
Operating expenses				20,844	(20,000)	
Information technology consultants						
Total all funds	(\$217,304)	\$272,392	(\$854,231)	\$372,229	(\$359,972)	\$92,723
Less estimated income	(90,826)	89,101	0	372,229	0	122,700
General fund	(\$126,478)	\$183,291	(\$854,231)	\$0	(\$359,972)	(\$29,977)
FTE	0.00	0.00	(4.00)	2.00	(2.00)	0.00

	Adds Funding for Microsoft Office 365 License Expenses ⁷	Total House Changes
Salaries and wages		(\$787,730)
Operating expenses	\$7,160	100,727
Information technology consultants		
Total all funds	\$7,160	(\$687,003)
Less estimated income	1,403	494,607
General fund	\$5,757	(\$1,181,610)
FTE	0.00	(4.00)

¹ Funding is adjusted for base payroll changes.

² The following funding is added for 2021-23 biennium salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250 for both years, and increases in health insurance premiums from \$1,427 to \$1,429 per month:

	General Fund	Other Funds	Total
Salary increase	\$181,401	\$88,169	\$269,570
Health insurance increase	1,890	932	2,822
Total	\$183,291	\$89,101	\$272,392

³ Four FTE Higher Education Division audit positions are removed.

⁴ Two FTE Local Government Division audit positions, including salaries and wages and operating expenses, are added.

⁵ Two vacant FTE auditor IV positions and related salaries and wages and operating expenses are removed.

⁶ Funding is adjusted for various operating expenses, including a general fund reduction of \$79,368 related to the elimination of the Higher Education Division.

⁷ Funding is added for Microsoft Office 365 licensing expenses.

This amendment also adds a section to provide the statutory changes necessary to increase the State Auditor's salary from the current salary of \$110,582 to \$112,241 (1.5 percent) in fiscal year 2022 and to \$113,925 (1.5 percent) in fiscal year 2023.

**State Auditor - Budget No. 117
House Bill No. 1004
Base Level Funding Changes**

	Executive Budget Recommendation				House Version				House Changes to Executive Budget Increase (Decrease) - Executive Budget			
	FTE Positions	General Fund	Other Funds	Total	FTE Position	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2021-23 Biennium Base Level	58.00	\$10,106,860	\$4,173,178	\$14,280,038	58.00	\$10,106,860	\$4,173,178	\$14,280,038	0.00	\$0	\$0	\$0
2021-23 Ongoing Funding Changes												
Base payroll changes		(\$126,478)	(\$90,826)	(\$217,304)		(\$126,478)	(\$90,826)	(\$217,304)				\$0
Salary increase		209,436	103,206	312,642		181,401	88,169	269,570		(28,035)	(15,037)	(43,072)
Retirement contribution increase		43,111	21,244	64,355				0		(43,111)	(21,244)	(64,355)
Health insurance increase		1,890	932	2,822		1,890	932	2,822				0
Removes 4 FTE Higher Education Division audit positions	(4.00)	(854,231)		(854,231)	(4.00)	(854,231)		(854,231)				0
Adds 4 FTE Local Government Division audit positions, including salaries and wages and operating expenses. (The House added 2 FTE audit positions.)	4.00		744,458	744,458	2.00		372,229	372,229	(2.00)		(372,229)	(372,229)
Removes 2 vacant FTE auditor IV positions, including salaries and wages and operating expenses				0	(2.00)	(359,972)		(359,972)	(2.00)	(359,972)		(359,972)
Adjusts base budget operating expenses, including general fund savings of \$79,368 related to the elimination of the Higher Education Division		(29,977)	122,700	92,723		(29,977)	122,700	92,723				0
Adds funding for proposed Capitol grounds rent proposal		165,456		165,456				0		(165,456)		(165,456)
Adds funding for Microsoft Office 365 licensing expenses		5,757	1,403	7,160		5,757	1,403	7,160				0
Total ongoing funding changes	0.00	(\$585,036)	\$903,117	\$318,081	(4.00)	(\$1,181,610)	\$494,607	(\$687,003)	(4.00)	(\$596,574)	(\$408,510)	(\$1,005,084)
One-time funding items				\$0				\$0				\$0
No one-time funding items				\$0				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	0.00	(\$585,036)	\$903,117	\$318,081	(4.00)	(\$1,181,610)	\$494,607	(\$687,003)	(4.00)	(\$596,574)	(\$408,510)	(\$1,005,084)
2021-23 Total Funding	58.00	\$9,521,824	\$5,076,295	\$14,598,119	54.00	\$8,925,250	\$4,667,785	\$13,593,035	(4.00)	(\$596,574)	(\$408,510)	(\$1,005,084)
<i>Total ongoing changes as a percentage of base level</i>	<i>0.0%</i>	<i>(5.8%)</i>	<i>21.6%</i>	<i>2.2%</i>	<i>(6.9%)</i>	<i>(11.7%)</i>	<i>11.9%</i>	<i>(4.8%)</i>				
<i>Total changes as a percentage of base level</i>	<i>0.0%</i>	<i>(5.8%)</i>	<i>21.6%</i>	<i>2.2%</i>	<i>(6.9%)</i>	<i>(11.7%)</i>	<i>11.9%</i>	<i>(4.8%)</i>				

Other Sections in State Auditor - Budget No. 117

Executive Budget Recommendation

House Version

Salary of the State Auditor

Section 2 would provide the statutory changes to increase the State Auditor's salary by 2 percent on July 1, 2021, and by 2 percent on July 1, 2022.

Section 3 provides the statutory changes to increase the State Auditor's salary by 1.5 percent on July 1, 2021, and by 1.5 percent on July 1, 2022.

2021 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee
Brynhild Haugland Room, State Capitol

HB 1004
2/18/2021

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor.
--

10:18 Chairman Delzer- Opened the meeting for HB 1004

Attendance	P/A
Representative Jeff Delzer	P
Representative Keith Kempenich	P
Representative Bert Anderson	P
Representative Larry Bellew	P
Representative Tracy Boe	P
Representative Mike Brandenburg	P
Representative Michael Howe	P
Representative Gary Kreidt	P
Representative Bob Martinson	P
Representative Lisa Meier	P
Representative Alisa Mitskog	P
Representative Corey Mock	P
Representative David Monson	P
Representative Mike Nathe	P
Representative Jon O. Nelson	P
Representative Mark Sanford	P
Representative Mike Schatz	P
Representative Jim Schmidt	P
Representative Randy A. Schobinger	P
Representative Michelle Strinden	P
Representative Don Vigesaa	P

Discussion Topics:

- Amendment

10:18 Representative Mock Explains the budget and amendment 21.0263.01001

10:20 Representative Mock Makes a motion to adopt amendment

Representative Howe Second

Further discussion

Voice Vote –Motion Carries

10:20 Representative Mock Makes a motion for a Do Pass as amended

Representative Bellew Second

Representatives	Vote
Representative Jeff Delzer	Y
Representative Keith Kempenich	Y
Representative Bert Anderson	Y
Representative Larry Bellew	Y
Representative Tracy Boe	Y
Representative Mike Brandenburg	Y
Representative Michael Howe	Y
Representative Gary Kreidt	Y
Representative Bob Martinson	Y
Representative Lisa Meier	Y
Representative Alisa Mitskog	Y
Representative Corey Mock	Y
Representative David Monson	Y
Representative Mike Nathe	Y
Representative Jon O. Nelson	Y
Representative Mark Sanford	Y
Representative Mike Schatz	Y
Representative Jim Schmidt	Y
Representative Randy A. Schobinger	Y
Representative Michelle Strinden	Y
Representative Don Vigesaa	Y

Motion Carries 21-0-0 Representative Mock will carry the bill

Additional written testimony: No written testimony

10:21 Chairman Delzer- Closes the meeting for HB 1004

Risa Berube,

House Appropriations Committee Clerk

*De 2/18/21
1082*

Fiscal No. 1

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1004

Page 1, line 1, after "auditor" insert "and to amend and reenact section 54-10-10 of the North Dakota Century Code, relating to the salary of the state auditor"

Page 1, replace lines 8 through 16 with:

"	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and wages	\$12,668,218	(\$787,730)	\$11,880,488
Operating expenses	1,161,820	100,727	1,262,547
Information technology consultants	450,000	0	450,000
Total all funds	\$14,280,038	(\$687,003)	\$13,593,035
Less estimated income	4,173,178	494,607	4,667,785
Total general fund	\$10,106,860	(\$1,181,610)	\$8,925,250
Full-time equivalent positions	58.00	(4.00)	54.00"

Page 1, after line 21, insert:

"SECTION 3. AMENDMENT. Section 54-10-10 of the North Dakota Century Code is amended and reenacted as follows:

54-10-10. Salary of state auditor.

The annual salary of the state auditor is one hundred ~~seventy-two~~ thousand ~~eighty-two~~ hundred ~~eighty-five~~ ~~forty-one~~ dollars through June 30, ~~2020~~2022, and one hundred ~~thirteen~~ thousand ~~five~~ hundred ~~eighty-two~~ ~~twenty-five~~ dollars thereafter."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1004 - State Auditor - House Action

	<u>Base Budget</u>	<u>House Changes</u>	<u>House Version</u>
Salaries and wages	\$12,668,218	(\$787,730)	\$11,880,488
Operating expenses	1,161,820	100,727	1,262,547
Information technology consultants	450,000		450,000
<hr/>			
Total all funds	\$14,280,038	(\$687,003)	\$13,593,035
Less estimated income	4,173,178	494,607	4,667,785
General fund	\$10,106,860	(\$1,181,610)	\$8,925,250
<hr/>			
FTE	58.00	(4.00)	54.00

DP 2/18/21
2 of 2

Department 117 - State Auditor - Detail of House Changes

	Adjusts Funding for Base Payroll Changes¹	Adds Funding for Salary and Benefit Increases²	Removes Higher Education Division Audit Positions³	Adds Local Government Division Audit Positions⁴	Removes Auditor IV Positions⁵	Adjusts Funding for Operating Expenses⁶
Salaries and wages	(\$217,304)	\$272,392	(\$854,231)	\$351,385	(\$339,972)	
Operating expenses				20,844	(20,000)	\$92,723
Information technology consultants						
Total all funds	(\$217,304)	\$272,392	(\$854,231)	\$372,229	(\$359,972)	\$92,723
Less estimated income	(90,826)	89,101	0	372,229	0	122,700
General fund	(\$126,478)	\$183,291	(\$854,231)	\$0	(\$359,972)	(\$29,977)
FTE	0.00	0.00	(4.00)	2.00	(2.00)	0.00

	Adds Funding for Microsoft Office 365 License Expenses⁷	Total House Changes
Salaries and wages		(\$787,730)
Operating expenses	\$7,160	100,727
Information technology consultants		
Total all funds	\$7,160	(\$687,003)
Less estimated income	1,403	494,607
General fund	\$5,757	(\$1,181,610)
FTE	0.00	(4.00)

¹ Funding is adjusted for base payroll changes.

² The following funding is added for 2021-23 biennium salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250 for both years, and increases in health insurance premiums from \$1,427 to \$1,429 per month:

	General Fund	Other Funds	Total
Salary increase	\$181,401	\$88,169	\$269,570
Health insurance increase	1,890	932	2,822
Total	\$183,291	\$89,101	\$272,392

³ Four FTE Higher Education Division audit positions are removed.

⁴ Two FTE Local Government Division audit positions, including salaries and wages and operating expenses, are added.

⁵ Two vacant FTE auditor IV positions and related salaries and wages and operating expenses are removed.

⁶ Funding is adjusted for various operating expenses, including a general fund reduction of \$79,368 related to the elimination of the Higher Education Division.

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This amendment also adds a section to provide the statutory changes necessary to increase the State Auditor's salary from the current salary of \$110,582 to \$112,241 (1.5 percent) in fiscal year 2022 and to \$113,925 (1.5 percent) in fiscal year 2023.

REPORT OF STANDING COMMITTEE

HB 1004: Appropriations Committee (Rep. Delzer, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (21 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1004 was placed on the Sixth order on the calendar.

Page 1, line 1, after "auditor" insert "and to amend and reenact section 54-10-10 of the North Dakota Century Code, relating to the salary of the state auditor"

Page 1, replace lines 8 through 16 with:

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and wages	\$12,668,218	(\$787,730)	\$11,880,488
Operating expenses	1,161,820	100,727	1,262,547
Information technology consultants	450,000	0	450,000
Total all funds	\$14,280,038	(\$687,003)	\$13,593,035
Less estimated income	4,173,178	494,607	4,667,785
Total general fund	\$10,106,860	(\$1,181,610)	\$8,925,250
Full-time equivalent positions	58.00	(4.00)	54.00"

Page 1, after line 21, insert:

"SECTION 3. AMENDMENT. Section 54-10-10 of the North Dakota Century Code is amended and reenacted as follows:

54-10-10. Salary of state auditor.

The annual salary of the state auditor is one hundred ~~seventwelve~~ thousand ~~eighttwo~~ hundred ~~eighty-five~~~~forty-one~~ dollars through June 30, ~~2020~~~~2022~~, and one hundred ~~thirteen~~ thousand ~~five~~ hundred ~~eighty-two~~~~twenty-five~~ dollars thereafter."

ReNUMBER accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1004 - State Auditor - House Action

	<u>Base Budget</u>	<u>House Changes</u>	<u>House Version</u>
Salaries and wages	\$12,668,218	(\$787,730)	\$11,880,488
Operating expenses	1,161,820	100,727	1,262,547
Information technology consultants	450,000		450,000
Total all funds	\$14,280,038	(\$687,003)	\$13,593,035
Less estimated income	4,173,178	494,607	4,667,785
General fund	\$10,106,860	(\$1,181,610)	\$8,925,250
FTE	58.00	(4.00)	54.00

Department 117 - State Auditor - Detail of House Changes

	<u>Adjusts Funding for Base Payroll Changes¹</u>	<u>Adds Funding for Salary and Benefit Increases²</u>	<u>Removes Higher Education Division Audit Positions³</u>	<u>Adds Local Government Division Audit Positions⁴</u>	<u>Removes Auditor IV Positions⁵</u>	<u>Adjusts Funding for Operating Expenses⁶</u>
Salaries and wages	(\$217,304)	\$272,392	(\$854,231)	\$351,385	(\$339,972)	
Operating expenses				20,844	(20,000)	\$92,723
Information technology consultants						
Total all funds	(\$217,304)	\$272,392	(\$854,231)	\$372,229	(\$359,972)	\$92,723
Less estimated income	(90,826)	89,101	0	372,229	0	122,700
General fund	(\$126,478)	\$183,291	(\$854,231)	\$0	(\$359,972)	(\$29,977)
FTE	0.00	0.00	(4.00)	2.00	(2.00)	0.00

	Adds Funding for Microsoft Office 365 License Expenses ⁷	Total House Changes
Salaries and wages		(\$787,730)
Operating expenses	\$7,160	100,727
Information technology consultants		
<hr/>		
Total all funds	\$7,160	(\$687,003)
Less estimated income	1,403	494,607
General fund	\$5,757	(\$1,181,610)
FTE	0.00	(4.00)

¹ Funding is adjusted for base payroll changes.

² The following funding is added for 2021-23 biennium salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250 for both years, and increases in health insurance premiums from \$1,427 to \$1,429 per month:

	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
Salary increase	\$181,401	\$88,169	\$269,570
Health insurance increase	<u>1,890</u>	<u>932</u>	<u>2,822</u>
Total	\$183,291	\$89,101	\$272,392

³ Four FTE Higher Education Division audit positions are removed.

⁴ Two FTE Local Government Division audit positions, including salaries and wages and operating expenses, are added.

⁵ Two vacant FTE auditor IV positions and related salaries and wages and operating expenses are removed.

⁶ Funding is adjusted for various operating expenses, including a general fund reduction of \$79,368 related to the elimination of the Higher Education Division.

⁷ Funding is added for Microsoft Office 365 licensing expenses.

This amendment also adds a section to provide the statutory changes necessary to increase the State Auditor's salary from the current salary of \$110,582 to \$112,241 (1.5 percent) in fiscal year 2022 and to \$113,925 (1.5 percent) in fiscal year 2023.

2021 SENATE APPROPRIATIONS

HB 1004

**Department 117 - State Auditor
House Bill No. 1004**

Executive Budget Comparison to Prior Biennium Appropriations

	FTE Positions	General Fund	Other Funds	Total
2021-23 Executive Budget	58.00	\$9,521,824	\$5,076,295	\$14,598,119
2019-21 Legislative Appropriations ¹	58.00	10,122,860	4,173,178	14,296,038
Increase (Decrease)	0.00	(\$601,036)	\$903,117	\$302,081

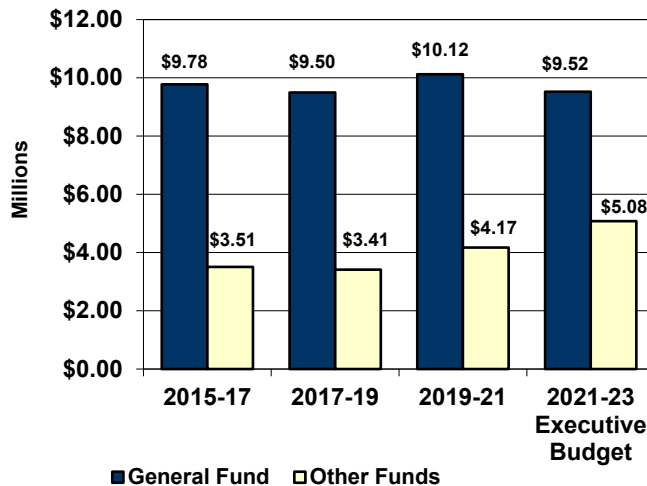
¹The 2019-21 biennium agency appropriation amounts have not been adjusted for the following:

- A 2019-21 biennium general fund appropriation for a copier (\$16,000) spent during the 2017-19 biennium pursuant to an emergency clause.
- Additional general fund authority of \$5,672 transferred to the department for the student internship program.
- Additional federal Coronavirus (COVID-19) funds authority of \$10,866 resulting from Emergency Commission action during the 2019-21 biennium.

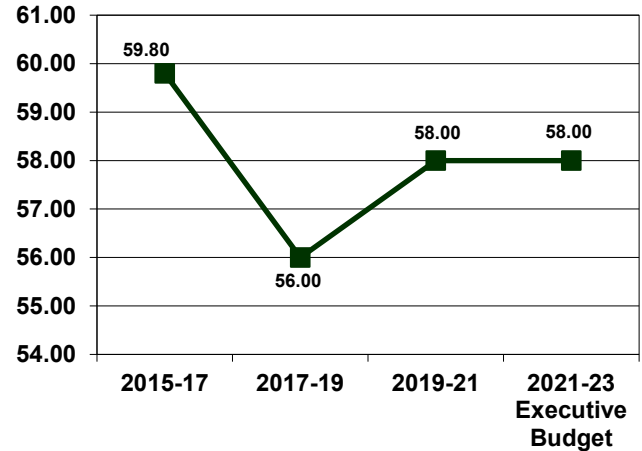
Ongoing and One-Time General Fund Appropriations

	Ongoing General Fund Appropriation	One-Time General Fund Appropriation	Total General Fund Appropriation
2021-23 Executive Budget	\$9,521,824	\$0	\$9,521,824
2019-21 Legislative Appropriations	10,106,860	16,000	10,122,860
Increase (Decrease)	(\$585,036)	(\$16,000)	(\$601,036)

Agency Funding



FTE Positions



Executive Budget Comparison to Base Level

	General Fund	Other Funds	Total
2021-23 Executive Budget	\$9,521,824	\$5,076,295	\$14,598,119
2021-23 Base Level	10,106,860	4,173,178	14,280,038
Increase (Decrease)	(\$585,036)	\$903,117	\$318,081

First House Action

Attached is a comparison worksheet detailing first house changes to base level funding and the executive budget.

**Executive Budget Highlights
(With First House Changes in Bold)**

	General Fund	Other Funds	Total
1. Adds funding for state employee salary and benefit increases, of which \$312,642 is for salary increases, \$2,822 is for health insurance increases, and \$64,355 is for retirement contribution increases. The House added funding for salary adjustments of 1.5 percent per year with a \$100 minimum and \$250	\$254,437	\$125,382	\$379,819

maximum monthly increase and increases in health insurance premiums from \$1,427 to \$1,429 per month. The House did not add funding for retirement contribution increases.

2. Adjusts base payroll	(\$126,478)	(\$90,826)	(\$217,304)
3. Removes 4 FTE higher education audit positions. In addition to removing the 4 FTE higher education audit positions, the House removed 2 vacant FTE auditor IV positions.	(\$854,231)	\$0	(\$854,231)
4. Adds 4 FTE Local Government Division audit positions, including salaries and wages (\$702,770) and operating expenses (\$41,688). The House added 2 FTE Local Government Division audit positions.	\$0	\$744,458	\$744,458
5. Adjusts base budget operating expenses, including general fund savings of \$79,368 related to the elimination of the higher education audit division	(\$29,977)	\$122,700	\$92,723
6. Adds funding for proposed Capitol complex rent model. The House did not add funding for the Capitol complex rent proposal.	\$165,456	\$0	\$165,456
7. Adds funding for Microsoft Office 365 licensing expenses	\$5,757	\$1,403	\$7,160

Other Sections in House Bill No. 1004

Salary of the State Auditor - Section 2 provides the statutory changes to increase the State Auditor's salary. The State Auditor's annual salary would increase from the current level of \$110,582 to \$112,241, effective July 1, 2021, and to \$113,925, effective July 1, 2022, to reflect a 1.5 percent recommended salary increase each year of the biennium.

Continuing Appropriations

There are no continuing appropriations for this agency.

Deficiency Appropriation

There are no deficiency appropriations for this agency.

Significant Audit Findings

The financial audit for the State Auditor's office conducted by Eide Bailly LLP, Certified Public Accountants, for the biennium ended June 30, 2019, revealed one audit finding and related material weakness resulting from an error in the State Auditor's work in process worksheet. Eide Bailly LLP, recommended the work in process and accounts receivable worksheets be appropriately reviewed to ensure correct formulas and to prevent job balances from being improperly included. This was also a prior audit finding during the financial audit for the biennium ended June 30, 2017. In addition, certain errors resulting in misstatements of amounts previously reported for capital assets as of June 30, 2017, were discovered during the current year. Accordingly, adjustments were made to beginning net position as of July 1, 2017, to correct the errors. The audit opinions were not modified with respect to these matters.

Major Related Legislation

House Bill No. 1093 - Removes a requirement that the State Auditor evaluate blanket bond coverage.

House Bill No. 1094 - Removes a requirement that the State Auditor obtain centralized desktop support services from the Information Technology Department. A fiscal note submitted by the State Auditor indicates a total savings of \$44,000, of which \$34,000 is from the general fund, for the 2021-23 biennium.

House Bill No. 1127 - Provides the State Auditor may not divulge any information relating to a matter forwarded to the Attorney General or a state's attorney for further investigation until the Attorney General or state's attorney has made a determination as to whether there is probable cause to believe a violation of law has occurred.

House Bill No. 1395 - Provides an appropriation of \$10,866 for federal Coronavirus Relief Fund spending authority approved for the State Auditor for the 2019-21 biennium by the Emergency Commission and Budget Section.

House Bill No. 1453 - Amends the powers and duties of the State Auditor and provides protections for individuals who report potential violations of law.

**State Auditor - Budget No. 117
House Bill No. 1004
Base Level Funding Changes**

	Executive Budget Recommendation				House Version			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2021-23 Biennium Base Level	58.00	\$10,106,860	\$4,173,178	\$14,280,038	58.00	\$10,106,860	\$4,173,178	\$14,280,038
2021-23 Ongoing Funding Changes								
Base payroll changes		(\$126,478)	(\$90,826)	(\$217,304)		(\$126,478)	(\$90,826)	(\$217,304)
Salary increase		209,436	103,206	312,642		181,401	88,169	269,570
Retirement contribution increase		43,111	21,244	64,355				0
Health insurance increase		1,890	932	2,822		1,890	932	2,822
Removes 4 FTE Higher Education Division audit positions	(4.00)	(854,231)		(854,231)	(4.00)	(854,231)		(854,231)
Adds 4 FTE Local Government Division audit positions, including salaries and wages and operating expenses. (The House added 2 FTE audit positions.)	4.00		744,458	744,458	2.00		372,229	372,229
Removes 2 vacant FTE auditor IV positions, including salaries and wages and operating expenses				0	(2.00)	(359,972)		(359,972)
Adjusts base budget operating expenses, including general fund savings of \$79,368 related to the elimination of the Higher Education Division		(29,977)	122,700	92,723		(29,977)	122,700	92,723
Adds funding for proposed Capitol grounds rent proposal		165,456		165,456				0
Adds funding for Microsoft Office 365 licensing expenses		5,757	1,403	7,160		5,757	1,403	7,160
Total ongoing funding changes	0.00	(\$585,036)	\$903,117	\$318,081	(4.00)	(\$1,181,610)	\$494,607	(\$687,003)
One-time funding items								
No one-time funding items				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	0.00	(\$585,036)	\$903,117	\$318,081	(4.00)	(\$1,181,610)	\$494,607	(\$687,003)
2021-23 Total Funding	58.00	\$9,521,824	\$5,076,295	\$14,598,119	54.00	\$8,925,250	\$4,667,785	\$13,593,035

<i>Total ongoing changes as a percentage of base level</i>	0.0%	(5.8%)	21.6%	2.2%	(6.9%)	(11.7%)	11.9%	(4.8%)
<i>Total changes as a percentage of base level</i>	0.0%	(5.8%)	21.6%	2.2%	(6.9%)	(11.7%)	11.9%	(4.8%)

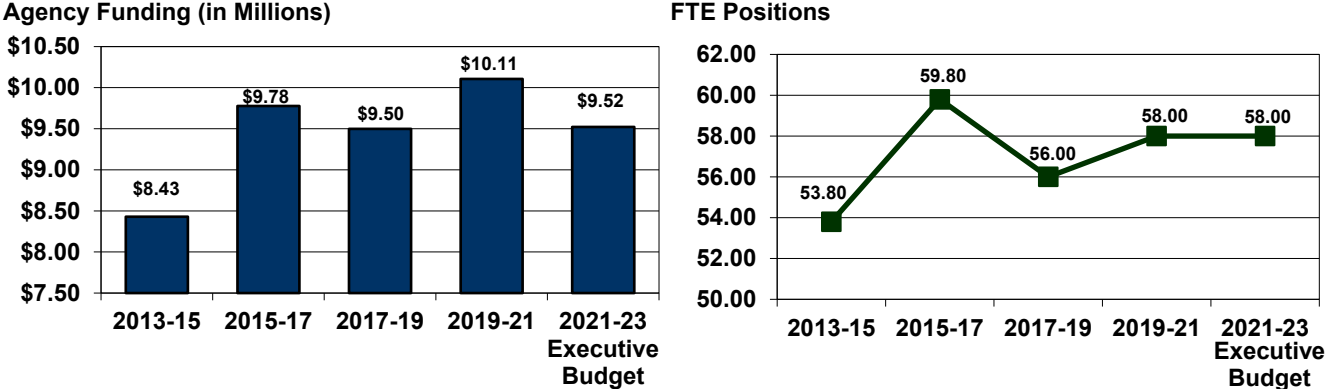
Other Sections in State Auditor - Budget No. 117

	<u>Executive Budget Recommendation</u>	<u>House Version</u>
Salary of the State Auditor	Section 2 provides the statutory changes necessary to increase the State Auditor's salary from the current salary of \$110,582 to \$112,794 (2 percent) in fiscal year 2022 and to \$115,050 (2 percent) in fiscal year 2023.	Section 2 provides the statutory changes necessary to increase the State Auditor's salary from the current salary of \$110,582 to \$112,241 (1.5 percent) in fiscal year 2022 and to \$113,925 (1.5 percent) in fiscal year 2023.

Department 117 - State Auditor

Historical Appropriations Information

Ongoing General Fund Appropriations Since 2013-15



Ongoing General Fund Appropriations					
	2013-15	2015-17	2017-19	2019-21	2021-23 Executive Budget
Ongoing general fund appropriations	\$8,428,489	\$9,776,582	\$9,498,608	\$10,106,860	\$9,521,824
Increase (decrease) from previous biennium	N/A	\$1,348,093	(\$277,974)	\$608,252	(\$585,036)
Percentage increase (decrease) from previous biennium	N/A	16.0%	(2.8%)	6.4%	(5.8%)
Cumulative percentage increase (decrease) from 2013-15 biennium	N/A	16.0%	12.7%	19.9%	13.0%

Major Increases (Decreases) in Ongoing General Fund Appropriations

2015-17 Biennium

- 1. Added funding for 6 FTE auditor positions and related operating expenses to provide audit services to the State Board of Higher Education and its institutions (This item was affected by the August 2016 budget reductions.) \$1,221,914

2017-19 Biennium

- 1. Restored funding for 4 FTE North Dakota University System audit positions removed by the State Auditor as part of the 2015-17 biennium budget reductions, including salaries and wages of \$611,300 and operating expenses of \$41,392 \$652,692
- 2. Removed 2 FTE University System audit positions, including salaries and wages of \$297,135 and operating expenses of \$12,500 (\$309,635)
- 3. Removed 1 FTE performance audit manager position (\$277,191)
- 4. Removed a 0.80 FTE administrative officer II position due to salaries and wages funding reductions \$0
- 5. Reduced funding for operating expenses (\$101,615)
- 6. Removed funding for information technology consultants (\$250,000)

2019-21 Biennium

- 1. Added funding for information technology reviews of the Information Technology Department and the University System to provide a total of \$450,000 for technology reviews, of which \$300,000 is from special funds from the University System \$150,000

2021-23 Biennium (Executive Budget Recommendation)

- 1. Removes 4 FTE higher education audit division positions. **In addition to removing the 4 FTE higher education audit positions, the House removed 2 vacant FTE auditor IV positions.** (\$854,231)
- 2. Adjusts base budget operating expenses, including general fund savings of \$79,368 related to the elimination of the higher education audit division (\$29,977)
- 3. Adds funding for a proposed Capitol grounds rent proposal. **The House did not add funding for the Capitol complex rent proposal.** \$165,456

**GOVERNOR'S RECOMMENDATION FOR THE
STATE AUDITOR AS SUBMITTED
BY THE OFFICE OF MANAGEMENT AND BUDGET**

SECTION 1. APPROPRIATION. The funds provided in this section, or so much of the funds as may be necessary, are appropriated out of any moneys in the general fund in the state treasury, not otherwise appropriated, and from special funds derived from federal funds and other income, to the state auditor for the purpose of defraying the expenses of the state auditor, for the biennium beginning July 1, 2021, and ending June 30, 2023, as follows:

	<u>Legislative Base level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and Wages	\$12,668,218	\$ 11,054	\$12,679,272
Operating Expenses	1,161,820	307,027	1,468,847
Information Technology Consultants	<u>450,000</u>	<u>0</u>	<u>450,000</u>
Total All Funds	\$14,280,038	\$ 318,081	\$14,598,119
Less Estimated Income	<u>4,173,178</u>	<u>903,117</u>	<u>5,076,295</u>
Total General Fund	\$10,106,860	(\$585,036)	\$ 9,521,824
Full-time Equivalent Positions	58.00	0.00	58.00

SECTION 2. AMENDMENT. Section 54-10-10 of the North Dakota Century Code is amended and reenacted as follows:

54-10-10. Salary of state auditor. The annual salary of the state auditor is ~~one hundred seven thousand eight hundred eighty-five dollars through June 30, 2020, and one hundred ten thousand five hundred eighty-two dollars~~ one hundred twelve thousand seven hundred ninety-four dollars through June 30, 2022, and one hundred fifteen thousand fifty dollars thereafter.

2021 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Roughrider Room, State Capitol

HB 1004
3/19/2021
Senate Appropriations Committee

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor.
--

Senator Wanzek opened the hearing at 9:15 AM.

Senators present: **Krebsbach, Wanzek, Bekkedahl, Poolman, Erbele, Dever, Oehlke, Rust, Davison, Hogue, Sorvaag, Mathern, and Heckaman.** **Senator Holmberg** was absent.

Discussion Topics:

- Shortage of Auditors in North Dakota

Josh Gallion, North Dakota State Auditor – testified in favor and submitted testimony #10110.

Dan Cox, Auditor Manager, State Auditor's Office – testified in favor.

Senator Wanzek closed the hearing at 9:52 AM.

Rose Laning, Committee Clerk



TESTIMONY TO SENATE APPROPRIATIONS

HB 1004 – STATE AUDITOR’S OFFICE APPROPRIATIONS

3/19/2021

Good morning, Chairman Holmberg, members of the committee, my name is Joshua Gallion, and I serve as North Dakota’s State Auditor. Our job is to lead the way in providing truthful, objective, and independent information to you and the citizens of North Dakota. Our mission is to produce informative audits that improve government, and our team is committed to generating greater value for taxpayers.

I’m here today to share about the substantial shortage of government auditors in our state, and how it is impacting every single North Dakotan. When I started in this role back in January of 2017, our local government team was working with 53 clients, or 10% of the total local governments requiring an audit.

Since that time, we have discovered several areas that were in need of improvement. As you are aware, state law requires either an audit or the review of annual reports submitted from a local government. The list of the entities that fall under the title “local government” is incredibly extensive and includes over 24 different areas ranging from airports and cities, to educational districts, and water districts. For the full list, please see Appendix A.

One of the first things I asked from that team was to understand their universe of audit clients. Who were they? And were we receiving regular audit reports or annual reports? Come to find out, there are just under 2,000 local governments who should be getting an audit or submitting an annual report.

Because of the research done by the team and the contact resource management tracking software we have put into practice, we’ve determined 264 local governments are a combined 470 years behind in their audits. And every year that number continues to grow because we are understaffed to make any headway on this number.

Fast forward to 2020, our local government team of 10, is stretched to their absolute maximum capacity. In addition to the 53 audit clients we serve each year, our office is experiencing a surge in workload. This stems from petition audits, citizen-raised concerns that lead to additional audits, governor requested audits, as well as a tremendous lack of private firms willing to perform these essential services.

To the best of my knowledge, our office had never received a petition audit until 2019. Once news spread, we saw a sharp increase in the number of citizen concerns shared with our office, which has resulted in us taking over some audits because of validated concerns. Our team has received twice as many citizen-raised concerns in the first two months of 2021, then in all of 2020. As the awareness of our office continues to grow, I cannot imagine what the next three months will hold for this team that is already stretched to their breaking point. We have had to implement a waiting list because of the amount of local governments who want to receive an audit from our team. We presently have 26 local governments who are on that list. Some of those have been on there for many, many years. See Appendix B for the full list.

Since the last session, we have discovered there are more clients who need our help. This is for several reasons including:

- Local governments cannot find any auditor who can conduct their audit.
- Local governments cannot find an affordable auditor.
- Local governments only need a one-year audit and they cannot afford a private firm.
- Past auditors that these local governments hired never issued any recommendations to improve their accounting practices.
- Their current auditor is providing poor service.
- Local governments have crossed the amount of money that mandates an audit for the first time and have never had an audit.
- Local governments are more than five years delinquent.
- Local governments have never submitted an audit (as required by law).

There are simply too many to audits and not enough private firms to handle the demands of local government audits. I'm here today to explain the lack of available resources in government auditing in North Dakota and how the Auditor's Office would like to help.

Before I continue, I would like to share how our local government division is funded. All operations from the local government division are special-funded, meaning no general funds are needed. Revenues generated from conducting audits are deposited into a special fund and all related expenses — including salaries — are paid from that special fund. Since we testified on this bill in January, we've been made aware of 67 clients who are potentially going to lose their auditor. Because of that, we are in need of 10 additional full-time employees for our local government division, in addition to the two FTE's the House authorized. With the two full-time employees we received last session, we were able to audit an additional 10 local governments last year.

It's not a matter of if we have enough workload, we have more than enough to keep 12 additional auditors busy, see Appendix C for additional details. These additional staff members will help us start chipping away at the 554 delinquent audit clients on top of the added workload these petition audits, citizen-concerns, and governor requested audits add to our already overwhelmed task list.

This also isn't about wanting to increase our FTE or grow government. I believe in limited government. However, I also believe in a responsive government and that is why I'm here today asking for additional staff. We need to meet the needs of every single one of our local governments. We have an obligation to provide a quality audit these local governments can learn from and one that citizens can have an assurance that their tax dollars were spent properly.

My biggest concern in government auditing is not within state agencies. It is in local governments where many times there are volunteers who have limited skills, knowledge, and expertise to properly maintain financial records. Many times, there is a lack of segregation of duties, if no one is looking, this fuels the opportunity for errors and fraud. Misuse of funds and fraud are happening regularly at the local level and this leads to increased costs for the taxpayers of North Dakota.

Our plan, if we were given these positions, would be hire them in a thoughtful, phased approach to give each auditor the training and time required to do perform their job at the highest standard.

We are asking for you to help us fill this void in North Dakota and make a dent on these delinquent audit clients. If we could double our team from 10 to 20, we could double our workload.

As Senator Dever said in last sessions conference committee, "Giving the State Auditor more local government auditors is a win for the state and a win for the local governments."

We could not agree more.

I would also like to discuss the two general funded positions that the House removed. When positions are eliminated, we are forced to limit the extent of the scope for each audit in order to accomplish audits. This leaves more high-risk areas unattended. It leaves a greater chance for things to go unnoticed when we do not have the resources to look.

Those vacancy dates attached to the position numbers were not truly accurate. To keep the process simple for administration purposes, when someone leaves a position, we wouldn't necessarily grab the oldest vacant position number. We were following a last one in, first one out system when putting new people into positions numbers. We have revised our hiring process so that will not be an issue next session. As for the position that was vacant for 18 months according to the Internet Budget Analysis and Reporting System (iBars) report, that position was filled since crossover and that person will join our team on Monday.

We have a critical need for four general-funded auditor positions to help alleviate the stress of the state's increased budget expenditures on our staff.

Our agency staff have put in nearly 600 hours of overtime in 2020 to complete the Comprehensive Annual Financial Reports and Single Audit on time. We have seen an increase in the number of state agencies that require audits such as the Department of Environmental Quality, the Forest Service, Ethics

Commission, and the Upper Great Plains Transportation Institute. These are all first time audits and these extra audits force us to shorten other audits.

If the Department of Health and Department of Human Services do combine (HB 1247), you will be combining two of our largest state agencies into one. It will take our staff additional planning time to understand all of the new combined processes and procedures because of the new risks that are created. As the risk goes up, the time needed to do an audit goes up. We already have increased risk from the last legislative session due to the restructuring of human service center zones, which are being implemented in the current biennium. Currently in a 12-month cycle, our team is at the Department of Human Services for approximately 9 months. With an entity as large as these two combined, we would need to have a dedicated team that would be at this agency year-round.

Reinstating those two general funded positions and allowing us two more will allow our staff the opportunity to provide the assurance to the legislative body and citizens that taxpayer funds are being used appropriately.

A few other items in our budget I wanted to touch on briefly:

We're asking for \$450,000 to continue with the Cybersecurity audit that is done every other year. This audit is done across State of North Dakota and the University System. The purpose of this audit is to identify our most significant security risks in state government and higher education so that we can make changes that will protect our state from those risks. This past audit found 128 areas of concern with 62 of them being labeled critical or high risk.

Our total budget is 91% salary and 75% of our operating budget went to information technology, rent, and professional development.

This concludes my testimony and I'm happy to answer any questions you may have. Thank you.

APPENDIX A – LOCAL GOVERNMENTS REQUIRED TO SUBMIT AUDIT OR ANNUAL REPORT

Each entity indicated below has an extensive list of sub-categories that our office is required to audit. For the full list, visit: nd.gov/auditor/local-government-audit-reports

- Airport Authorities
- Area Career and Technology Centers
- Cities
- Correction Centers
- Counties
- Firefighters Relief Associations
- Garrison Diversion Conservancy District
- Health Units
- Irrigation Districts
- Job Development Authorities
- Park Districts
- Public Libraries
- Recreation Service Districts
- Regional Planning Councils
- Rural Ambulance Service Districts
- Rural Fire Protection Districts
- School Districts
- Soil Conservation Districts
- Southwest Water Authority
- Special Education Districts
- State Boards
- Water Resource Districts
- Weed Boards
- Western Area Water Supply Authority

APPENDIX B– STATE AUDITOR’S OFFICE WAITING LIST

- City of Dickinson
- Mercer County
- New PSD
- City of Beulah
- City of Reiley Acres
- Williams County
- McKenzie County Ambulance Dist.
- Garrison-Max Ambulance Dist.
- Williams County Soil
- Oliver-Mercer Special Ed Unit
- Bowman Slope SCD
- City of Rolette
- Horace Rural Fire Protection District
- East Central Special Ed Unit
- City of Glenburn
- City of Beach
- Watford City
- Forest River Joint WRD
- Park River Joint WRD
- City of Wilton
- Grant County SCD
- Ward County
- Mandan Rural Fire District
- Hope/Page PSD
- ND state board of accountancy
- Minnewaukan PSD

List of local governments without an auditor:

Kindred RFPD
Halliday RFPD
McKenzie Co. RFPD
Grenora RFPD
Williston RFPD
Trenton VFD
Arnegard RFPD
Burlington RFD
Wildrose FPD
Mandan RFPD
North Central SCD
Burke Co. SCD
McKenzie Co. SCD
Stutsman Co. SCD
Stanley Park District
Crosby Park District
Emerado PSD

APPENDIX C – WORKLOAD INCREASES

Currently, we are aware of 40 local governments who need an auditor immediately. In 2008, 128 audit firms were licensed to do government audits in North Dakota. Today, only 14 are conducting government audits. As of January 1st, those 14 firms have 371 outstanding county, city, and school district audit reports due to our office. That’s not counting the water, fire, park, and other reports also past due. Recent retirements have left 24 local governments without an auditor, and when remaining independent CPAs retire, 79 local governments may not have the ability to provide assurance to the public that their tax dollars are being used properly.

New audit clients require us to move our regular clients into the next fiscal year. These new clients include:

Foster County *The last audit of Foster County was in 2012. Their audits are*
1,210 hours required *seriously delinquent and so we are working to get them caught up.*
 For: 2013 through 2020 audits

Napoleon Public School District *Past audits were not following government mandated auditing*
350 hours required *standards. This led to IRS penalties and fines totaling \$183,514.*
 For: 2018 through 2019 audits *(According to the Napoleon Homestead Newspaper.)*

Parshall Public School District *Past audits were not following government mandated auditing*
350 hours required *standards. This led to a citizen-initiated petition audit.*
 For: 2018 through 2019 audits

New audits next biennium in addition to our current client workload include:

Mercer County	450 hours
Lamoure County	250 hours going to an annual audit
Napoleon Public School District	325 hours
Parshall Public School District	325 hours
Extended Reviews	120 hours for an additional six reviews

These hours alone (**3,440**) will require an additional **2.21** full time employees. That's not counting the:

- 26 local governments that want us to be their auditor.
This would require an additional **4.73** full time employees.
- 24 local governments that do not currently have an auditor.
This would require an additional **4.36** full time employees.
- 79 local governments that are in situations where their auditor may soon no longer do audits.
This would require an additional **14.36** full time employees.

As of today, 554 local governments presently need an audit or need to submit annual financial reports. This would require **12.64** full-time employees estimating 64 of the 554 will need to get an audit, while the other 490 would need to submit an annual financial report for review.

264 local governments in the state are currently a combined 470 years behind in their audits.

We are also aware of 16 mentions of required audits in Century Code, but it does not say specifically who should be conducting those audits and none of those audits are reviewed by our office to ensure the standards or laws were properly followed.

APPENDIX D – AGENCY OVERVIEW & ACCOMPLISHMENTS

The duties and responsibilities of the State Auditor are included in Article V, § 2 of the North Dakota Constitution and Chapter 54-10 of the North Dakota Century Code.

The activities of the Office of the State Auditor are carried out through 58 employees in four divisions: Administration, Division of State Audits, Division of Local Government Audits, and Division of Mineral Royalty Audits.

1. Administration Division

The Administration Division provides oversight and support for the other divisions of the Office of the State Auditor.

Accomplishments

- Awarded second place for Most Improved Publication from the National Association of Government Communicators.
- Awarded Top 10 Workplace for Young Professionals by the Bismarck-Mandan Young Professionals Network.
- Out of 1,400 nominations our office was awarded 50 Best Places to Work from Prairie Business Magazine.

2. Division of State Audits

The Division of State Audits conducts performance, operational, information technology, and financial statement audits of state agencies as authorized by:

- N.D.C.C. 54-10-01 (2) “Perform or provide for the audit of the general purpose financial statements and a review of the material included in the comprehensive annual financial report of the state and perform or provide for the audits and reviews of state agencies. Except for the annual audit of the North Dakota lottery required by section 53-12.1-03, the state auditor shall audit or review each state agency once every two years.”

- N.D.C.C. 54-10-01 (4) “Perform or provide for performance audits of state agencies, or the agencies' blended component units or discretely presented component units, as determined necessary by the state auditor or the legislative audit and fiscal review committee.”

Accomplishments

- 42 - Agency operational audits are conducted every biennium.
- 12 - Higher education operational audits are conducted every biennium.
- 22 - Agency financial audits are conducted every biennium.
- 1 - Agency performance audit was conducted this biennium.
- 1 - Federal single audit is conducted every biennium.
- 2 - Comprehensive Annual Financial Report is conducted every biennium.
- 5 - Fraud investigations were conducted this biennium.
- Received the highest possible rating from the National State Auditors Association in the peer-review process.

3. Division of Local Government Audits

The Division of Local Government Audits — which is entirely self-funded (no general funds are used) — conducts audits of political subdivisions, small government reviews, and reviews of audit reports as authorized by:

- N.D.C.C. 54-10-13 (1) “The state auditor shall perform audits of political subdivisions pursuant to section 54-10-14 unless otherwise requested by the governing board, ordered by the governor or the legislative Page No. 2 audit and fiscal review committee, or on petition pursuant to section 54-10-15, or at the discretion of the state auditor for alleged improprieties.”
- N.D.C.C. 54-10-14 (1) “The state auditor shall audit the following political subdivisions once every two years.”
- N.D.C.C. 54-10-14 (3) “In lieu of conducting an audit every two years, the state auditor may require annual reports from school districts with less than one hundred enrolled students; cities with less than five hundred population; and other political subdivisions subject to this section, or otherwise provided by law, with less than three hundred thousand dollars of annual receipts, excluding any federal funds

passed through the political subdivision to another entity.”

- N.D.C.C. 54-10-14 (4) “A political subdivision, at the option of its governing body, may be audited by a certified public accountant or licensed public accountant rather than by the state auditor.” “The state auditor shall review the audit report to determine if the report is in the required form and has the required content, and if the audit meets generally accepted government auditing standards.”

Accomplishments

- 78 local government audits are conducted every biennium.
- First petition audit completed. This audit was the Belcourt Public Schools 2019. Our audit reported 15 findings, some of which could have been identified by a previous auditor. Second petition audit is underway.
- First Governor Requested Audit (that we are aware of) for the Oberon Public School District 2020-2019. Governor Burgum requested this audit because of financial discrepancies from the Oberon Public School District that were uncovered during an investigation by the Bureau of Criminal Investigation.
- The First Stewardship award was given to the City of Devils Lake 2020. This award celebrates excellence in auditing and is given to local governments the State Auditor’s Office has worked with conducting audits. The criteria for the award includes no significant deficiencies that are identified, no ethical or financial concerns, and a strong commitment to serving the taxpayers of North Dakota.

4. Division of Mineral Royalty Audits

The Mineral Royalty Division of the State Auditor’s Office conducts compliance reviews and audits of federal royalty payments and revenue from oil, gas, and coal leases across North Dakota. The Mineral Royalty Division of the State Auditor’s Office is fully funded by the federal government. There are currently 10 states and seven Native American tribes participating in this program with the Office of Natural Resources Revenue through the U.S. Department of the Interior.

Accomplishments

- 5 mineral royalty audits and 123 compliance reviews were conducted this biennium.
- Over \$230 Million in Federal Royalty Payments were verified by our office for State and Federal Funding during calendar years 2015 and 2016.

APPENDIX E – HISTORY OF THE STATE AUDITOR’S OFFICE

Brief Historical Perspective

1889 – North Dakota's first State Auditor took office. Much as county and city auditor’s 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 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’ workload.

1986 – Because of the demands of the Single Audit Act, performance audits were discontinued.

1991 – The Legislature funded 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 also known as the comprehensive annual financial review. 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.

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.

2005 – The State Auditor received funding and authority to conduct the first information technology security audit of the state.

2013 – The first information technology security audit of the North Dakota University System was completed.

2015 – The Higher Education Audit Division established by N.D.C.C. section 54-10-30. Desktop support of computers was taken over by the Information Technology Department.

2021 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Roughrider Room, State Capitol

HB 1004
3/30/2021
Auditor Sub-committee

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor.
--

Senator Oehlke opened the hearing at 4:57 PM.

Senators present: **Oehlke, Dever, Poolman.**

Discussion Topics:

- Definition of performance, professional and standard audits
- Shortage of Auditors in North Dakota

Sheila Sandness, Legislative Council explained the committee worksheet and testified neutrally #11090.

Josh Gallion, ND State Auditor – testified in favor and submitted testimony #11100.

Dan Cox, Office Manager, ND State Auditor's Office – testified in favor.

Senator Oehlke closed the hearing at 5:45 PM.

Rose Laning, Committee Clerk

**State Auditor - Budget No. 117
House Bill No. 1004
Base Level Funding Changes**

	Executive Budget Recommendation				House Version				House Changes to Executive Budget Increase (Decrease) - Executive Budget			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2021-23 Biennium Base Level	58.00	\$10,106,860	\$4,173,178	\$14,280,038	58.00	\$10,106,860	\$4,173,178	\$14,280,038	0.00	\$0	\$0	\$0
2021-23 Ongoing Funding Changes												
Base payroll changes		(\$126,478)	(\$90,826)	(\$217,304)		(\$126,478)	(\$90,826)	(\$217,304)				\$0
Salary increase		209,436	103,206	312,642		181,401	88,169	269,570		(28,035)	(15,037)	(43,072)
Retirement contribution increase		43,111	21,244	64,355				0		(43,111)	(21,244)	(64,355)
Health insurance increase		1,890	932	2,822		1,890	932	2,822				0
Removes 4 FTE Higher Education Division audit positions	(4.00)	(854,231)		(854,231)	(4.00)	(854,231)		(854,231)				0
Adds 4 FTE Local Government Division audit positions, including salaries and wages and operating expenses. (The House added 2 FTE audit positions.)	4.00		744,458	744,458	2.00		372,229	372,229	(2.00)		(372,229)	(372,229)
Removes 2 vacant FTE auditor IV positions, including salaries and wages and operating expenses				0	(2.00)	(359,972)		(359,972)	(2.00)	(359,972)		(359,972)
Adjusts base budget operating expenses, including general fund savings of \$79,368 related to the elimination of the Higher Education Division		(29,977)	122,700	92,723		(29,977)	122,700	92,723				0
Adds funding for proposed Capitol grounds rent proposal		165,456		165,456				0		(165,456)		(165,456)
Adds funding for Microsoft Office 365 licensing expenses		5,757	1,403	7,160		5,757	1,403	7,160				0
Total ongoing funding changes	0.00	(\$585,036)	\$903,117	\$318,081	(4.00)	(\$1,181,610)	\$494,607	(\$687,003)	(4.00)	(\$596,574)	(\$408,510)	(\$1,005,084)
One-time funding items												
No one-time funding items				\$0				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	0.00	(\$585,036)	\$903,117	\$318,081	(4.00)	(\$1,181,610)	\$494,607	(\$687,003)	(4.00)	(\$596,574)	(\$408,510)	(\$1,005,084)
2021-23 Total Funding	58.00	\$9,521,824	\$5,076,295	\$14,598,119	54.00	\$8,925,250	\$4,667,785	\$13,593,035	(4.00)	(\$596,574)	(\$408,510)	(\$1,005,084)

<i>Total ongoing changes as a percentage of base level</i>	0.0%	(5.8%)	21.6%	2.2%	(6.9%)	(11.7%)	11.9%	(4.8%)
<i>Total changes as a percentage of base level</i>	0.0%	(5.8%)	21.6%	2.2%	(6.9%)	(11.7%)	11.9%	(4.8%)

Other Sections in State Auditor - Budget No. 117

	<u>Executive Budget Recommendation</u>	<u>House Version</u>
Salary of the State Auditor	Section 2 provides the statutory changes necessary to increase the State Auditor's salary from the current salary of \$110,582 to \$112,794 (2 percent) in fiscal year 2022 and to \$115,050 (2 percent) in fiscal year 2023.	Section 2 provides the statutory changes necessary to increase the State Auditor's salary from the current salary of \$110,582 to \$112,241 (1.5 percent) in fiscal year 2022 and to \$113,925 (1.5 percent) in fiscal year 2023.

21.8074.01001
Title.

Prepared by the Legislative Council staff for
Senator Wanzek

March 18, 2021

PROPOSED AMENDMENTS TO HOUSE BILL NO. ~~1093~~ 1004

Page 1, line 1, replace "section" with "sections"

Page 1, line 1, after "26.1-21-08" insert "and 54-10-01, subsections 3 and 4 of section 54-10-14, and sections 54-10-19 and 54-10-27"

Page 1, line 2, after "coverage" insert ", the definition of state agency, the threshold to requiring annual reports, the ability to follow state funding, and fees for audit reviews"

Page 1, after line 9, insert:

"SECTION 2. AMENDMENT. Section 54-10-01 of the North Dakota Century Code is amended and reenacted as follows:

54-10-01. Powers and duties of state auditor.

1. The state auditor shall:
 - 4- a. Be vested with the duties, powers, and responsibilities involved in performing the postaudit of all financial transactions of the state government, detecting and reporting any defaults, and determining that expenditures have been made in accordance with law and appropriation acts.
 - 2- b. Perform or provide for the audit of the general purpose financial statements and a review of the material included in the comprehensive annual financial report of the state and perform or provide for the audits and reviews of state agencies. Except for the annual audit of the North Dakota lottery required by section 53-12.1-03, the state auditor shall audit or review each state agency once every two years. The state auditor shall determine the contents of the audits and reviews of state agencies. The state auditor may conduct any work required by the federal government. The state auditor may not contract for work required by the federal government without the prior approval of the legislative audit and fiscal review committee. The state auditor shall charge an amount equal to the cost of the audit and other services rendered by the state auditor to all agencies that receive and expend moneys from other than the general fund. This charge may be reduced for any agency that receives and expends both general fund and nongeneral fund moneys. State agencies must use nongeneral fund moneys to pay for audits performed by the state auditor. If nongeneral fund moneys are not available, the agency may, upon approval of the legislative assembly, or the budget section if the legislative assembly is not in session, use general fund moneys to pay for audits performed by the state auditor. The budget section reviews and approvals must comply with section 54-35-02.9. Audits and reviews may be conducted at more frequent intervals if requested by the governor or legislative audit and fiscal review committee.

- 3. c. Be vested with the authority to determine whether to audit the International Peace Garden at the request of the board of directors of the International Peace Garden.
- 4. d. Perform or provide for performance audits of state agencies, or the agencies' blended component units or discreetly presented component units, as determined necessary by the legislative assembly; the legislative audit and fiscal review committee; or the state auditor, subject to approval by the legislative audit and fiscal review committee. A performance audit must be done in accordance with generally accepted auditing standards applicable to performance audits. The state auditor may not hire a consultant to assist with conducting a performance audit of a state agency without the prior approval of the legislative audit and fiscal review committee. The state auditor shall notify an agency of the need for a consultant before requesting approval by the legislative audit and fiscal review committee. The agency that is audited shall pay for the cost of any consultant approved.
- 5. e. For the audits and reviews the state auditor is authorized to perform or provide for under this section, the audit or review may be provided for by contract with a private certified or licensed public accountant or other qualified professional. If the state auditor determines that the audit or review will be done pursuant to contract, the state auditor, except for occupational or professional boards, shall execute the contract, and any executive branch agency, including higher education institutions, shall pay the fees of the contractor.
- 6. f. Be responsible for the above functions and report thereon to the governor and the secretary of state in accordance with section 54-06-04 or more often as circumstances may require.
- 7. g. Perform all other duties as prescribed by law.
- 8. h. Perform work on mineral royalties for the federal government in accordance with section 1735(a) of the Mineral Lands and Mining Act [30 U.S.C. 1735 et seq.].
- 2. For purposes of this section, "state agency" means all statutorily authorized or appropriated state entities. The term does not include any occupational or professional board, except as otherwise specified within this chapter.

SECTION 3. AMENDMENT. Subsections 3 and 4 of section 54-10-14 of the North Dakota Century Code are amended and reenacted as follows:

- 3. In lieu of conducting an audit every two years, the state auditor may require annual reports from school districts ~~with less than one hundred enrolled students;~~ cities ~~with less than five hundred population;~~ and other political subdivisions subject to this section, or otherwise provided by law, with less than ~~three~~seven hundred ~~fifty~~ thousand dollars of annual receipts, excluding any federal funds passed through the political subdivision to another entity. If any federal agency performs or requires an audit of a political subdivision that receives federal funds to pass through to another entity, the political subdivision shall provide a copy to the state auditor upon request by the state auditor. The reports must contain the financial

information required by the state auditor. The state auditor also may make any additional examination or audit determined necessary in addition to the annual report. When a report is not filed, the state auditor may charge the political subdivision an amount equal to the fair value of the additional examination or audit and any other services rendered. The state auditor may charge a political subdivision a fee not to exceed eightyninety dollars an hour for the costs of reviewing the annual report.

4. A political subdivision, at the option of its governing body, may be audited by a certified public accountant or licensed public accountant rather than by the state auditor. The public accountant shall comply with generally accepted government auditing standards for audits of political subdivisions. The report must be in the form and content required by the state auditor. The number of copies of the audit report requested by the state auditor must be filed with the state auditor when the public accountant delivers the audit report to the political subdivision. The state auditor shall review the audit report to determine if the report is in the required form and has the required content, and if the audit meets generally accepted government auditing standards. The state auditor also may periodically review the public accountant's workpapers to determine if the audit meets generally accepted government auditing standards. If the report is in the required form and has the required content, and the report and workpapers comply with generally accepted government auditing standards, the state auditor shall accept the audit report. The state auditor may charge the political subdivision a fee of up to eightyninety dollars an hour, but not to exceed five hundred one thousand dollars per review, for the related costs of reviewing the audit report and workpapers.

SECTION 4. AMENDMENT. Section 54-10-19 of the North Dakota Century Code is amended and reenacted as follows:

54-10-19. Supervision of public institutions and private institutions with which state has dealings.

The state auditor may examine the books and accounts of all public and private institutions with which the state has any dealings so far only as the same relate to such dealings. If any public officer having control of any such office or institutions fails or refuses to comply with the directions of the state auditor, the auditor shall report the facts to the governor and to the manager of the state bonding fund, and such refusal constitutes grounds for removal from office and cancellation of the bond of such officer.

SECTION 5. AMENDMENT. Section 54-10-27 of the North Dakota Century Code is amended and reenacted as follows:

54-10-27. Occupational and professional boards - Audits and reports.

The governing board of any occupational or professional board shall provide for an audit once every two years by a certified public accountant or licensed public accountant. The accountant conducting the audit shall submit the audit report to the state auditor's office. If the report is in the form and style prescribed by the state auditor, the state auditor may not audit that board. An occupational or professional board may request the state auditor to conduct its audit, and if the state auditor agrees to conduct the audit, the state auditor shall deposit the fees charged to the occupational or professional board into the state auditor operating account. Instead of

providing for an audit every two years, an occupational or professional board that has less than two hundred thousand dollars of annual receipts may submit an annual report to the state auditor. The report must contain the information required by the state auditor. The state auditor also may make any additional examination or audit determined necessary in addition to the annual report. When a report is not filed, the state auditor may charge the occupational or professional board an amount equal to the fair value of the additional examination or audit and any other services rendered. The state auditor may charge an occupational or professional board a fee not to exceed ~~forty~~fifty dollars an hour for the costs of reviewing the annual report."

Renumber accordingly

2021 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Roughrider Room, State Capitol

HB 1004
4/6/2021
State Auditor Sub-committee

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor.
--

Senator Oehlke opened the hearing at 11:12 AM.

Senators present: **Oehlke, Dever and Poolman.**

Discussion Topics:

- FTEs
- Agency Limitations

Senator Oehlke presented testimony #11402.

Dan Cox, Auditing Manager, ND State Auditor's Office – testified in favor.

Senator Oehlke closed the hearing at 11:31 AM.

Rose Laning, Committee Clerk



TESTIMONY TO SENATE APPROPRIATIONS

HB ~~1093~~ ¹⁰⁸⁴ – AMENDMENTS TO ~~BONDING COVERAGE~~ ^{Budget}
3/19/2021

Good morning, Chairman Holmberg, members of the committee, my name is Joshua Gallion, and I serve as North Dakota's State Auditor. I'm here today to discuss some of the updates and clarifications necessary to make N.D.C.C. 54-10 more effective.

As you are aware, the State Auditor is a constitutional state official elected by North Dakota citizens. My job is to lead the way in providing truthful, objective, and independent information to you and the citizens of North Dakota. Our mission is to produce informative audits to improve government through our team who is committed to generating greater value for taxpayers.

Today, I'll walk you through the number of updates and clarifications we are requesting to the chapter of the North Dakota Century Code that guides the work of our team at the Auditor's Office.

State Agency Defined

When I first started with this agency over four years ago, I challenged the staff to clearly define what our audit universe contained. The first thing we encountered was a lack of definition for 'state agency.' Including this definition in 54-10 will clarify for our team and our audit clients who exactly is required to have an audit completed by our office.

Simplify and Increase Thresholds

Currently, our office conducts audits of local governments in North Dakota based on arbitrary thresholds. Many local governments are required to have an audit completed once every two years — or instead of an audit — a required annual financial reports for:

- School districts with less than 100 students
- Cities with less than 500 residents
- Local governments with less than \$300,000 in annual receipts

The amendments our office is proposing would update verbiage to base the need for an audit strictly on revenue. The current thresholds set in law are arbitrary numbers, and there is substantial risk in cities and school districts that are receiving significant revenue and are not required to have an audit. For examples of these, please reference the appendix on page 5.

We strongly recommend that audits are based on the risk of an entity mispending taxpayer money rather than an arbitrary threshold. Evidence of this risk was most recently seen at the Oberon Public School District (student count of 64) audit ordered by the governor, with our team identifying ten separate areas of concern including \$230,595 in payments with no record of work provided.

As mentioned above, currently our office can require annual reports from local governments with less than \$300,000 in annual receipts rather than a full audit. Our office is proposing raising that revenue threshold amount to \$750,000. This threshold is already familiar to all local governments as this is the current federal revenue threshold to receive a federal Single Audit.

Example of how this update would impact school districts:

- Presently, 43 Public School Districts are not required to receive an audit. Out of this number, only 27 of them choose not to. Switching to a \$750,000 threshold would only impact 13 of those 27 Public School Districts.

Example of how this update would impact cities:

- Presently, 262 cities are not required to receive an audit. Switching to a \$750,000 threshold would only impact 19 of those cities.

Cost analysis overview if these updates are implemented:

There would be 50 water, fire, park, and other districts that would no longer need an audit if these changes are implemented. The total of these audits is approximately \$500,000. Because of these savings, **the total savings to the state would be \$276,000.**

- The cost for an additional 13 audits for school districts would be \$91,000.
- The cost for an additional 19 audits for cities would be \$133,000.
- The total cost of those audits for school districts and cities would be \$224,000.

Adjustment of Fees and Cap

The local government division is specially funded and runs similar to a small business – no general funds are used. The local government division charges the local governments we work with and any revenue generated is deposited into a special fund. All related expenses — including salaries — are paid from that same fund.

North Dakota Century Code 54-10-14 (2) states, “the state auditor shall charge the political subdivision an amount equal to the fair value of the audit and any other services rendered.”

Because of rising costs over the years, it is becoming increasingly difficult to cover the costs of these audits and reviews. Our office is proposing four adjustments to our fees to cover costs:

1. N.D.C.C. 54-10-14 (3)

Our office has not increased this fee in 12 years. We are proposing an increase of \$10 an hour to change our rate from \$80 an hour to \$90 an hour. ~~80~~ 86

Background on rate: In 1993 the rate was \$50 an hour. Increased to \$80 an hour in 2009.

2. N.D.C.C. 54-10-14 (4)

Our office has not increased this fee in 12 years. We are proposing an increase of \$10 an hour to change our rate from \$80 an hour to \$90 an hour. ~~80~~ 84

Background on rate: In 1993 the rate was \$50 an hour. Increased to \$80 an hour in 2009.

3. N.D.C.C. 54-10-27

Our office has not increased this fee in two decades. We are proposing an increase of \$40 an hour to update our rate from \$50 an hour to \$90 an hour. 65

Background on rate: In 2001 the rate was \$50 an hour. The rate has not increased since.

4. N.D.C.C. 54-10-14 (4)

This section allows our office to charge political subdivision a fee, not to exceed \$500, for the costs related to reviewing audit reports and working papers. We are proposing to increase that cap to \$1,000 ⁰⁰

both to reflect inflation since the cap was established 18 years ago and to allow us to conduct our statutory duty of reviewing working papers.

Background on rate: In 1993 the cap was added at \$500. The rate has not increased since.

Because there have been no adjustments to the cost for the past 18 years, this rate is not keeping up with inflation.

Our office is also charged with the responsibility of reviewing workpapers to ensure private firms are properly following audit standards. If this cap is raised, we would have the opportunity to provide feedback to local governments where risk is identified. Presently, because of lack of funding, our team is unable to conduct these risk assessments.

Elimination of NDUS Performance Division

This would eliminate the North Dakota University System Performance Division. This was purely done to satisfy the executive budget requirements. Regular audits of the North Dakota University System will continue — as always — through our Agency Division which conducts one audit of each of the public colleges and universities each biennium, including the system office.

This concludes my testimony and I'm happy to answer any questions you may have. Thank you.

APPENDIX A: \$750,000 Threshold Examples

Examples of cities with population < 500 that would receive an audit using the \$750,000 annual receipts threshold:

- *Arnegard* *pop. 161* *2018 revenue = \$3,507,963*
- *Peterburg* *pop. 172* *2018 revenue = \$4,700,072*
- *Oxbow* *pop. 308* *2016 revenue = \$4,193,531*
- *Alexander* *pop. 325* *2018 revenue = \$4,652,173*

Examples of public school districts with student count < 100 that audit using the \$750,000 annual receipts threshold:

- *Halliday PSD* *23 ct.* *2017 revenue = \$1,094,514*
- *St. Thomas PSD* *45 ct.* *2018 revenue = \$1,706,754*
- *Oberon PSD* *64 ct.* *2018 revenue = \$1,503,545*
- *Wing PSD* *79 ct.* *2016 revenue = \$1,875,352*
- *Drake PSD* *80 ct.* *2018 revenue = \$2,047,797*

Cities that are currently required to get an audit since their population is over 500

Name	2018 Population	Revenue Amount	Year Reviewed
Elgin	638	\$ 343,764.00	2019
Portland	590	\$ 457,724.00	2017
Edgeley	553	\$ 635,963.00	2019
Wishek	929	\$ 646,094.00	2019
Turtle Lake	563	\$ 659,785.19	2018

Examples of cities who receive an audit but wouldn't need to under new thresholds

27 cities currently receiving an audit that wouldn't have to if the threshold were changed to dollars & raised to \$750,000

Fort Yates	Gladstone
Flasher	Minnewaukan
Sawyer	Portland
Abercrombie	Westhope
Fairmount	Powers Lake
McClusky	Bowbells
Drake	Minto
Verona	Towner
Reile's Acres	Edgeley
Stanton	Dunseith
Elgin	Wishek
Hatton	South Heart
Gackle	Turtle Lake
Wyndmere	

Additionally, there would be...

- 5 airports
- 2 ambulance districts
- 1 area career & technology center
- 2 correctional centers
- 4 fire districts
- 2 public libraries
- 2 special education districts
- 5 park districts
- 8 soil conservation districts
- 8 water resource districts

...that also would no longer be required to receive an audit.

2021 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee Roughrider Room, State Capitol

HB 1004

4/8/2021

Senate Appropriations Committee

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor.
--

Senator Holmberg opened the committee work at 8:29 a.m.

Senators present: **Holmberg, Krebsbach, Wanzek, Poolman, Erbele, Dever, Oehlke, Rust, Davison, Hogue, Sorvaag, Mathern, and Heckaman.** **Senator Bekkedahl** was absent

Discussion Topics:

- Amendments Review
- Vote

Senator Oehlke moved to adopt amendment LC 21.0263.02001; testimony #11455

Senator Dever seconded the motion

Senators		Senators	
<i>Senator Holmberg</i>	Y	<i>Senator Hogue</i>	Y
<i>Senator Krebsbach</i>	Y	<i>Senator Oehlke</i>	Y
<i>Senator Wanzek</i>	Y	<i>Senator Poolman</i>	Y
<i>Senator Bekkedahl</i>	A	<i>Senator Rust</i>	Y
<i>Senator Davison</i>	Y	<i>Senator Sorvaag</i>	Y
<i>Senator Dever</i>	Y	<i>Senator Heckaman</i>	Y
<i>Senator Erbele</i>	Y	<i>Senator Mathern</i>	Y

Motion Passed – 13-0-1

Senator Oehlke moved DO PASS AS AMENDED

Senator Dever seconded the motion

Senators		Senators	
<i>Senator Holmberg</i>	Y	<i>Senator Hogue</i>	Y
<i>Senator Krebsbach</i>	Y	<i>Senator Oehlke</i>	Y
<i>Senator Wanzek</i>	Y	<i>Senator Poolman</i>	Y
<i>Senator Bekkedahl</i>	A	<i>Senator Rust</i>	Y
<i>Senator Davison</i>	Y	<i>Senator Sorvaag</i>	Y
<i>Senator Dever</i>	Y	<i>Senator Heckaman</i>	Y
<i>Senator Erbele</i>	Y	<i>Senator Mathern</i>	Y

Motion Passed – 13-0-1

Chairman Holmberg closed the hearing at 8:39 a.m.

Skyler Strand, Committee Clerk

April 7, 2021

8/10/21
10/24
4/18

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1004

Page 1, line 2, replace "section" with "sections"

Page 1, line 2, after "54-10-10" insert ", 54-10-14, and 54-10-27"

Page 1, line 3, after "auditor" insert ", political subdivision audits, and occupational and professional board audits"

Page 1, replace lines 12 through 18 with:

"Salaries and wages	\$12,668,218	\$620,866	\$13,289,084
Operating expenses	1,161,820	219,883	1,381,703
Information technology consultants	<u>450,000</u>	<u>0</u>	<u>450,000</u>
Total all funds	\$14,280,038	\$840,749	\$15,120,787
Less estimated income	<u>4,173,178</u>	<u>1,652,974</u>	<u>5,826,152</u>
Total general fund	\$10,106,860	(\$812,225)	\$9,294,635
Full-time equivalent positions	58.00	4.00	62.00"

Page 2, line 5, replace "thirteen" with "fourteen"

Page 2, line 6, replace "nine" with "four"

Page 2, line 6, replace "twenty-five" with "eighty-six"

Page 2, after line 6, insert:

"SECTION 4. AMENDMENT. Section 54-10-14 of the North Dakota Century Code is amended and reenacted as follows:

54-10-14. Political subdivisions - Audits - Fees - Alternative audits and reports.

1. The state auditor shall audit the following political subdivisions once every two years, except as provided in this section or otherwise by law:
 - a. Counties.
 - b. Cities, and when a city is audited, to include any political subdivision that was created by the city and has bonding authority.
 - c. Park districts.
 - d. School districts.
 - e. Firefighters relief associations.
 - f. Airport authorities.
 - g. Public libraries.
 - h. Water resource districts.
 - i. Garrison Diversion Conservancy District.

- j. Rural fire protection districts.
 - k. Special education districts.
 - l. Area career and technology centers.
 - m. Correction centers.
 - n. Recreation service districts.
 - o. Weed boards.
 - p. Irrigation districts.
 - q. Rural ambulance service districts.
 - r. Southwest water authority.
 - s. Regional planning councils.
 - t. Soil conservation districts.
 - u. Western area water supply authority industrial water sales on an annual basis.
2. The state auditor shall charge the political subdivision an amount equal to the fair value of the audit and any other services rendered. The fees must be deposited in the state auditor operating account. The state treasurer shall credit the state auditor operating account with the amount of interest earnings attributable to the deposits in that account. Expenses relating to political subdivision audits must be paid from the state auditor operating account, within the limits of legislative appropriation.
 3. In lieu of conducting an audit every two years, the state auditor may require annual reports from school districts with less than one hundred enrolled students; cities with less than five hundred population; and other political subdivisions subject to this section, or otherwise provided by law, with less than ~~three hundred~~ seven hundred fifty thousand dollars of annual receipts, excluding any federal funds passed through the political subdivision to another entity. If any federal agency performs or requires an audit of a political subdivision that receives federal funds to pass through to another entity, the political subdivision shall provide a copy to the state auditor upon request by the state auditor. The reports must contain the financial information required by the state auditor. The state auditor also may make any additional examination or audit determined necessary in addition to the annual report. When a report is not filed, the state auditor may charge the political subdivision an amount equal to the fair value of the additional examination or audit and any other services rendered. The state auditor may charge a political subdivision a fee not to exceed ~~eighty~~ eighty-six dollars an hour for the costs of reviewing the annual report.
 4. A political subdivision, at the option of its governing body, may be audited by a certified public accountant or licensed public accountant rather than by the state auditor. The public accountant shall comply with generally accepted government auditing standards for audits of political subdivisions. The report must be in the form and content required by the state auditor. The number of copies of the audit report requested by the state auditor

must be filed with the state auditor when the public accountant delivers the audit report to the political subdivision. The state auditor shall review the audit report to determine if the report is in the required form and has the required content, and if the audit meets generally accepted government auditing standards. The state auditor also may periodically review the public accountant's workpapers to determine if the audit meets generally accepted government auditing standards. If the report is in the required form and has the required content, and the report and workpapers comply with generally accepted government auditing standards, the state auditor shall accept the audit report. The state auditor may charge the political subdivision a fee of up to ~~eighty~~eighty-six dollars an hour, but not to exceed ~~five~~six hundred dollars per review, for the related costs of reviewing the audit report and workpapers.

5. A political subdivision may not pay a public accountant for an audit until the state auditor has accepted the audit. However, a political subdivision may make progress payments to the public accountant. A political subdivision shall retain twenty percent of any progress payment until the audit report is accepted by the state auditor.
6. The state auditor may require the correction of any irregularities, objectionable accounting procedures, or illegal actions on the part of the governing board, officers, or employees of the political subdivision disclosed by the audit report or workpapers, and failure to make the corrections must result in audits being resumed by the state auditor until the irregularities, objectionable accounting procedures, or illegal actions are corrected.

SECTION 5. AMENDMENT. Section 54-10-27 of the North Dakota Century Code is amended and reenacted as follows:

54-10-27. Occupational and professional boards - Audits and reports.

The governing board of any occupational or professional board shall provide for an audit once every two years by a certified public accountant or licensed public accountant. The accountant conducting the audit shall submit the audit report to the state auditor's office. If the report is in the form and style prescribed by the state auditor, the state auditor may not audit that board. An occupational or professional board may request the state auditor to conduct its audit, and if the state auditor agrees to conduct the audit, the state auditor shall deposit the fees charged to the occupational or professional board into the state auditor operating account. Instead of providing for an audit every two years, an occupational or professional board that has less than two hundred thousand dollars of annual receipts may submit an annual report to the state auditor. The report must contain the information required by the state auditor. The state auditor also may make any additional examination or audit determined necessary in addition to the annual report. When a report is not filed, the state auditor may charge the occupational or professional board an amount equal to the fair value of the additional examination or audit and any other services rendered. The state auditor may charge an occupational or professional board a fee not to exceed ~~fifty~~fifty-eighty-six dollars an hour for the costs of reviewing the annual report."

Renumber accordingly

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

	Base Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$12,668,218	\$11,880,488	\$1,408,596	\$13,289,084
Operating expenses	1,161,820	1,262,547	119,156	1,381,703
Information technology consultants	450,000	450,000		450,000
Total all funds	\$14,280,038	\$13,593,035	\$1,527,752	\$15,120,787
Less estimated income	4,173,178	4,667,785	1,158,367	5,826,152
General fund	\$10,106,860	\$8,925,250	\$369,385	\$9,294,635
FTE	58.00	54.00	8.00	62.00

Department 117 - State Auditor - Detail of Senate Changes

	Adjusts Funding for Salary Increases ¹	Adds Local Government Division Audit Positions ²	Restores Auditor IV Positions ³	Total Senate Changes
Salaries and wages	\$14,469	\$1,054,155	\$339,972	\$1,408,596
Operating expenses		99,156	20,000	119,156
Information technology consultants				
Total all funds	\$14,469	\$1,153,311	\$359,972	\$1,527,752
Less estimated income	5,056	1,153,311	0	1,158,367
General fund	\$9,413	\$0	\$359,972	\$369,385
FTE	0.00	6.00	2.00	8.00

¹ Funding is adjusted to provide salary increases of 1.5 percent on July 1, 2021, with a minimum monthly increase of \$100, and 2 percent on July 1, 2022. The House provided salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250.

² Six FTE Local Government Division audit positions, including salaries and wages and operating expenses, are added to provide a total of 8 new Local Government Division audit positions. Funding for operating expenses for each new audit position is increased from \$10,422 as provided by the House to \$15,000.

³ Two vacant FTE auditor IV positions and related salaries and wages and operating expenses removed by the House are restored.

This amendment also:

- Amends Section 3 to provide the statutory changes necessary to increase the State Auditor's salary from the current salary of \$110,582 to \$112,241 (1.5 percent) in fiscal year 2022, and to \$114,486 (2 percent) in fiscal year 2023.
- Adds Section 4 to increase the:
 - Threshold for political subdivisions to provide an annual report in lieu of an audit from \$300,000 of annual receipts to \$750,000 of annual receipts;
 - Hourly fee for the review of political subdivision annual reports from \$80 per hour to \$86 per hour;
 - Hourly fee for the review of political subdivision audit reports and workpapers from \$80 per hour to \$86 per hour;
 - Maximum fee for review of political subdivision audit reports and workpapers from \$500 per review to \$600 per review.
- Adds Section 5 to increase the hourly fee for the review of occupational and professional board annual reports from \$50 per hour to \$86 per hour.

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 2, replace "section" with "sections"

Page 1, line 2, after "54-10-10" insert ", 54-10-14, and 54-10-27"

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Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1004 - State Auditor - Senate Action

	Base Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$12,668,218	\$11,880,488	\$1,408,596	\$13,289,084
Operating expenses	1,161,820	1,262,547	119,156	1,381,703
Information technology consultants	450,000	450,000		450,000
Total all funds	\$14,280,038	\$13,593,035	\$1,527,752	\$15,120,787
Less estimated income	4,173,178	4,667,785	1,158,367	5,826,152
General fund	\$10,106,860	\$8,925,250	\$369,385	\$9,294,635
FTE	58.00	54.00	8.00	62.00

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Information technology consultants				
Total all funds	\$14,469	\$1,153,311	\$359,972	\$1,527,752
Less estimated income	5,056	1,153,311	0	1,158,367
General fund	\$9,413	\$0	\$359,972	\$369,385
FTE	0.00	6.00	2.00	8.00

¹ Funding is adjusted to provide salary increases of 1.5 percent on July 1, 2021, with a minimum monthly increase of \$100, and 2 percent on July 1, 2022. The House provided salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250.

² Six FTE Local Government Division audit positions, including salaries and wages and operating expenses, are added to provide a total of 8 new Local Government Division audit positions. Funding for operating expenses for each new audit position is increased from \$10,422 as provided by the House to \$15,000.

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This amendment also:

- Amends Section 3 to provide the statutory changes necessary to increase the State Auditor's salary from the current salary of \$110,582 to \$112,241 (1.5 percent) in fiscal year 2022, and to \$114,486 (2 percent) in fiscal year 2023.
- Adds Section 4 to increase the:

Threshold for political subdivisions to provide an annual report in lieu of an audit from \$300,000 of annual receipts to \$750,000 of annual receipts;

Hourly fee for the review of political subdivision annual reports from \$80 per hour to \$86 per hour;

Hourly fee for the review of political subdivision audit reports and workpapers from \$80 per hour to \$86 per hour;

Maximum fee for review of political subdivision audit reports and workpapers from \$500 per review to \$600 per review.

- Adds Section 5 to increase the hourly fee for the review of occupational and professional board annual reports from \$50 per hour to \$86 per hour.

Sixty-seventh
Legislative Assembly
of North Dakota

ENGROSSED HOUSE BILL NO. 1004

Introduced by

Appropriations Committee

1 A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor and
2 to amend and reenact ~~sections~~ sections 54-10-10, 54-10-14, and 54-10-27 of the North Dakota
3 Century Code, relating to the salary of the state auditor, political subdivision audits, and
4 occupational and professional board audits.

5 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

6 **SECTION 1. APPROPRIATION.** The funds provided in this section, or so much of the funds
7 as may be necessary, are appropriated out of any moneys in the general fund in the state
8 treasury, not otherwise appropriated, and from special funds derived from federal funds and
9 other income, to the state auditor for the purpose of defraying the expenses of the state auditor,
10 for the biennium beginning July 1, 2021, and ending June 30, 2023, as follows:

	Base Level	Adjustments or Enhancements	Appropriation
13 Salaries and wages	\$12,668,218	(\$787,730)	\$11,880,488
14 Operating expenses	1,161,820	100,727	1,262,547
15 Information technology consultants	450,000	0	450,000
16 Total all funds	\$14,280,038	(\$687,003)	\$13,593,035
17 Less estimated income	4,173,178	494,607	4,667,785
18 Total general fund	\$10,106,860	(\$1,181,610)	\$8,925,250
19 Full-time equivalent positions	58.00	(4.00)	54.00
20 <u>Salaries and wages</u>	<u>\$12,668,218</u>	<u>\$620,866</u>	<u>\$13,289,084</u>
21 <u>Operating expenses</u>	<u>1,161,820</u>	<u>219,883</u>	<u>1,381,703</u>
22 <u>Information technology consultants</u>	<u>450,000</u>	<u>0</u>	<u>450,000</u>
23 <u>Total all funds</u>	<u>\$14,280,038</u>	<u>\$840,749</u>	<u>\$15,120,787</u>
24 <u>Less estimated income</u>	<u>4,173,178</u>	<u>1,652,974</u>	<u>5,826,152</u>

Sixty-seventh
Legislative Assembly

1	Total general fund	\$10,106,860	(\$812,225)	\$9,294,635
2	Full-time equivalent positions	58.00	4.00	62.00

3 **SECTION 2. ONE-TIME FUNDING.** The following amounts reflect the one-time funding
4 items approved by the sixty-sixth legislative assembly for the 2019-21 biennium:

5	<u>One-Time Funding Description</u>	<u>2019-21</u>	<u>2021-23</u>
6	Copier replacement	\$16,000	\$0
7	Total general fund	\$16,000	\$0

8 **SECTION 3. AMENDMENT.** Section 54-10-10 of the North Dakota Century Code is
9 amended and reenacted as follows:

10 **54-10-10. Salary of state auditor.**

11 The annual salary of the state auditor is one hundred ~~seventy-two~~ thousand ~~eight~~
12 hundred ~~eighty-five~~ ~~forty-one~~ dollars through June 30, ~~2020~~ 2022, and one hundred
13 ~~tenthirteen~~ fourteen thousand ~~five~~ nine ~~four~~ hundred ~~eighty-two~~ twenty-five ~~eighty-six~~ dollars
14 thereafter.

15 **SECTION 4. AMENDMENT.** Section 54-10-14 of the North Dakota Century Code is
16 amended and reenacted as follows:

17 **54-10-14. Political subdivisions - Audits - Fees - Alternative audits and reports.**

- 18 1. The state auditor shall audit the following political subdivisions once every two years,
19 except as provided in this section or otherwise by law:
 - 20 a. Counties.
 - 21 b. Cities, and when a city is audited, to include any political subdivision that was
22 created by the city and has bonding authority.
 - 23 c. Park districts.
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 - 25 e. Firefighters relief associations.
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- 1 l. Area career and technology centers.
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- 6 q. Rural ambulance service districts.
- 7 r. Southwest water authority.
- 8 s. Regional planning councils.
- 9 t. Soil conservation districts.
- 10 u. Western area water supply authority industrial water sales on an annual basis.
- 11 2. The state auditor shall charge the political subdivision an amount equal to the fair
- 12 value of the audit and any other services rendered. The fees must be deposited in the
- 13 state auditor operating account. The state treasurer shall credit the state auditor
- 14 operating account with the amount of interest earnings attributable to the deposits in
- 15 that account. Expenses relating to political subdivision audits must be paid from the
- 16 state auditor operating account, within the limits of legislative appropriation.
- 17 3. In lieu of conducting an audit every two years, the state auditor may require annual
- 18 reports from school districts with less than one hundred enrolled students; cities with
- 19 less than five hundred population; and other political subdivisions subject to this
- 20 section, or otherwise provided by law, with less than ~~three hundred~~ seven hundred fifty
- 21 thousand dollars of annual receipts, excluding any federal funds passed through the
- 22 political subdivision to another entity. If any federal agency performs or requires an
- 23 audit of a political subdivision that receives federal funds to pass through to another
- 24 entity, the political subdivision shall provide a copy to the state auditor upon request by
- 25 the state auditor. The reports must contain the financial information required by the
- 26 state auditor. The state auditor also may make any additional examination or audit
- 27 determined necessary in addition to the annual report. When a report is not filed, the
- 28 state auditor may charge the political subdivision an amount equal to the fair value of
- 29 the additional examination or audit and any other services rendered. The state auditor
- 30 may charge a political subdivision a fee not to exceed ~~eighty~~ eighty-six dollars an hour
- 31 for the costs of reviewing the annual report.

- 1 4. A political subdivision, at the option of its governing body, may be audited by a certified
2 public accountant or licensed public accountant rather than by the state auditor. The
3 public accountant shall comply with generally accepted government auditing standards
4 for audits of political subdivisions. The report must be in the form and content required
5 by the state auditor. The number of copies of the audit report requested by the state
6 auditor must be filed with the state auditor when the public accountant delivers the
7 audit report to the political subdivision. The state auditor shall review the audit report
8 to determine if the report is in the required form and has the required content, and if
9 the audit meets generally accepted government auditing standards. The state auditor
10 also may periodically review the public accountant's workpapers to determine if the
11 audit meets generally accepted government auditing standards. If the report is in the
12 required form and has the required content, and the report and workpapers comply
13 with generally accepted government auditing standards, the state auditor shall accept
14 the audit report. The state auditor may charge the political subdivision a fee of up to
15 ~~eighty~~ eighty-six dollars an hour, but not to exceed ~~five~~ six hundred dollars per review,
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- 17 5. A political subdivision may not pay a public accountant for an audit until the state
18 auditor has accepted the audit. However, a political subdivision may make progress
19 payments to the public accountant. A political subdivision shall retain twenty percent of
20 any progress payment until the audit report is accepted by the state auditor.
- 21 6. The state auditor may require the correction of any irregularities, objectionable
22 accounting procedures, or illegal actions on the part of the governing board, officers,
23 or employees of the political subdivision disclosed by the audit report or workpapers,
24 and failure to make the corrections must result in audits being resumed by the state
25 auditor until the irregularities, objectionable accounting procedures, or illegal actions
26 are corrected.

27 **SECTION 5. AMENDMENT.** Section 54-10-27 of the North Dakota Century Code is
28 amended and reenacted as follows:

29 **54-10-27. Occupational and professional boards - Audits and reports.**

30 The governing board of any occupational or professional board shall provide for an audit
31 once every two years by a certified public accountant or licensed public accountant. The

Sixty-seventh
Legislative Assembly

1 accountant conducting the audit shall submit the audit report to the state auditor's office. If the
2 report is in the form and style prescribed by the state auditor, the state auditor may not audit
3 that board. An occupational or professional board may request the state auditor to conduct its
4 audit, and if the state auditor agrees to conduct the audit, the state auditor shall deposit the fees
5 charged to the occupational or professional board into the state auditor operating account.
6 Instead of providing for an audit every two years, an occupational or professional board that has
7 less than two hundred thousand dollars of annual receipts may submit an annual report to the
8 state auditor. The report must contain the information required by the state auditor. The state
9 auditor also may make any additional examination or audit determined necessary in addition to
10 the annual report. When a report is not filed, the state auditor may charge the occupational or
11 professional board an amount equal to the fair value of the additional examination or audit and
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14 report.

April 7, 2021

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Page 1, line 3, after "auditor" insert ", political subdivision audits, and occupational and professional board audits"

Page 1, replace lines 12 through 18 with:

"Salaries and wages	\$12,668,218	\$620,866	\$13,289,084
Operating expenses	1,161,820	219,883	1,381,703
Information technology consultants	<u>450,000</u>	<u>0</u>	<u>450,000</u>
Total all funds	\$14,280,038	\$840,749	\$15,120,787
Less estimated income	<u>4,173,178</u>	<u>1,652,974</u>	<u>5,826,152</u>
Total general fund	\$10,106,860	(\$812,225)	\$9,294,635
Full-time equivalent positions	58.00	4.00	62.00"

Page 2, line 5, replace "thirteen" with "fourteen"

Page 2, line 6, replace "nine" with "four"

Page 2, line 6, replace "twenty-five" with "eighty-six"

Page 2, after line 6, insert:

"SECTION 4. AMENDMENT. Section 54-10-14 of the North Dakota Century Code is amended and reenacted as follows:

54-10-14. Political subdivisions - Audits - Fees - Alternative audits and reports.

1. The state auditor shall audit the following political subdivisions once every two years, except as provided in this section or otherwise by law:
 - a. Counties.
 - b. Cities, and when a city is audited, to include any political subdivision that was created by the city and has bonding authority.
 - c. Park districts.
 - d. School districts.
 - e. Firefighters relief associations.
 - f. Airport authorities.
 - g. Public libraries.
 - h. Water resource districts.
 - i. Garrison Diversion Conservancy District.

- j. Rural fire protection districts.
 - k. Special education districts.
 - l. Area career and technology centers.
 - m. Correction centers.
 - n. Recreation service districts.
 - o. Weed boards.
 - p. Irrigation districts.
 - q. Rural ambulance service districts.
 - r. Southwest water authority.
 - s. Regional planning councils.
 - t. Soil conservation districts.
 - u. Western area water supply authority industrial water sales on an annual basis.
2. The state auditor shall charge the political subdivision an amount equal to the fair value of the audit and any other services rendered. The fees must be deposited in the state auditor operating account. The state treasurer shall credit the state auditor operating account with the amount of interest earnings attributable to the deposits in that account. Expenses relating to political subdivision audits must be paid from the state auditor operating account, within the limits of legislative appropriation.
3. In lieu of conducting an audit every two years, the state auditor may require annual reports from school districts with less than one hundred enrolled students; cities with less than five hundred population; and other political subdivisions subject to this section, or otherwise provided by law, with less than ~~three hundred~~ seven hundred fifty thousand dollars of annual receipts, excluding any federal funds passed through the political subdivision to another entity. If any federal agency performs or requires an audit of a political subdivision that receives federal funds to pass through to another entity, the political subdivision shall provide a copy to the state auditor upon request by the state auditor. The reports must contain the financial information required by the state auditor. The state auditor also may make any additional examination or audit determined necessary in addition to the annual report. When a report is not filed, the state auditor may charge the political subdivision an amount equal to the fair value of the additional examination or audit and any other services rendered. The state auditor may charge a political subdivision a fee not to exceed ~~eighty~~ eighty-six dollars an hour for the costs of reviewing the annual report.
4. A political subdivision, at the option of its governing body, may be audited by a certified public accountant or licensed public accountant rather than by the state auditor. The public accountant shall comply with generally accepted government auditing standards for audits of political subdivisions. The report must be in the form and content required by the state auditor. The number of copies of the audit report requested by the state auditor

must be filed with the state auditor when the public accountant delivers the audit report to the political subdivision. The state auditor shall review the audit report to determine if the report is in the required form and has the required content, and if the audit meets generally accepted government auditing standards. The state auditor also may periodically review the public accountant's workpapers to determine if the audit meets generally accepted government auditing standards. If the report is in the required form and has the required content, and the report and workpapers comply with generally accepted government auditing standards, the state auditor shall accept the audit report. The state auditor may charge the political subdivision a fee of up to ~~eighty-eighty-six~~ fivesix dollars an hour, but not to exceed fivesix hundred dollars per review, for the related costs of reviewing the audit report and workpapers.

5. A political subdivision may not pay a public accountant for an audit until the state auditor has accepted the audit. However, a political subdivision may make progress payments to the public accountant. A political subdivision shall retain twenty percent of any progress payment until the audit report is accepted by the state auditor.
6. The state auditor may require the correction of any irregularities, objectionable accounting procedures, or illegal actions on the part of the governing board, officers, or employees of the political subdivision disclosed by the audit report or workpapers, and failure to make the corrections must result in audits being resumed by the state auditor until the irregularities, objectionable accounting procedures, or illegal actions are corrected.

SECTION 5. AMENDMENT. Section 54-10-27 of the North Dakota Century Code is amended and reenacted as follows:

54-10-27. Occupational and professional boards - Audits and reports.

The governing board of any occupational or professional board shall provide for an audit once every two years by a certified public accountant or licensed public accountant. The accountant conducting the audit shall submit the audit report to the state auditor's office. If the report is in the form and style prescribed by the state auditor, the state auditor may not audit that board. An occupational or professional board may request the state auditor to conduct its audit, and if the state auditor agrees to conduct the audit, the state auditor shall deposit the fees charged to the occupational or professional board into the state auditor operating account. Instead of providing for an audit every two years, an occupational or professional board that has less than two hundred thousand dollars of annual receipts may submit an annual report to the state auditor. The report must contain the information required by the state auditor. The state auditor also may make any additional examination or audit determined necessary in addition to the annual report. When a report is not filed, the state auditor may charge the occupational or professional board an amount equal to the fair value of the additional examination or audit and any other services rendered. The state auditor may charge an occupational or professional board a fee not to exceed ~~fifty-eighty-six~~ fivesix dollars an hour for the costs of reviewing the annual report."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1004 - State Auditor - Senate Action

	Base Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$12,668,218	\$11,880,488	\$1,408,596	\$13,289,084
Operating expenses	1,161,820	1,262,547	119,156	1,381,703
Information technology consultants	450,000	450,000		450,000
Total all funds	\$14,280,038	\$13,593,035	\$1,527,752	\$15,120,787
Less estimated income	4,173,178	4,667,785	1,158,367	5,826,152
General fund	\$10,106,860	\$8,925,250	\$369,385	\$9,294,635
FTE	58.00	54.00	8.00	62.00

Department 117 - State Auditor - Detail of Senate Changes

	Adjusts Funding for Salary Increases¹	Adds Local Government Division Audit Positions²	Restores Auditor IV Positions³	Total Senate Changes
Salaries and wages	\$14,469	\$1,054,155	\$339,972	\$1,408,596
Operating expenses		99,156	20,000	119,156
Information technology consultants				
Total all funds	\$14,469	\$1,153,311	\$359,972	\$1,527,752
Less estimated income	5,056	1,153,311	0	1,158,367
General fund	\$9,413	\$0	\$359,972	\$369,385
FTE	0.00	6.00	2.00	8.00

¹ Funding is adjusted to provide salary increases of 1.5 percent on July 1, 2021, with a minimum monthly increase of \$100, and 2 percent on July 1, 2022. The House provided salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250.

² Six FTE Local Government Division audit positions, including salaries and wages and operating expenses, are added to provide a total of 8 new Local Government Division audit positions. Funding for operating expenses for each new audit position is increased from \$10,422 as provided by the House to \$15,000.

³ Two vacant FTE auditor IV positions and related salaries and wages and operating expenses removed by the House are restored.

This amendment also:

- Amends Section 3 to provide the statutory changes necessary to increase the State Auditor's salary from the current salary of \$110,582 to \$112,241 (1.5 percent) in fiscal year 2022, and to \$114,486 (2 percent) in fiscal year 2023.
- Adds Section 4 to increase the:
 - Threshold for political subdivisions to provide an annual report in lieu of an audit from \$300,000 of annual receipts to \$750,000 of annual receipts;
 - Hourly fee for the review of political subdivision annual reports from \$80 per hour to \$86 per hour;
 - Hourly fee for the review of political subdivision audit reports and workpapers from \$80 per hour to \$86 per hour;
 - Maximum fee for review of political subdivision audit reports and workpapers from \$500 per review to \$600 per review.
- Adds Section 5 to increase the hourly fee for the review of occupational and professional board annual reports from \$50 per hour to \$86 per hour.

2021 CONFERENCE COMMITTEE

HB 1004

2021 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

HB1004
4/14/2021
Conference Committee

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor.
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10:03 **Chairman Bellew** brought the conference committee to order. Members present: Chairman Bellew, Representative Howe, Representative Mock, Senator Oehlke, Senator Dever, Senator Poolman.

Discussion Topics:

- FTE's

10:03 **Senator Oehlke** explained the changes to the bill. Testimony # 11516.

10:21 **Chairman Bellew** adjourned the conference committee.

Sheri Lewis, Committee Clerk

**State Auditor - Budget No. 117
House Bill No. 1004
Base Level Funding Changes**

	House Version				Senate Version				Senate Changes to House Version Increase (Decrease) - House Version			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2021-23 Biennium Base Level	58.00	\$10,106,860	\$4,173,178	\$14,280,038	58.00	\$10,106,860	\$4,173,178	\$14,280,038	0.00	\$0	\$0	\$0
2021-23 Ongoing Funding Changes												
Base payroll changes		(\$126,478)	(\$90,826)	(\$217,304)		(\$126,478)	(\$90,826)	(\$217,304)				\$0
Salary increase		181,401	88,169	269,570		190,814	93,225	284,039		9,413	5,056	14,469
Retirement contribution increase				0				0				0
Health insurance increase		1,890	932	2,822		1,890	932	2,822				0
Removes 4 FTE Higher Education Division audit positions	(4.00)	(854,231)		(854,231)	(4.00)	(854,231)		(854,231)				0
Adds 4 FTE Local Government Division audit positions, including salaries and wages and operating expenses. (The House added 2 FTE audit positions.)	2.00		372,229	372,229	8.00		1,525,540	1,525,540	6.00		1,153,311	1,153,311
Removes 2 vacant FTE auditor IV positions, including salaries and wages and operating expenses	(2.00)	(359,972)		(359,972)	0.00	0		0	2.00	359,972		359,972
Adjusts base budget operating expenses, including general fund savings of \$79,368 related to the elimination of the Higher Education Division		(29,977)	122,700	92,723		(29,977)	122,700	92,723				0
Adds funding for proposed Capitol grounds rent proposal				0				0				0
Adds funding for Microsoft Office 365 licensing expenses		5,757	1,403	7,160		5,757	1,403	7,160				0
Total ongoing funding changes	(4.00)	(\$1,181,610)	\$494,607	(\$687,003)	4.00	(\$812,225)	\$1,652,974	\$840,749	8.00	\$369,385	\$1,158,367	\$1,527,752
One-time funding items												
No one-time funding items				\$0				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	(4.00)	(\$1,181,610)	\$494,607	(\$687,003)	4.00	(\$812,225)	\$1,652,974	\$840,749	8.00	\$369,385	\$1,158,367	\$1,527,752
2021-23 Total Funding	54.00	\$8,925,250	\$4,667,785	\$13,593,035	62.00	\$9,294,635	\$5,826,152	\$15,120,787	8.00	\$369,385	\$1,158,367	\$1,527,752

<i>Total ongoing changes as a percentage of base level</i>	(6.9%)	(11.7%)	11.9%	(4.8%)	6.9%	(8.0%)	39.6%	5.9%
<i>Total changes as a percentage of base level</i>	(6.9%)	(11.7%)	11.9%	(4.8%)	6.9%	(8.0%)	39.6%	5.9%

Other Sections in State Auditor - Budget No. 117

	<u>House Version</u>	<u>Senate Version</u>
Salary of the State Auditor	Section 3 provides the statutory changes necessary to increase the State Auditor's salary from the current salary of \$110,582 to \$112,241 (1.5 percent) in fiscal year 2022 and to \$113,925 (1.5 percent) in fiscal year 2023.	Section 3 is amended to provide the statutory changes necessary to increase the State Auditor's salary from the current salary of \$110,582 to \$112,241 (1.5 percent) in fiscal year 2022 and to \$114,486 (2 percent) in fiscal year 2023.
Political subdivision audit fees		Section 4 is added to increase the: -Threshold for political subdivisions to provide an annual report in lieu of an audit from \$300,000 of annual receipts to \$750,000 of annual receipts; -Hourly fee for the review of political subdivision annual reports from \$80 per hour to \$86 per hour; -Hourly fee for the review of political subdivision audit reports and workpapers from \$80 per hour to \$86 per hour; -Maximum fee for review of political subdivision audit reports and workpapers from \$500 per review to \$600 per review.
Occupational and professional board audit fees		Section 5 is added to increase the hourly fee for the review of occupational and professional board annual reports from \$50 per hour to \$86 per hour.

2021 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

HB1004
4/15/2021
Conference Committee

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor.
--

3:00 **Chairman Bellew** brought the conference committee to order. Members present: Chairman Bellew, Representative Howe, Representative Mock, Senator Oehlke, Senator Dever, Senator Poolman.

Discussion Topics:

- Political subdivisions
- FTE's

3:03 **Chairman Bellew** made a proposal to remove the population number in section 3 of the bill.

3:06 **Representative Mock** proposed to raise the threshold limit to \$750,000.00 that was in the original bill.

3:14 **Chairman Bellew** adjourned the conference committee.

Sheri Lewis, Committee Clerk

2021 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

HB1004
4/20/2021
Conference Committee

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor.
--

10:04 **Chairman Bellew** brought the conference committee to order. Members present: Chairman Bellew, Representative Howe, Representative Mock, Senator Oehlke, Senator Dever, Senator Poolman.

Discussion Topics:

- FTE's
- Audit rates

10:06 **Representative Mock** discussed the changes to the bill.

10:16 **Chairman Bellew** made a proposal to remove the FTE that was vacant for 18 months.

10:20 **Chairman Bellew** adjourned the conference committee.

Sheri Lewis, Committee Clerk

**2021 HOUSE CONFERENCE COMMITTEE
ROLL CALL VOTES**

BILL/RESOLUTION NO. HB1004 as (re) engrossed

House Government Operations Committee

- Action Taken** **HOUSE accede to Senate Amendments**
 HOUSE accede to Senate Amendments and further amend
 SENATE recede from Senate amendments
 SENATE recede from Senate amendments and amend as follows
- Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion Made by: _____ Seconded by: _____

Representatives	4/14	4/15	4/20	Yes	No		Senators	4/14	4/15	4/20	Yes	No
Chairman Bellew	X	X	X				Senator Oehlke	X	X	X		
Representative Howe	X	X	X				Senator Dever	X	X	X		
Representative Mock	X	X	X				Senator Poolman	X	X	X		
Total Rep. Vote							Total Senate Vote					

Vote Count Yes: _____ No: _____ Absent: _____

House Carrier _____ Senate Carrier _____

LC Number _____ . _____ of amendment

LC Number _____ . _____ of engrossment

Emergency clause added or deleted

Statement of purpose of amendment

2021 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

HB1004
4/23/2021
Conference Committee

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor.

3:30 **Chairman Bellew** brought the conference committee to order. Members present: Chairman Bellew, Representative Howe, Representative Mock, Senator Oehlke, Senator Dever, Senator Poolman.

Discussion Topics:

- Base budget changes
- Desktop support
- Audits

3:35 **Representative Mock** explained Base level funding changes. (testimony # 11633)

3:42 **Representative Mock** made a motion to add amendment 21.0263.02004 into the bill, (testimony #11632) removing the state auditor from desktop support.

3:42 **Representative Howe** seconded the motion.

3:44 Voice vote

3:45 Motion failed.

3:46 **Representative Mock** discussed amendment 21.0263.02006. (Testimony #11631)

3:47 **Representative Mock** made a motion to adopt amendment 210263.02006.

3:47 **Representative Howe** seconded the motion.

3:58 Roll call vote 3 Yeas 3 Nays 0 Absent

3:58 Motion failed.

3:58 **Senator Oehlke** made a motion to adopt section 5 of amendment 21.0263.02006.

3:59 **Senator Poolman** seconded the motion.

3:59 Roll call vote 4 Yeas 2 Nays 0 Absent

3:59 Motion failed.

4:00 **Chairman Bellew** adjourned the conference committee.

Sheri Lewis, Committee Clerk

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1004

That the Senate recede from its amendments as printed on pages 1563-1566 of the House Journal and pages 1289-1293 of the Senate Journal and that Engrossed House Bill No. 1004 be amended as follows:

Page 1, line 2, replace "section" with "sections"

Page 1, line 2, after "54-10-10" insert ", 54-10-14, and 54-10-27"

Page 1, line 3, after "auditor" insert ", political subdivision audits, and occupational and professional board audits"

Page 1, replace lines 12 through 18 with:

"Salaries and wages	\$12,668,218	\$455,341	\$13,123,559
Operating expenses	1,161,820	209,883	1,371,703
Information technology consultants	<u>450,000</u>	<u>0</u>	<u>450,000</u>
Total all funds	\$14,280,038	\$665,224	\$14,945,262
Less estimated income	<u>4,173,178</u>	<u>1,652,974</u>	<u>5,826,152</u>
Total general fund	\$10,106,860	(\$987,750)	\$9,119,110
Full-time equivalent positions	58.00	3.00	61.00"

Page 2, line 5, replace "thirteen" with "fourteen"

Page 2, line 6, replace "nine" with "four"

Page 2, line 6, replace "twenty-five" with "eighty-six"

Page 2, after line 6, insert:

"SECTION 4. AMENDMENT. Section 54-10-14 of the North Dakota Century Code is amended and reenacted as follows:

54-10-14. Political subdivisions - Audits - Fees - Alternative audits and reports.

1. The state auditor shall audit the following political subdivisions once every two years, except as provided in this section or otherwise by law:
 - a. Counties.
 - b. Cities, and when a city is audited, to include any political subdivision that was created by the city and has bonding authority.
 - c. Park districts.
 - d. School districts.
 - e. Firefighters relief associations.
 - f. Airport authorities.
 - g. Public libraries.

- h. Water resource districts.
 - i. Garrison Diversion Conservancy District.
 - j. Rural fire protection districts.
 - k. Special education districts.
 - l. Area career and technology centers.
 - m. Correction centers.
 - n. Recreation service districts.
 - o. Weed boards.
 - p. Irrigation districts.
 - q. Rural ambulance service districts.
 - r. Southwest water authority.
 - s. Regional planning councils.
 - t. Soil conservation districts.
 - u. Western area water supply authority industrial water sales on an annual basis.
2. The state auditor shall charge the political subdivision an amount equal to the fair value of the audit and any other services rendered. The fees must be deposited in the state auditor operating account. The state treasurer shall credit the state auditor operating account with the amount of interest earnings attributable to the deposits in that account. Expenses relating to political subdivision audits must be paid from the state auditor operating account, within the limits of legislative appropriation.
 3. In lieu of conducting an audit every two years, the state auditor may require annual reports from ~~school districts with less than one hundred enrolled students; cities with less than five hundred population; and other~~ political subdivisions subject to this section, or otherwise provided by law, with less than ~~three hundred~~ seven hundred fifty thousand dollars of annual receipts, excluding any federal funds passed through the political subdivision to another entity. If any federal agency performs or requires an audit of a political subdivision that receives federal funds to pass through to another entity, the political subdivision shall provide a copy to the state auditor upon request by the state auditor. The reports must contain the financial information required by the state auditor. The state auditor also may make any additional examination or audit determined necessary in addition to the annual report. When a report is not filed, the state auditor may charge the political subdivision an amount equal to the fair value of the additional examination or audit and any other services rendered. The state auditor may charge a political subdivision a fee not to exceed ~~eighty~~ eighty-six dollars an hour for the costs of reviewing the annual report.
 4. A political subdivision, at the option of its governing body, may be audited by a certified public accountant or licensed public accountant rather than

by the state auditor. The public accountant shall comply with generally accepted government auditing standards for audits of political subdivisions. The report must be in the form and content required by the state auditor. The number of copies of the audit report requested by the state auditor must be filed with the state auditor when the public accountant delivers the audit report to the political subdivision. The state auditor shall review the audit report to determine if the report is in the required form and has the required content, and if the audit meets generally accepted government auditing standards. The state auditor also may periodically review the public accountant's workpapers to determine if the audit meets generally accepted government auditing standards. If the report is in the required form and has the required content, and the report and workpapers comply with generally accepted government auditing standards, the state auditor shall accept the audit report. The state auditor may charge the political subdivision a fee of up to ~~eighty~~eighty-six dollars an hour, but not to exceed ~~five~~six hundred dollars per review, for the related costs of reviewing the audit report and workpapers.

5. A political subdivision may not pay a public accountant for an audit until the state auditor has accepted the audit. However, a political subdivision may make progress payments to the public accountant. A political subdivision shall retain twenty percent of any progress payment until the audit report is accepted by the state auditor.
6. The state auditor may require the correction of any irregularities, objectionable accounting procedures, or illegal actions on the part of the governing board, officers, or employees of the political subdivision disclosed by the audit report or workpapers, and failure to make the corrections must result in audits being resumed by the state auditor until the irregularities, objectionable accounting procedures, or illegal actions are corrected.

SECTION 5. AMENDMENT. Section 54-10-27 of the North Dakota Century Code is amended and reenacted as follows:

54-10-27. Occupational and professional boards - Audits and reports.

The governing board of any occupational or professional board shall provide for an audit once every two years by a certified public accountant or licensed public accountant. The accountant conducting the audit shall submit the audit report to the state auditor's office. If the report is in the form and style prescribed by the state auditor, the state auditor may not audit that board. An occupational or professional board may request the state auditor to conduct its audit, and if the state auditor agrees to conduct the audit, the state auditor shall deposit the fees charged to the occupational or professional board into the state auditor operating account. Instead of providing for an audit every two years, an occupational or professional board that has less than two hundred thousand dollars of annual receipts may submit an annual report to the state auditor. The report must contain the information required by the state auditor. The state auditor also may make any additional examination or audit determined necessary in addition to the annual report. When a report is not filed, the state auditor may charge the occupational or professional board an amount equal to the fair value of the additional examination or audit and any other services rendered. The state auditor may charge an occupational or professional board a fee not to exceed ~~fifty~~fifty-eighty-six dollars an hour for the costs of reviewing the annual report."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1004 - State Auditor - Conference Committee Action

	Base Budget	House Version	Conference Committee Changes	Conference Committee Version	Senate Version	Comparison to Senate
Salaries and wages	\$12,668,218	\$11,880,488	\$1,243,071	\$13,123,559	\$13,289,084	(\$165,525)
Operating expenses	1,161,820	1,262,547	109,156	1,371,703	1,381,703	(10,000)
Information technology consultants	450,000	450,000		450,000	450,000	
Total all funds	\$14,280,038	\$13,593,035	\$1,352,227	\$14,945,262	\$15,120,787	(\$175,525)
Less estimated income	4,173,178	4,667,785	1,158,367	5,826,152	5,826,152	0
General fund	\$10,106,860	\$8,925,250	\$193,860	\$9,119,110	\$9,294,635	(\$175,525)
FTE	58.00	54.00	7.00	61.00	62.00	(1.00)

Department 117 - State Auditor - Detail of Conference Committee Changes

	Adjusts Funding for Salary Increases ¹	Adds Local Government Division Audit Positions ²	Restores Auditor IV Position ³	Total Conference Committee Changes
Salaries and wages	\$14,469	\$1,054,155	\$174,447	\$1,243,071
Operating expenses		99,156	10,000	109,156
Information technology consultants				
Total all funds	\$14,469	\$1,153,311	\$184,447	\$1,352,227
Less estimated income	5,056	1,153,311	0	1,158,367
General fund	\$9,413	\$0	\$184,447	\$193,860
FTE	0.00	6.00	1.00	7.00

¹ Funding is adjusted to provide salary increases of 1.5 percent on July 1, 2021, with a minimum monthly increase of \$100, and 2 percent on July 1, 2022, the same as the Senate version. The House provided salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250.

² Six FTE Local Government Division audit positions, including salaries and wages and operating expenses, are added to provide a total of 8 new Local Government Division audit positions, the same as the Senate version. Funding for operating expenses for each new audit position is increased from \$10,422 as provided by the House to \$15,000, the same as the Senate version. The House added 2 FTE Local Government Division audit positions, including salaries and wages (\$351,385) and operating expenses (\$20,844).

³ One vacant FTE auditor IV position and related salaries and wages and operating expenses removed by the House is restored. The Senate restored 2 FTE vacant positions removed by the House.

This amendment also:

- Amends Section 3 to provide the statutory changes necessary to increase the State Auditor's salary from the current salary of \$110,582 to \$112,241 (1.5 percent) in fiscal year 2022, and to \$114,486 (2 percent) in fiscal year 2023, the same as the Senate version. The House provided salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250.
- Adds Section 4, the same as the Senate version, to increase the:
 - Threshold for political subdivisions to provide an annual report in lieu of an audit from \$300,000 of annual receipts to \$750,000 of annual receipts;
 - Hourly fee for the review of political subdivision annual reports from \$80 per hour to \$86 per hour;
 - Hourly fee for the review of political subdivision audit reports and workpapers from \$80 per hour to \$86 per hour;
 - Maximum fee for review of political subdivision audit reports and workpapers from \$500 per review to \$600 per review.
- Removes the population thresholds for political subdivision reports in the amendments in Section 4. This change was not part of the House or Senate version.

- Adds Section 5 to increase the hourly fee for the review of occupational and professional board annual reports from \$50 per hour to \$86 per hour, the same as the Senate version.

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1004

That the Senate recede from its amendments as printed on pages 1563-1566 of the House Journal and pages 1289-1293 of the Senate Journal and that Engrossed House Bill No. 1004 be amended as follows:

Page 1, line 1, replace "and" with a semicolon

Page 1, line 2, replace "section" with "sections"

Page 1, line 2, after "54-10-10" insert "and 54-52.1-04.16"

Page 1, line 3, after "auditor" insert "and public employees retirement system prescription drug coverage performance audits; and to provide for legislative management reports"

Page 2, after line 6, insert:

"SECTION 4. AMENDMENT. Section 54-52.1-04.16 of the North Dakota Century Code is amended and reenacted as follows:

54-52.1-04.16. Prescription drug coverage - Performance audits - Report to employee benefits programs committee and legislative audit and fiscal review committee.

1. Except for Medicare part D, prescription drug coverage, the board may not enter or renew a contract for prescription drug coverage, whether contracting directly with a pharmacy benefits manager, providing prescription drug coverage through a self-insurance plan, or contracting with a carrier, unless the contract authorizes the board during the term of the contract to conduct a performance audit of the prescription drug coverage and any related pharmacy benefits management services.
2. During the term of the contract for the prescription drug coverage, the state auditor, in accordance with chapter 54-10, shall contract for a performance audit of the prescription drug coverage and any related pharmacy benefits management service. The contract for prescription drug coverage must provide:
 - a. The board and auditor must have full access to claim-level data regarding:
 - (1) The total amount of dollars paid to the pharmacy benefits manager by the carrier and the board, including detail by prescription to arrive at the aggregate total amounts;
 - (2) The total amount of dollars paid to the pharmacy benefits manager by the carrier and the board which were not subsequently paid to a licensed pharmacy in the state; and
 - (3) Payments made to all pharmacy providers which show line item detail to include product reimbursement and dispensing fees as two separate fields to arrive at the aggregate total amounts

compared to what the board was charged for those same claims; and

- (4) Any recoupment by the pharmacy benefits manager either at the point of sale or retrospectively, including the reason and the reason code.
- b. The board and auditor must have full access to data regarding the average per claim detail of reimbursement, by drug ingredient cost, dispensing fee, and any other fee paid by a pharmacy benefits manager to licensed pharmacies with which the pharmacy benefits manager shares common ownership or control or is affiliated through any contractual agreement.
 - c. The board and auditor must have full access to data regarding the average per claim detail of reimbursement, by drug ingredient cost, dispensing fee, and any other fee paid by a pharmacy benefits manager to pharmacies licensed in the state.
 - d. The board and auditor must have full access to data on an individual claim basis regarding any prospective and retrospective direct and indirect fees, charges, or recoupment, or any kind of assessments or effective rates imposed by the pharmacy benefits manager on pharmacies licensed with which the pharmacy benefits manager shares common ownership or control or is affiliated through any contractual agreement.
 - e. The board and auditor must have full access to data on an individual claim basis regarding any prospective and retrospective direct and indirect fees, charges, or recoupment, or any kind of assessments or effective rates imposed by the pharmacy benefits manager, on pharmacies licensed in the state.
 - f. ~~The contract must provide that~~That all drug rebates, financial incentives, fees, and discounts must be disclosed to the ~~board~~auditor at the national drug code level.
 - g. The terms of the contract between the carrier and the pharmacy benefits manager.

2.3. The following apply to conducting a performance audit as required under this section:

- a. ~~The board shall use an independent auditor who has no~~may not have a conflict of interest with the carrier, pharmacy benefits manager, or board, such as an existing contract with that entity. All audit compensation must be on a flat fee or hourly basis paid by the board.
- b. Data and documents provided by the pharmacy benefits manager to the board or the auditor may not be redacted or altered by the pharmacy benefits manager. The board's auditor, the insurance department, and the employee benefits programs committee may access any information the board and the auditor may access under this section. All information accessed by the board, board's auditor, insurance department, or employee benefits programs committee which is trade secret is a confidential record. This subsection/subdivision does not limit the information required to be

disclosed to the board and the auditor under subsection 1. This subdivision does not limit the access to information that is not a trade secret.

c. The pharmacy benefits manager shall provide all data and documents necessary to enable the board and the auditor to calculate any compensation the pharmacy benefits manager shall pay to the public employees retirement system if a program or contract guarantee was not implemented properly.

~~3.4.~~ If the board contracts directly with a pharmacy benefits manager or provides prescription drug coverage through a self-insurance plan, the contract must provide the pharmacy benefits manager shall disclose to the board and the ~~board's~~ auditor all rebates and any other fees that provide the pharmacy benefits manager with sources of income under the contract, including under related contracts the pharmacy benefits manager has with third parties, such as drug manufacturers.

~~4.~~ ~~Anything the board has access to under this section, the insurance department and employee benefits programs committee has access to.~~

5. The auditor shall report to the employee benefits programs committee and the legislative audit and fiscal review committee the report of each performance audit conducted under this section.

SECTION 5. PUBLIC EMPLOYEES RETIREMENT SYSTEM - STATE AUDITOR - PRESCRIPTION DRUG COVERAGE PERFORMANCE AUDIT. In addition to the requirement under section 54-52.1-04.16 that the state auditor shall contract in accordance with chapter 54-10 to conduct a prescription drug coverage performance audit during the term of the contract effective during the 2021-23 biennium, the state auditor shall contract in accordance with chapter 54-10 to conduct a prescription drug coverage performance audit during the 2021-22 interim, as provided under section 54-52.1-04.16 for the periods January 1, 2019, through June 30, 2019; July 1, 2019, through June 30, 2020; and July 1, 2020, through June 30, 2021. All audit compensation for an audit performed under this section must be on a flat fee or hourly basis paid by the public employees retirement system board."

Renumber accordingly

**2021 HOUSE CONFERENCE COMMITTEE
 ROLL CALL VOTES**

BILL/RESOLUTION NO. HB1004 as (re) engrossed

House Government Operations Committee

- Action Taken** **HOUSE accede to Senate Amendments**
 HOUSE accede to Senate Amendments and further amend
 SENATE recede from Senate amendments
 SENATE recede from Senate amendments and amend as follows
- Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion Made by: Representative Mock Seconded by: Representative Howe

Representatives		4/23		Yes	No	Senators		4/23		Yes	No
Chairman Bellew		X		X		Senator Oehlke		X			X
Representative Howe		X		X		Senator Dever		X			X
Representative Mock		X		X		Senator Poolman		X			X
Total Rep. Vote				3		Total Senate Vote					3

Vote Count Yes: 3 No: 3 Absent: 0

House Carrier _____ Senate Carrier _____

LC Number _____ . _____ of amendment

LC Number _____ . _____ of engrossment

Emergency clause added or deleted

Statement of purpose of amendment – add amendment 21.0263.02006,

Motion Fails

**2021 HOUSE CONFERENCE COMMITTEE
 ROLL CALL VOTES**

BILL/RESOLUTION NO. HB1004 as (re) engrossed

House Government Operations Committee

- Action Taken** **HOUSE accede to Senate Amendments**
 HOUSE accede to Senate Amendments and further amend
 SENATE recede from Senate amendments
 SENATE recede from Senate amendments and amend as follows
- Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion Made by: Senator Oehlke Seconded by: Senator Poolman

Representatives		4/23		Yes	No	Senators		4/23		Yes	No
Chairman Bellew	X				X	Senator Oehlke	X			X	
Representative Howe	X			X		Senator Dever	X			X	
Representative Mock	X				X	Senator Poolman	X			X	
Total Rep. Vote				1	2	Total Senate Vote				3	

Vote Count Yes: 4 No: 2 Absent: 0

House Carrier _____ Senate Carrier _____

LC Number _____ . _____ of amendment

LC Number _____ . _____ of engrossment

Emergency clause added or deleted

Statement of purpose of amendment – to add section 5 of .02006.

**State Auditor - Budget No. 117
House Bill No. 1004
Base Level Funding Changes**

	House Version				Senate Version				Conference Committee Version			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2021-23 Biennium Base Level	58.00	\$10,106,860	\$4,173,178	\$14,280,038	58.00	\$10,106,860	\$4,173,178	\$14,280,038	58.00	\$10,106,860	\$4,173,178	\$14,280,038
2021-23 Ongoing Funding Changes												
Base payroll changes		(\$126,478)	(\$90,826)	(\$217,304)		(\$126,478)	(\$90,826)	(\$217,304)		(\$126,478)	(\$90,826)	(\$217,304)
Salary increase		181,401	88,169	269,570		190,814	93,225	284,039		190,814	93,225	284,039
Salary increase - Market equity				0				0				0
Health insurance increase		1,890	932	2,822		1,890	932	2,822		1,890	932	2,822
Removes 4 FTE Higher Education Division audit positions	(4.00)	(854,231)		(854,231)	(4.00)	(854,231)		(854,231)	(4.00)	(854,231)		(854,231)
Adds 4 FTE Local Government Division audit positions, including salaries and wages and operating expenses. (The House added 2 FTE audit positions.)	2.00		372,229	372,229	8.00		1,525,540	1,525,540	8.00		1,525,540	1,525,540
Removes 2 vacant FTE auditor IV positions, including salaries and wages and operating expenses	(2.00)	(359,972)		(359,972)	0.00	0		0	(1.00)	(175,525)		(175,525)
Adjusts base budget operating expenses, including general fund savings of \$79,368 related to the elimination of the Higher Education Division		(29,977)	122,700	92,723		(29,977)	122,700	92,723		(29,977)	122,700	92,723
Adds funding for proposed Capitol grounds rent proposal				0				0				0
Adds funding for Microsoft Office 365 licensing expenses		5,757	1,403	7,160		5,757	1,403	7,160		5,757	1,403	7,160
Total ongoing funding changes	(4.00)	(\$1,181,610)	\$494,607	(\$687,003)	4.00	(\$812,225)	\$1,652,974	\$840,749	3.00	(\$987,750)	\$1,652,974	\$665,224
One-time funding items												
No one-time funding items				\$0				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	(4.00)	(\$1,181,610)	\$494,607	(\$687,003)	4.00	(\$812,225)	\$1,652,974	\$840,749	3.00	(\$987,750)	\$1,652,974	\$665,224
2021-23 Total Funding	54.00	\$8,925,250	\$4,667,785	\$13,593,035	62.00	\$9,294,635	\$5,826,152	\$15,120,787	61.00	\$9,119,110	\$5,826,152	\$14,945,262

Total ongoing changes as a percentage of base level	(6.9%)	(11.7%)	11.9%	(4.8%)	6.9%	(8.0%)	39.6%	5.9%	5.2%	(9.8%)	39.6%	4.7%
Total changes as a percentage of base level	(6.9%)	(11.7%)	11.9%	(4.8%)	6.9%	(8.0%)	39.6%	5.9%	5.2%	(9.8%)	39.6%	4.7%

Other Sections in State Auditor - Budget No. 117

	<u>House Version</u>	<u>Senate Version</u>	<u>Conference Committee Version</u>
Salary of the State Auditor	Section 3 provides the statutory changes necessary to increase the State Auditor's salary from the current salary of \$110,582 to \$112,241 (1.5 percent) in fiscal year 2022 and to \$113,925 (1.5 percent) in fiscal year 2023.	Section 3 is amended to provide the statutory changes necessary to increase the State Auditor's salary from the current salary of \$110,582 to \$112,241 (1.5 percent) in fiscal year 2022 and to \$114,486 (2 percent) in fiscal year 2023.	Section 3 is amended to provide the statutory changes necessary to increase the State Auditor's salary from the current salary of \$110,582 to \$112,241 (1.5 percent) in fiscal year 2022 and to \$114,486 (2 percent) in fiscal year 2023. The same as the Senate version.
Political subdivision audit fees		Section 4 is added to increase the: -Threshold for political subdivisions to provide an annual report in lieu of an audit from \$300,000 of annual receipts to \$750,000 of annual receipts; -Hourly fee for the review of political subdivision annual reports from \$80 per hour to \$86 per hour; -Hourly fee for the review of political subdivision audit reports and workpapers from \$80 per hour to \$86 per hour; -Maximum fee for review of political subdivision audit reports and workpapers from \$500 per review to \$600 per review.	Section 4 is added, the same as the Senate version, to increase the: -Threshold for political subdivisions to provide an annual report in lieu of an audit from \$300,000 of annual receipts to \$750,000 of annual receipts; -Hourly fee for the review of political subdivision annual reports from \$80 per hour to \$86 per hour; -Hourly fee for the review of political subdivision audit reports and workpapers from \$80 per hour to \$86 per hour; -Maximum fee for review of political subdivision audit reports and workpapers from \$500 per review to \$600 per review. The Conference Committee amended Section 4 to remove the population thresholds for political subdivision reports. This change was not part of the House or Senate version.
Occupational and professional board audit fees		Section 5 is added to increase the hourly fee for the review of occupational and professional board annual reports from \$50 per hour to \$86 per hour.	Section 5 is added to increase the hourly fee for the review of occupational and professional board annual reports from \$50 per hour to \$86 per hour, the same as the Senate version.

21.0263.02004
Title.
Fiscal No. 1

Prepared by the Legislative Council staff for
Representative Bellew
April 20, 2021

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1004

That the Senate recede from its amendments as printed on pages 1563-1566 of the House Journal and pages 1289-1293 of the Senate Journal and that Engrossed House Bill No. 1004 be amended as follows:

Page 1, line 2, replace "section" with "sections"

Page 1, line 2, after "54-10-10" insert ", 54-10-14, and 54-10-27"

Page 1, line 3, after "auditor" insert ", political subdivision audits, and occupational and professional board audits"

Page 1, replace lines 12 through 18 with:

"Salaries and wages	\$12,668,218	\$455,341	\$13,123,559
Operating expenses	1,161,820	209,883	1,371,703
Information technology consultants	<u>450,000</u>	<u>0</u>	<u>450,000</u>
Total all funds	\$14,280,038	\$665,224	\$14,945,262
Less estimated income	<u>4,173,178</u>	<u>1,652,974</u>	<u>5,826,152</u>
Total general fund	\$10,106,860	(\$987,750)	\$9,119,110
Full-time equivalent positions	58.00	3.00	61.00"

Page 2, line 5, replace "thirteen" with "fourteen"

Page 2, line 6, replace "nine" with "four"

Page 2, line 6, replace "twenty-five" with "eighty-six"

Page 2, after line 6, insert:

"SECTION 4. AMENDMENT. Section 54-10-14 of the North Dakota Century Code is amended and reenacted as follows:

54-10-14. Political subdivisions - Audits - Fees - Alternative audits and reports.

1. The state auditor shall audit the following political subdivisions once every two years, except as provided in this section or otherwise by law:
 - a. Counties.
 - b. Cities, and when a city is audited, to include any political subdivision that was created by the city and has bonding authority.
 - c. Park districts.
 - d. School districts.
 - e. Firefighters relief associations.
 - f. Airport authorities.
 - g. Public libraries.

- h. Water resource districts.
 - i. Garrison Diversion Conservancy District.
 - j. Rural fire protection districts.
 - k. Special education districts.
 - l. Area career and technology centers.
 - m. Correction centers.
 - n. Recreation service districts.
 - o. Weed boards.
 - p. Irrigation districts.
 - q. Rural ambulance service districts.
 - r. Southwest water authority.
 - s. Regional planning councils.
 - t. Soil conservation districts.
 - u. Western area water supply authority industrial water sales on an annual basis.
2. The state auditor shall charge the political subdivision an amount equal to the fair value of the audit and any other services rendered. The fees must be deposited in the state auditor operating account. The state treasurer shall credit the state auditor operating account with the amount of interest earnings attributable to the deposits in that account. Expenses relating to political subdivision audits must be paid from the state auditor operating account, within the limits of legislative appropriation.
 3. In lieu of conducting an audit every two years, the state auditor may require annual reports from ~~school districts with less than one hundred enrolled students; cities with less than five hundred population; and other~~ political subdivisions subject to this section, or otherwise provided by law, with less than ~~three hundred~~ seven hundred fifty thousand dollars of annual receipts, excluding any federal funds passed through the political subdivision to another entity. If any federal agency performs or requires an audit of a political subdivision that receives federal funds to pass through to another entity, the political subdivision shall provide a copy to the state auditor upon request by the state auditor. The reports must contain the financial information required by the state auditor. The state auditor also may make any additional examination or audit determined necessary in addition to the annual report. When a report is not filed, the state auditor may charge the political subdivision an amount equal to the fair value of the additional examination or audit and any other services rendered. The state auditor may charge a political subdivision a fee not to exceed ~~eighty~~ eighty-six dollars an hour for the costs of reviewing the annual report.
 4. A political subdivision, at the option of its governing body, may be audited by a certified public accountant or licensed public accountant rather than

by the state auditor. The public accountant shall comply with generally accepted government auditing standards for audits of political subdivisions. The report must be in the form and content required by the state auditor. The number of copies of the audit report requested by the state auditor must be filed with the state auditor when the public accountant delivers the audit report to the political subdivision. The state auditor shall review the audit report to determine if the report is in the required form and has the required content, and if the audit meets generally accepted government auditing standards. The state auditor also may periodically review the public accountant's workpapers to determine if the audit meets generally accepted government auditing standards. If the report is in the required form and has the required content, and the report and workpapers comply with generally accepted government auditing standards, the state auditor shall accept the audit report. The state auditor may charge the political subdivision a fee of up to ~~eighty-eighty-six~~ eighty-six dollars an hour, but not to exceed ~~five-six~~ five hundred dollars per review, for the related costs of reviewing the audit report and workpapers.

5. A political subdivision may not pay a public accountant for an audit until the state auditor has accepted the audit. However, a political subdivision may make progress payments to the public accountant. A political subdivision shall retain twenty percent of any progress payment until the audit report is accepted by the state auditor.
6. The state auditor may require the correction of any irregularities, objectionable accounting procedures, or illegal actions on the part of the governing board, officers, or employees of the political subdivision disclosed by the audit report or workpapers, and failure to make the corrections must result in audits being resumed by the state auditor until the irregularities, objectionable accounting procedures, or illegal actions are corrected.

SECTION 5. AMENDMENT. Section 54-10-27 of the North Dakota Century Code is amended and reenacted as follows:

54-10-27. Occupational and professional boards - Audits and reports.

The governing board of any occupational or professional board shall provide for an audit once every two years by a certified public accountant or licensed public accountant. The accountant conducting the audit shall submit the audit report to the state auditor's office. If the report is in the form and style prescribed by the state auditor, the state auditor may not audit that board. An occupational or professional board may request the state auditor to conduct its audit, and if the state auditor agrees to conduct the audit, the state auditor shall deposit the fees charged to the occupational or professional board into the state auditor operating account. Instead of providing for an audit every two years, an occupational or professional board that has less than two hundred thousand dollars of annual receipts may submit an annual report to the state auditor. The report must contain the information required by the state auditor. The state auditor also may make any additional examination or audit determined necessary in addition to the annual report. When a report is not filed, the state auditor may charge the occupational or professional board an amount equal to the fair value of the additional examination or audit and any other services rendered. The state auditor may charge an occupational or professional board a fee not to exceed ~~fifty-eighty-six~~ fifty dollars an hour for the costs of reviewing the annual report."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1004 - State Auditor - Conference Committee Action

	Base Budget	House Version	Conference Committee Changes	Conference Committee Version	Senate Version	Comparison to Senate
Salaries and wages	\$12,668,218	\$11,880,488	\$1,243,071	\$13,123,559	\$13,289,084	(\$165,525)
Operating expenses	1,161,820	1,262,547	109,156	1,371,703	1,381,703	(10,000)
Information technology consultants	450,000	450,000		450,000	450,000	
Total all funds	\$14,280,038	\$13,593,035	\$1,352,227	\$14,945,262	\$15,120,787	(\$175,525)
Less estimated income	4,173,178	4,667,785	1,158,367	5,826,152	5,826,152	0
General fund	\$10,106,860	\$8,925,250	\$193,860	\$9,119,110	\$9,294,635	(\$175,525)
FTE	58.00	54.00	7.00	61.00	62.00	(1.00)

Department 117 - State Auditor - Detail of Conference Committee Changes

	Adjusts Funding for Salary Increases ¹	Adds Local Government Division Audit Positions ²	Restores Auditor IV Position ³	Total Conference Committee Changes
Salaries and wages	\$14,469	\$1,054,155	\$174,447	\$1,243,071
Operating expenses		99,156	10,000	109,156
Information technology consultants				
Total all funds	\$14,469	\$1,153,311	\$184,447	\$1,352,227
Less estimated income	5,056	1,153,311	0	1,158,367
General fund	\$9,413	\$0	\$184,447	\$193,860
FTE	0.00	6.00	1.00	7.00

¹ Funding is adjusted to provide salary increases of 1.5 percent on July 1, 2021, with a minimum monthly increase of \$100, and 2 percent on July 1, 2022, the same as the Senate version. The House provided salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250.

² Six FTE Local Government Division audit positions, including salaries and wages and operating expenses, are added to provide a total of 8 new Local Government Division audit positions, the same as the Senate version. Funding for operating expenses for each new audit position is increased from \$10,422 as provided by the House to \$15,000, the same as the Senate version. The House added 2 FTE Local Government Division audit positions, including salaries and wages (\$351,385) and operating expenses (\$20,844).

³ One vacant FTE auditor IV position and related salaries and wages and operating expenses removed by the House is restored. The Senate restored 2 FTE vacant positions removed by the House.

This amendment also:

- Amends Section 3 to provide the statutory changes necessary to increase the State Auditor's salary from the current salary of \$110,582 to \$112,241 (1.5 percent) in fiscal year 2022, and to \$114,486 (2 percent) in fiscal year 2023, the same as the Senate version. The House provided salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250.
- Adds Section 4, the same as the Senate version, to increase the:
 - Threshold for political subdivisions to provide an annual report in lieu of an audit from \$300,000 of annual receipts to \$750,000 of annual receipts;
 - Hourly fee for the review of political subdivision annual reports from \$80 per hour to \$86 per hour;
 - Hourly fee for the review of political subdivision audit reports and workpapers from \$80 per hour to \$86 per hour;
 - Maximum fee for review of political subdivision audit reports and workpapers from \$500 per review to \$600 per review.
- Removes the population thresholds for political subdivision reports in the amendments in Section 4. This change was not part of the House or Senate version.

- Adds Section 5 to increase the hourly fee for the review of occupational and professional board annual reports from \$50 per hour to \$86 per hour, the same as the Senate version.

21.0263.02006
Title.

Prepared by the Legislative Council staff for
Representative Vigesaa
April 19, 2021

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1004

That the Senate recede from its amendments as printed on pages 1563-1566 of the House Journal and pages 1289-1293 of the Senate Journal and that Engrossed House Bill No. 1004 be amended as follows:

Page 1, line 1, replace "and" with a semicolon

Page 1, line 2, replace "section" with "sections"

Page 1, line 2, after "54-10-10" insert "and 54-52.1-04.16"

Page 1, line 3, after "auditor" insert "and public employees retirement system prescription drug coverage performance audits; and to provide for legislative management reports"

Page 2, after line 6, insert:

"SECTION 4. AMENDMENT. Section 54-52.1-04.16 of the North Dakota Century Code is amended and reenacted as follows:

54-52.1-04.16. Prescription drug coverage - Performance audits - Report to employee benefits programs committee and legislative audit and fiscal review committee.

1. Except for Medicare part D, prescription drug coverage, the board may not enter or renew a contract for prescription drug coverage, whether contracting directly with a pharmacy benefits manager, providing prescription drug coverage through a self-insurance plan, or contracting with a carrier, unless the contract authorizes the board during the term of the contract to conduct a performance audit of the prescription drug coverage and any related pharmacy benefits management services.
2. During the term of the contract for the prescription drug coverage, the state auditor, in accordance with chapter 54-10, shall contract for a performance audit of the prescription drug coverage and any related pharmacy benefits management service. The contract for prescription drug coverage must provide:
 - a. The board and auditor must have full access to claim-level data regarding:
 - (1) The total amount of dollars paid to the pharmacy benefits manager by the carrier and the board, including detail by prescription to arrive at the aggregate total amounts;
 - (2) The total amount of dollars paid to the pharmacy benefits manager by the carrier and the board which were not subsequently paid to a licensed pharmacy in the state; and
 - (3) Payments made to all pharmacy providers which show line item detail to include product reimbursement and dispensing fees as two separate fields to arrive at the aggregate total amounts

compared to what the board was charged for those same claims; and

- (4) Any recoupment by the pharmacy benefits manager either at the point of sale or retrospectively, including the reason and the reason code.
- b. The board and auditor must have full access to data regarding the average per claim detail of reimbursement, by drug ingredient cost, dispensing fee, and any other fee paid by a pharmacy benefits manager to licensed pharmacies with which the pharmacy benefits manager shares common ownership or control or is affiliated through any contractual agreement.
 - c. The board and auditor must have full access to data regarding the average per claim detail of reimbursement, by drug ingredient cost, dispensing fee, and any other fee paid by a pharmacy benefits manager to pharmacies licensed in the state.
 - d. The board and auditor must have full access to data on an individual claim basis regarding any prospective and retrospective direct and indirect fees, charges, or recoupment, or any kind of assessments or effective rates imposed by the pharmacy benefits manager on pharmacies licensed with which the pharmacy benefits manager shares common ownership or control or is affiliated through any contractual agreement.
 - e. The board and auditor must have full access to data on an individual claim basis regarding any prospective and retrospective direct and indirect fees, charges, or recoupment, or any kind of assessments or effective rates imposed by the pharmacy benefits manager, on pharmacies licensed in the state.
 - f. ~~The contract must provide that~~That all drug rebates, financial incentives, fees, and discounts must be disclosed to the ~~board~~auditor at the national drug code level.
 - g. The terms of the contract between the carrier and the pharmacy benefits manager.

2.3. The following apply to conducting a performance audit as required under this section:

- a. ~~The board shall use an independent auditor who has no~~may not have a conflict of interest with the carrier, pharmacy benefits manager, or board, such as an existing contract with that entity. All audit compensation must be on a flat fee or hourly basis paid by the board.
- b. Data and documents provided by the pharmacy benefits manager to the board or the auditor may not be redacted or altered by the pharmacy benefits manager. The board's auditor, the insurance department, and the employee benefits programs committee may access any information the board and the auditor may access under this section. All information accessed by the board, board's auditor, insurance department, or employee benefits programs committee which is trade secret is a confidential record. This subsection/subdivision does not limit the information required to be

disclosed to the board and the auditor under subsection 1. This subdivision does not limit the access to information that is not a trade secret.

c. The pharmacy benefits manager shall provide all data and documents necessary to enable the board and the auditor to calculate any compensation the pharmacy benefits manager shall pay to the public employees retirement system if a program or contract guarantee was not implemented properly.

~~3.4.~~ If the board contracts directly with a pharmacy benefits manager or provides prescription drug coverage through a self-insurance plan, the contract must provide the pharmacy benefits manager shall disclose to the board and the ~~board's~~ auditor all rebates and any other fees that provide the pharmacy benefits manager with sources of income under the contract, including under related contracts the pharmacy benefits manager has with third parties, such as drug manufacturers.

~~4.~~ ~~Anything the board has access to under this section, the insurance department and employee benefits programs committee has access to.~~

5. The auditor shall report to the employee benefits programs committee and the legislative audit and fiscal review committee the report of each performance audit conducted under this section.

SECTION 5. PUBLIC EMPLOYEES RETIREMENT SYSTEM - STATE AUDITOR - PRESCRIPTION DRUG COVERAGE PERFORMANCE AUDIT. In addition to the requirement under section 54-52.1-04.16 that the state auditor shall contract in accordance with chapter 54-10 to conduct a prescription drug coverage performance audit during the term of the contract effective during the 2021-23 biennium, the state auditor shall contract in accordance with chapter 54-10 to conduct a prescription drug coverage performance audit during the 2021-22 interim, as provided under section 54-52.1-04.16 for the periods January 1, 2019, through June 30, 2019; July 1, 2019, through June 30, 2020; and July 1, 2020, through June 30, 2021. All audit compensation for an audit performed under this section must be on a flat fee or hourly basis paid by the public employees retirement system board."

Renumber accordingly

2021 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division
Brynhild Haugland Room, State Capitol

HB1004
4/26/2021
Conference Committee 2:34 PM

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor.
--

2:34 **Chairman Vigesaa** brought the conference committee to order. Members present: Chairman Vigesaa, Representative Howe, Representative Mock, Senator Oehlke, Senator Dever, Senator Poolman.

Discussion Topics:

- Amendments
- PBM's

2:35 **Chairman Vigesaa** discussed amendment 21.0263.02006 - #11631

2:54 **Chairman Vigesaa** adjourned the conference committee.

Sheri Lewis, Committee Clerk

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1004

That the Senate recede from its amendments as printed on pages 1563-1566 of the House Journal and pages 1289-1293 of the Senate Journal and that Engrossed House Bill No. 1004 be amended as follows:

Page 1, line 1, replace "and" with a semicolon

Page 1, line 2, replace "section" with "sections"

Page 1, line 2, after "54-10-10" insert "and 54-52.1-04.16"

Page 1, line 3, after "auditor" insert "and public employees retirement system prescription drug coverage performance audits; and to provide for legislative management reports"

Page 2, after line 6, insert:

"SECTION 4. AMENDMENT. Section 54-52.1-04.16 of the North Dakota Century Code is amended and reenacted as follows:

54-52.1-04.16. Prescription drug coverage - Performance audits - Report to employee benefits programs committee and legislative audit and fiscal review committee.

1. Except for Medicare part D, prescription drug coverage, the board may not enter or renew a contract for prescription drug coverage, whether contracting directly with a pharmacy benefits manager, providing prescription drug coverage through a self-insurance plan, or contracting with a carrier, unless the contract authorizes the board during the term of the contract to conduct a performance audit of the prescription drug coverage and any related pharmacy benefits management services.
2. During the term of the contract for the prescription drug coverage, the state auditor, in accordance with chapter 54-10, shall contract for a performance audit of the prescription drug coverage and any related pharmacy benefits management service. The contract for prescription drug coverage must provide:
 - a. The board and auditor must have full access to claim-level data regarding:
 - (1) The total amount of dollars paid to the pharmacy benefits manager by the carrier and the board, including detail by prescription to arrive at the aggregate total amounts;
 - (2) The total amount of dollars paid to the pharmacy benefits manager by the carrier and the board which were not subsequently paid to a licensed pharmacy in the state; and
 - (3) Payments made to all pharmacy providers which show line item detail to include product reimbursement and dispensing fees as two separate fields to arrive at the aggregate total amounts

compared to what the board was charged for those same claims; and

- (4) Any recoupment by the pharmacy benefits manager either at the point of sale or retrospectively, including the reason and the reason code.
- b. The board and auditor must have full access to data regarding the average per claim detail of reimbursement, by drug ingredient cost, dispensing fee, and any other fee paid by a pharmacy benefits manager to licensed pharmacies with which the pharmacy benefits manager shares common ownership or control or is affiliated through any contractual agreement.
 - c. The board and auditor must have full access to data regarding the average per claim detail of reimbursement, by drug ingredient cost, dispensing fee, and any other fee paid by a pharmacy benefits manager to pharmacies licensed in the state.
 - d. The board and auditor must have full access to data on an individual claim basis regarding any prospective and retrospective direct and indirect fees, charges, or recoupment, or any kind of assessments or effective rates imposed by the pharmacy benefits manager on pharmacies licensed with which the pharmacy benefits manager shares common ownership or control or is affiliated through any contractual agreement.
 - e. The board and auditor must have full access to data on an individual claim basis regarding any prospective and retrospective direct and indirect fees, charges, or recoupment, or any kind of assessments or effective rates imposed by the pharmacy benefits manager, on pharmacies licensed in the state.
 - f. ~~The contract must provide that~~That all drug rebates, financial incentives, fees, and discounts must be disclosed to the ~~board~~auditor at the national drug code level.
 - g. The terms of the contract between the carrier and the pharmacy benefits manager.

2.3. The following apply to conducting a performance audit as required under this section:

- a. ~~The board shall use an independent auditor who has no~~may not have a conflict of interest with the carrier, pharmacy benefits manager, or board, such as an existing contract with that entity. All audit compensation must be on a flat fee or hourly basis paid by the board.
- b. Data and documents provided by the pharmacy benefits manager to the board or the auditor may not be redacted or altered by the pharmacy benefits manager. The board's auditor, the insurance department, and the employee benefits programs committee may access any information the board and the auditor may access under this section. All information accessed by the board, board's auditor, insurance department, or employee benefits programs committee which is trade secret is a confidential record. This subsection/subdivision does not limit the information required to be

disclosed to the board and the auditor under subsection 1. This subdivision does not limit the access to information that is not a trade secret.

c. The pharmacy benefits manager shall provide all data and documents necessary to enable the board and the auditor to calculate any compensation the pharmacy benefits manager shall pay to the public employees retirement system if a program or contract guarantee was not implemented properly.

~~3.4.~~ If the board contracts directly with a pharmacy benefits manager or provides prescription drug coverage through a self-insurance plan, the contract must provide the pharmacy benefits manager shall disclose to the board and the ~~board's~~ auditor all rebates and any other fees that provide the pharmacy benefits manager with sources of income under the contract, including under related contracts the pharmacy benefits manager has with third parties, such as drug manufacturers.

~~4.~~ ~~Anything the board has access to under this section, the insurance department and employee benefits programs committee has access to.~~

5. The auditor shall report to the employee benefits programs committee and the legislative audit and fiscal review committee the report of each performance audit conducted under this section.

SECTION 5. PUBLIC EMPLOYEES RETIREMENT SYSTEM - STATE AUDITOR - PRESCRIPTION DRUG COVERAGE PERFORMANCE AUDIT. In addition to the requirement under section 54-52.1-04.16 that the state auditor shall contract in accordance with chapter 54-10 to conduct a prescription drug coverage performance audit during the term of the contract effective during the 2021-23 biennium, the state auditor shall contract in accordance with chapter 54-10 to conduct a prescription drug coverage performance audit during the 2021-22 interim, as provided under section 54-52.1-04.16 for the periods January 1, 2019, through June 30, 2019; July 1, 2019, through June 30, 2020; and July 1, 2020, through June 30, 2021. All audit compensation for an audit performed under this section must be on a flat fee or hourly basis paid by the public employees retirement system board."

Renumber accordingly

2021 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

HB1004
4/26/2021
Conference Committee 5:30 PM

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor.
--

5:34 **Chairman Vigesaa** brought the conference committee to order. Members present: Chairman Vigesaa, Representative Howe, Representative Mock, Senator Oehlke, Senator Dever, Senator Poolman.

Discussion Topics:

- Amendment
- PBM's

5:34 **Chairman Vigesaa** discussed amendment 21.0263.02006.

5:36 **Jennifer Clark, ND Legislative Council** answered questions from the conference committee.

5:42 **Joshua Gallion, State Auditor, ND Office of State Auditor** answered questions from the conference committee.

5:51 **Senator Poolman** made a motion to add section 5 of amendment 21.0263.02006.

5:52 **Representative Mock** seconded the motion.

5:56 **Senator Poolman** changed her motion for the Senate to recede from the Senate amendments and further amend with 21.0263.02007.

5:57 **Representative Mock** seconded the motion.

5:59 Roll call vote 6 Yeas 0 Nays 0 Absent

6:01 Motion carried.

6:01 **Senator Oehlke** discussed testimony #11661.

6:22 **Senator Oehlke** made a motion to require the auditor shall prepare instructional materials and provide technical assistance.

6:22 **Senator Dever** seconded the motion.

6:14 **Blake Crosby, ND League of Cities** answered questions from the conference committee.

6:14 Roll call vote 2 Yeas 4 Nays 0 Absent

6:26 Motion failed.

6:27 **Representative Mock** explained the changes.

6:30 **Chairman Vigesaa** closed the conference committee.

The conference committee report was rejected on 4/29/21 and the conference committee was re-assembled.

Sheri Lewis, Committee Clerk

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1004

That the Senate recede from its amendments as printed on pages 1563-1566 of the House Journal and pages 1289-1293 of the Senate Journal and that Engrossed House Bill No. 1004 be amended as follows:

Page 1, line 1, replace "and" with a semicolon

Page 1, line 2, replace "section" with "sections"

Page 1, line 2, after "54-10-10" insert ", 54-10-14, and 54-10-27"

Page 1, line 3, after "auditor" insert ", political subdivision audits, and occupational and professional board audits; to provide for a prescription drug coverage performance audit; and to provide for legislative management reports"

Page 1, replace lines 12 through 18 with:

"Salaries and wages	\$12,668,218	\$455,341	\$13,123,559
Operating expenses	1,161,820	209,883	1,371,703
Information technology consultants	<u>450,000</u>	<u>0</u>	<u>450,000</u>
Total all funds	\$14,280,038	\$665,224	\$14,945,262
Less estimated income	<u>4,173,178</u>	<u>1,652,974</u>	<u>5,826,152</u>
Total general fund	\$10,106,860	(\$987,750)	\$9,119,110
Full-time equivalent positions	58.00	3.00	61.00"

Page 2, line 5, replace "thirteen" with "fourteen"

Page 2, line 6, replace "nine" with "four"

Page 2, line 6, replace "twenty-five" with "eighty-six"

Page 2, after line 6, insert:

"SECTION 4. AMENDMENT. Section 54-10-14 of the North Dakota Century Code is amended and reenacted as follows:

54-10-14. Political subdivisions - Audits - Fees - Alternative audits and reports.

1. The state auditor shall audit the following political subdivisions once every two years, except as provided in this section or otherwise by law:
 - a. Counties.
 - b. Cities, and when a city is audited, to include any political subdivision that was created by the city and has bonding authority.
 - c. Park districts.
 - d. School districts.
 - e. Firefighters relief associations.
 - f. Airport authorities.

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- g. Public libraries.
 - h. Water resource districts.
 - i. Garrison Diversion Conservancy District.
 - j. Rural fire protection districts.
 - k. Special education districts.
 - l. Area career and technology centers.
 - m. Correction centers.
 - n. Recreation service districts.
 - o. Weed boards.
 - p. Irrigation districts.
 - q. Rural ambulance service districts.
 - r. Southwest water authority.
 - s. Regional planning councils.
 - t. Soil conservation districts.
 - u. Western area water supply authority industrial water sales on an annual basis.
2. The state auditor shall charge the political subdivision an amount equal to the fair value of the audit and any other services rendered. The fees must be deposited in the state auditor operating account. The state treasurer shall credit the state auditor operating account with the amount of interest earnings attributable to the deposits in that account. Expenses relating to political subdivision audits must be paid from the state auditor operating account, within the limits of legislative appropriation.
3. In lieu of conducting an audit every two years, the state auditor may require annual reports from ~~school districts with less than one hundred enrolled students; cities with less than five hundred population; and other~~ political subdivisions subject to this section, or otherwise provided by law, with less than ~~three hundred~~ seven hundred fifty thousand dollars of annual receipts, excluding any federal funds passed through the political subdivision to another entity. If any federal agency performs or requires an audit of a political subdivision that receives federal funds to pass through to another entity, the political subdivision shall provide a copy to the state auditor upon request by the state auditor. The reports must contain the financial information required by the state auditor. The state auditor also may make any additional examination or audit determined necessary in addition to the annual report. When a report is not filed, the state auditor may charge the political subdivision an amount equal to the fair value of the additional examination or audit and any other services rendered. The state auditor may charge a political subdivision a fee not to exceed ~~eighty~~ eighty-six dollars an hour for the costs of reviewing the annual report.

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4. A political subdivision, at the option of its governing body, may be audited by a certified public accountant or licensed public accountant rather than by the state auditor. The public accountant shall comply with generally accepted government auditing standards for audits of political subdivisions. The report must be in the form and content required by the state auditor. The number of copies of the audit report requested by the state auditor must be filed with the state auditor when the public accountant delivers the audit report to the political subdivision. The state auditor shall review the audit report to determine if the report is in the required form and has the required content, and if the audit meets generally accepted government auditing standards. The state auditor also may periodically review the public accountant's workpapers to determine if the audit meets generally accepted government auditing standards. If the report is in the required form and has the required content, and the report and workpapers comply with generally accepted government auditing standards, the state auditor shall accept the audit report. The state auditor may charge the political subdivision a fee of up to ~~eighty-eighty-six~~ eighty-eight dollars an hour, but not to exceed ~~five-seven~~ five-seven hundred ~~fifty~~ fifty dollars per review, for the related costs of reviewing the audit report and workpapers.
5. A political subdivision may not pay a public accountant for an audit until the state auditor has accepted the audit. However, a political subdivision may make progress payments to the public accountant. A political subdivision shall retain twenty percent of any progress payment until the audit report is accepted by the state auditor.
6. The state auditor may require the correction of any irregularities, objectionable accounting procedures, or illegal actions on the part of the governing board, officers, or employees of the political subdivision disclosed by the audit report or workpapers, and failure to make the corrections must result in audits being resumed by the state auditor until the irregularities, objectionable accounting procedures, or illegal actions are corrected.

SECTION 5. AMENDMENT. Section 54-10-27 of the North Dakota Century Code is amended and reenacted as follows:

54-10-27. Occupational and professional boards - Audits and reports.

The governing board of any occupational or professional board shall provide for an audit once every two years by a certified public accountant or licensed public accountant. The accountant conducting the audit shall submit the audit report to the state auditor's office. If the report is in the form and style prescribed by the state auditor, the state auditor may not audit that board. An occupational or professional board may request the state auditor to conduct its audit, and if the state auditor agrees to conduct the audit, the state auditor shall deposit the fees charged to the occupational or professional board into the state auditor operating account. Instead of providing for an audit every two years, an occupational or professional board that has less than two hundred thousand dollars of annual receipts may submit an annual report to the state auditor. The report must contain the information required by the state auditor. The state auditor also may make any additional examination or audit determined necessary in addition to the annual report. When a report is not filed, the state auditor may charge the occupational or professional board an amount equal to the fair value of the additional examination or audit and any other services rendered.

The state auditor may charge an occupational or professional board a fee not to exceed fifty-eighty-six dollars an hour for the costs of reviewing the annual report.

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SECTION 6. PUBLIC EMPLOYEES RETIREMENT SYSTEM - STATE AUDITOR - PRESCRIPTION DRUG COVERAGE PERFORMANCE AUDIT - REPORTS TO LEGISLATIVE MANAGEMENT. In lieu of the requirement under section 54-52.1-04.16 that the public employees retirement system contract to conduct a prescription drug coverage performance audit of the main public employees retirement system health benefit plan for calendar year 2021, the state auditor shall contract in accordance with chapter 54-10 to conduct a prescription drug coverage performance audit of the main public employees retirement system health benefit plan during the 2021-22 interim, in the same manner as provided for under section 54-52.1-04.16, for calendar years 2019, 2020, and 2021. Audit fees, not to exceed \$375,000, for audits performed under this section must be on a flat fee or hourly basis and be paid by the public employees retirement system board. The state auditor shall provide reports to the legislative management regarding contracts to conduct prescription drug coverage performance audits, performance audit results, and audit reports issued."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1004 - State Auditor - Conference Committee Action

	Base Budget	House Version	Conference Committee Changes	Conference Committee Version	Senate Version	Comparison to Senate
Salaries and wages	\$12,668,218	\$11,880,488	\$1,243,071	\$13,123,559	\$13,289,084	(\$165,525)
Operating expenses	1,161,820	1,262,547	109,156	1,371,703	1,381,703	(10,000)
Information technology consultants	450,000	450,000		450,000	450,000	
Total all funds	\$14,280,038	\$13,593,035	\$1,352,227	\$14,945,262	\$15,120,787	(\$175,525)
Less estimated income	4,173,178	4,667,785	1,158,367	5,826,152	5,826,152	0
General fund	\$10,106,860	\$8,925,250	\$193,860	\$9,119,110	\$9,294,635	(\$175,525)
FTE	58.00	54.00	7.00	61.00	62.00	(1.00)

Department 117 - State Auditor - Detail of Conference Committee Changes

	Adjusts Funding for Salary Increases ¹	Adds Local Government Division Audit Positions ²	Restores Auditor IV Position ³	Total Conference Committee Changes
Salaries and wages	\$14,469	\$1,054,155	\$174,447	\$1,243,071
Operating expenses		99,156	10,000	109,156
Information technology consultants				
Total all funds	\$14,469	\$1,153,311	\$184,447	\$1,352,227
Less estimated income	5,056	1,153,311	0	1,158,367
General fund	\$9,413	\$0	\$184,447	\$193,860
FTE	0.00	6.00	1.00	7.00

¹ Funding is adjusted to provide salary increases of 1.5 percent on July 1, 2021, with a minimum monthly increase of \$100, and 2 percent on July 1, 2022, the same as the Senate version. The House provided salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250.

² Six FTE Local Government Division audit positions, including salaries and wages and operating expenses, are added to provide a total of 8 new Local Government Division audit positions, the same as the Senate version. Funding for operating expenses for each new audit position is increased from \$10,422 as provided by the House to \$15,000, the same as the Senate version. The House added 2 FTE Local Government Division audit positions,

including salaries and wages (\$351,385) and operating expenses (\$20,844).

³ One vacant FTE auditor IV position and related salaries and wages and operating expenses removed by the House is restored. The Senate restored 2 FTE vacant positions removed by the House.

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This amendment also:

- Amends Section 3 to provide the statutory changes necessary to increase the State Auditor's salary from the current salary of \$110,582 to \$112,241 (1.5 percent) in fiscal year 2022, and to \$114,486 (2 percent) in fiscal year 2023, the same as the Senate version. The House provided salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250.
- Adds Section 4, the same as the Senate version, to increase the:
 - Threshold for political subdivisions to provide an annual report in lieu of an audit from \$300,000 of annual receipts to \$750,000 of annual receipts;
 - Hourly fee for the review of political subdivision annual reports from \$80 per hour to \$86 per hour;
 - Hourly fee for the review of political subdivision audit reports and workpapers from \$80 per hour to \$86 per hour;
 - Maximum fee for review of political subdivision audit reports and workpapers from \$500 per review to \$750 per review.
- Removes the population thresholds for political subdivision reports in the amendments in Section 4. This change was not part of the House or Senate version.
- Adds Section 5 to increase the hourly fee for the review of occupational and professional board annual reports from \$50 per hour to \$86 per hour, the same as the Senate version.
- Adds Section 6 to require the State Auditor contract to conduct prescription drug coverage performance audits of the main Public Employees Retirement System health benefit plan.

**2021 HOUSE CONFERENCE COMMITTEE
ROLL CALL VOTES**

BILL/RESOLUTION NO. HB1004 as (re) engrossed

House Government Operations Committee

- Action Taken**
- HOUSE accede to Senate Amendments
 - HOUSE accede to Senate Amendments and further amend
 - SENATE recede from Senate amendments
 - SENATE recede from Senate amendments and amend as follows
 - Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion Made by: Senator Poolman Seconded by: Representative Mock

Representatives					Senators				
	4/26		Yes	No		4/26		Yes	No
Chairman Vigesaa	X		X		Senator Oehlke	X		X	
Representative Howe	X		X		Senator Poolman	X		X	
Representative Mock	X		X		Senator Dever	X		X	
Total Rep. Vote			3		Total Senate Vote			3	

Vote Count Yes: 6 No: 0 Absent: 0

House Carrier Representative Mock Senate Carrier Senator Oehlke

LC Number _____ . _____ of amendment

LC Number _____ . _____ of engrossment

Emergency clause added or deleted

Statement of purpose of amendment – to adopt further amend .02007, and replace section 6 with section 5

REPORT OF CONFERENCE COMMITTEE

HB 1004, as engrossed: Your conference committee (Sens. Oehlke, Poolman, Dever and Reps. Vigesaa, Howe, Mock) recommends that the **SENATE RECEDE** from the Senate amendments as printed on HJ pages 1563-1566, adopt amendments as follows, and place HB 1004 on the Seventh order:

That the Senate recede from its amendments as printed on pages 1563-1566 of the House Journal and pages 1289-1293 of the Senate Journal and that Engrossed House Bill No. 1004 be amended as follows:

Page 1, line 1, replace "and" with a semicolon

Page 1, line 2, replace "section" with "sections"

Page 1, line 2, after "54-10-10" insert ", 54-10-14, and 54-10-27"

Page 1, line 3, after "auditor" insert ", political subdivision audits, and occupational and professional board audits; to provide for a prescription drug coverage performance audit; and to provide for legislative management reports"

Page 1, replace lines 12 through 18 with:

"Salaries and wages	\$12,668,218	\$455,341	\$13,123,559
Operating expenses	1,161,820	209,883	1,371,703
Information technology consultants	<u>450,000</u>	<u>0</u>	<u>450,000</u>
Total all funds	\$14,280,038	\$665,224	\$14,945,262
Less estimated income	<u>4,173,178</u>	<u>1,652,974</u>	<u>5,826,152</u>
Total general fund	\$10,106,860	(\$987,750)	\$9,119,110
Full-time equivalent positions	58.00	3.00	61.00"

Page 2, line 5, replace "thirteen" with "fourteen"

Page 2, line 6, replace "nine" with "four"

Page 2, line 6, replace "twenty-five" with "eighty-six"

Page 2, after line 6, insert:

"SECTION 4. AMENDMENT. Section 54-10-14 of the North Dakota Century Code is amended and reenacted as follows:

54-10-14. Political subdivisions - Audits - Fees - Alternative audits and reports.

1. The state auditor shall audit the following political subdivisions once every two years, except as provided in this section or otherwise by law:
 - a. Counties.
 - b. Cities, and when a city is audited, to include any political subdivision that was created by the city and has bonding authority.
 - c. Park districts.
 - d. School districts.
 - e. Firefighters relief associations.
 - f. Airport authorities.

- g. Public libraries.
 - h. Water resource districts.
 - i. Garrison Diversion Conservancy District.
 - j. Rural fire protection districts.
 - k. Special education districts.
 - l. Area career and technology centers.
 - m. Correction centers.
 - n. Recreation service districts.
 - o. Weed boards.
 - p. Irrigation districts.
 - q. Rural ambulance service districts.
 - r. Southwest water authority.
 - s. Regional planning councils.
 - t. Soil conservation districts.
 - u. Western area water supply authority industrial water sales on an annual basis.
2. The state auditor shall charge the political subdivision an amount equal to the fair value of the audit and any other services rendered. The fees must be deposited in the state auditor operating account. The state treasurer shall credit the state auditor operating account with the amount of interest earnings attributable to the deposits in that account. Expenses relating to political subdivision audits must be paid from the state auditor operating account, within the limits of legislative appropriation.
3. In lieu of conducting an audit every two years, the state auditor may require annual reports from ~~school districts with less than one hundred enrolled students; cities with less than five hundred population; and other~~ political subdivisions subject to this section, or otherwise provided by law, with less than ~~three hundred~~seven hundred fifty thousand dollars of annual receipts, excluding any federal funds passed through the political subdivision to another entity. If any federal agency performs or requires an audit of a political subdivision that receives federal funds to pass through to another entity, the political subdivision shall provide a copy to the state auditor upon request by the state auditor. The reports must contain the financial information required by the state auditor. The state auditor also may make any additional examination or audit determined necessary in addition to the annual report. When a report is not filed, the state auditor may charge the political subdivision an amount equal to the fair value of the additional examination or audit and any other services rendered. The state auditor may charge a political subdivision a fee not to exceed ~~eighty~~eighty-six dollars an hour for the costs of reviewing the annual report.

4. A political subdivision, at the option of its governing body, may be audited by a certified public accountant or licensed public accountant rather than by the state auditor. The public accountant shall comply with generally accepted government auditing standards for audits of political subdivisions. The report must be in the form and content required by the state auditor. The number of copies of the audit report requested by the state auditor must be filed with the state auditor when the public accountant delivers the audit report to the political subdivision. The state auditor shall review the audit report to determine if the report is in the required form and has the required content, and if the audit meets generally accepted government auditing standards. The state auditor also may periodically review the public accountant's workpapers to determine if the audit meets generally accepted government auditing standards. If the report is in the required form and has the required content, and the report and workpapers comply with generally accepted government auditing standards, the state auditor shall accept the audit report. The state auditor may charge the political subdivision a fee of up to ~~eighty~~~~eighty-six~~ dollars an hour, but not to exceed ~~five~~~~seven~~ hundred ~~fifty~~ dollars per review, for the related costs of reviewing the audit report and workpapers.
5. A political subdivision may not pay a public accountant for an audit until the state auditor has accepted the audit. However, a political subdivision may make progress payments to the public accountant. A political subdivision shall retain twenty percent of any progress payment until the audit report is accepted by the state auditor.
6. The state auditor may require the correction of any irregularities, objectionable accounting procedures, or illegal actions on the part of the governing board, officers, or employees of the political subdivision disclosed by the audit report or workpapers, and failure to make the corrections must result in audits being resumed by the state auditor until the irregularities, objectionable accounting procedures, or illegal actions are corrected.

SECTION 5. AMENDMENT. Section 54-10-27 of the North Dakota Century Code is amended and reenacted as follows:

54-10-27. Occupational and professional boards - Audits and reports.

The governing board of any occupational or professional board shall provide for an audit once every two years by a certified public accountant or licensed public accountant. The accountant conducting the audit shall submit the audit report to the state auditor's office. If the report is in the form and style prescribed by the state auditor, the state auditor may not audit that board. An occupational or professional board may request the state auditor to conduct its audit, and if the state auditor agrees to conduct the audit, the state auditor shall deposit the fees charged to the occupational or professional board into the state auditor operating account. Instead of providing for an audit every two years, an occupational or professional board that has less than two hundred thousand dollars of annual receipts may submit an annual report to the state auditor. The report must contain the information required by the state auditor. The state auditor also may make any additional examination or audit determined necessary in addition to the annual report. When a report is not filed, the state auditor may charge the occupational or professional board an amount equal to the fair value of the additional examination or audit and any other services rendered. The state auditor may charge an occupational or professional board a fee not to exceed ~~five~~~~eighty-six~~ dollars an hour for the costs of reviewing the annual report.

SECTION 6. PUBLIC EMPLOYEES RETIREMENT SYSTEM - STATE AUDITOR - PRESCRIPTION DRUG COVERAGE PERFORMANCE AUDIT - REPORTS TO LEGISLATIVE MANAGEMENT. In lieu of the requirement under section 54-52.1-04.16 that the public employees retirement system contract to conduct a prescription drug coverage performance audit of the main public employees retirement system health benefit plan for calendar year 2021, the state auditor shall contract in accordance with chapter 54-10 to conduct a prescription drug coverage performance audit of the main public employees retirement system health benefit plan during the 2021-22 interim, in the same manner as provided for under section 54-52.1-04.16, for calendar years 2019, 2020, and 2021. Audit fees, not to exceed \$375,000, for audits performed under this section must be on a flat fee or hourly basis and be paid by the public employees retirement system board. The state auditor shall provide reports to the legislative management regarding contracts to conduct prescription drug coverage performance audits, performance audit results, and audit reports issued."

ReNUMBER accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1004 - State Auditor - Conference Committee Action

	Base Budget	House Version	Conference Committee Changes	Conference Committee Version	Senate Version	Comparison to Senate
Salaries and wages	\$12,668,218	\$11,880,488	\$1,243,071	\$13,123,559	\$13,289,084	(\$165,525)
Operating expenses	1,161,820	1,262,547	109,156	1,371,703	1,381,703	(10,000)
Information technology consultants	450,000	450,000		450,000	450,000	
Total all funds	\$14,280,038	\$13,593,035	\$1,352,227	\$14,945,262	\$15,120,787	(\$175,525)
Less estimated income	4,173,178	4,667,785	1,158,367	5,826,152	5,826,152	0
General fund	\$10,106,860	\$8,925,250	\$193,860	\$9,119,110	\$9,294,635	(\$175,525)
FTE	58.00	54.00	7.00	61.00	62.00	(1.00)

Department 117 - State Auditor - Detail of Conference Committee Changes

	Adjusts Funding for Salary Increases ¹	Adds Local Government Division Audit Positions ²	Restores Auditor IV Position ³	Total Conference Committee Changes
Salaries and wages	\$14,469	\$1,054,155	\$174,447	\$1,243,071
Operating expenses		99,156	10,000	109,156
Information technology consultants				
Total all funds	\$14,469	\$1,153,311	\$184,447	\$1,352,227
Less estimated income	5,056	1,153,311	0	1,158,367
General fund	\$9,413	\$0	\$184,447	\$193,860
FTE	0.00	6.00	1.00	7.00

¹ Funding is adjusted to provide salary increases of 1.5 percent on July 1, 2021, with a minimum monthly increase of \$100, and 2 percent on July 1, 2022, the same as the Senate version. The House provided salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250.

² Six FTE Local Government Division audit positions, including salaries and wages and operating expenses, are added to provide a total of 8 new Local Government Division audit positions, the same as the Senate version. Funding for operating expenses for each new audit position is increased from \$10,422 as provided by the House to \$15,000, the same as the Senate version. The House added 2 FTE Local Government Division audit positions, including salaries and wages (\$351,385) and operating expenses (\$20,844).

³ One vacant FTE auditor IV position and related salaries and wages and operating expenses removed by the House is restored. The Senate restored 2 FTE vacant positions removed by the House.

This amendment also:

- Amends Section 3 to provide the statutory changes necessary to increase the State Auditor's salary from the current salary of \$110,582 to \$112,241 (1.5 percent) in fiscal year 2022, and to \$114,486 (2 percent) in fiscal year 2023, the same as the Senate version. The House provided salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250.
- Adds Section 4, the same as the Senate version, to increase the:
 - Threshold for political subdivisions to provide an annual report in lieu of an audit from \$300,000 of annual receipts to \$750,000 of annual receipts;
 - Hourly fee for the review of political subdivision annual reports from \$80 per hour to \$86 per hour;
 - Hourly fee for the review of political subdivision audit reports and workpapers from \$80 per hour to \$86 per hour;
 - Maximum fee for review of political subdivision audit reports and workpapers from \$500 per review to \$750 per review.
- Removes the population thresholds for political subdivision reports in the amendments in Section 4. This change was not part of the House or Senate version.
- Adds Section 5 to increase the hourly fee for the review of occupational and professional board annual reports from \$50 per hour to \$86 per hour, the same as the Senate version.
- Adds Section 6 to require the State Auditor contract to conduct prescription drug coverage performance audits of the main Public Employees Retirement System health benefit plan.

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

Oehlke, H. Dave

From: Stephanie Dassinger <Stephanie@ndlc.org>
Sent: Monday, April 26, 2021 12:39 PM
To: Oehlke, H. Dave; Dever, Dick D.; Poolman, Nicole; Bellew, Larry D.; Howe, Michael C.; Mock, Corey R.
Cc: Crosby, Blake
Subject: HB 1004 Amendment Request from the North Dakota League of Cities
Attachments: Amendment to HB 1004.docx

***** **CAUTION:** This email originated from an outside source. Do not click links or open attachments unless you know they are safe. *****

Good Afternoon HB 1004 Conference Committee Members:

In watching the discussions regarding the state auditor's budget, an idea arose that the League believes will help both the state auditor's office in performing audits and city auditors in maintaining city financial records. I've attached an amendment requiring the state auditor to create an education and technical assistance program to assist political subdivisions in complying with generally accepted government accounting practices.

The League believes that providing more education to city auditors will help city audits have less audit findings and, ultimately, save the state auditor's office time when completing audits. On the city side of things, this would help city auditors provide better and more consistent financial reports to the public and city governing boards.

If you have any questions, please do not hesitate to reach out to me or Blake Crosby.

Stephanie Dassinger

ND League of Cities | *Deputy Director/Staff Attorney*

410 E Front Ave | Bismarck, ND 58504

O: 701-223-3518 C: 701-226-3638



Please be advised that the information you receive from the North Dakota League of Cities office is not legal advice. In addition, you must consult your local city attorney to make sure that any of the material you receive from NDLC is in accordance with your particular facts and situation.

SECTION XX. A new section to chapter 54-10 of the North Dakota Century Code is created and enacted as follows:

The state auditor shall prepare instructional materials, conduct training programs, provide technical assistance and render other services necessary to assist political subdivisions with complying with generally accepted government accounting practices.

2021 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

HB1004
4/29/2021
Conference Committee

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor.
--

3:10 **Chairman Vigesaa** brought the conference committee to order. Members present: Chairman Vigesaa, Representative Mock, Representative Howe, Senator Oehlke, Senator Poolman, Senator Dever.

Discussion Topics:

- PBM's

3:11 **Representative Mock** discussed the .02009 amendment.

3:14 **Representative Mock** made a motion for the Senate to recede from the Senate amendments and amend with .02009.

3:14 **Representative Howe** seconded the motion.

3:18 Roll call vote 3 Yeas 3 Nays 0 Absent

3:18 Motion failed.

3:19 **Senator Poolman** made a motion to adopt amendment .2008 and to remove section 6.

3:19 **Senator Dever** seconded the motion.

Roll Call Vote; 3 Yeas 3 Nays 0 Absent

Motion Fails

3:24 **Representative Mock** made a motion for the Senate to recede from the Senate amendments and amend with .02008 with section 6.

3:24 **Representative Howe** seconded the motion.

3:25 Roll call vote 6 Yeas 0 Nays 0 Absent

3:26 Motion carried.

3:26 **Chairman Vigesaa** closed the conference committee.

Sheri Lewis, Committee Clerk

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1004

That the Senate recede from its amendments as printed on pages 1563-1566 of the House Journal and pages 1289-1293 of the Senate Journal and that Engrossed House Bill No. 1004 be amended as follows:

Page 1, line 1, replace "and" with a semicolon

Page 1, line 2, replace "section" with "sections"

Page 1, line 2, after "54-10-10" insert ", 54-10-14, 54-10-27, and 54-52.1-04.16"

Page 1, line 3, after "auditor" insert ", political subdivision audits, occupational and professional board audits, and public employees retirement system performance audits of pharmacy benefits managers; to provide for a prescription drug coverage performance audit; to provide for a legislative management report; and to declare an emergency"

Page 1, replace lines 12 through 18 with:

"Salaries and wages	\$12,668,218	\$455,341	\$13,123,559
Operating expenses	1,161,820	209,883	1,371,703
Information technology consultants	<u>450,000</u>	<u>0</u>	<u>450,000</u>
Total all funds	\$14,280,038	\$665,224	\$14,945,262
Less estimated income	<u>4,173,178</u>	<u>1,652,974</u>	<u>5,826,152</u>
Total general fund	\$10,106,860	(\$987,750)	\$9,119,110
Full-time equivalent positions	58.00	3.00	61.00"

Page 2, line 5, replace "thirteen" with "fourteen"

Page 2, line 6, replace "nine" with "four"

Page 2, line 6, replace "twenty-five" with "eighty-six"

Page 2, after line 6, insert:

"SECTION 4. AMENDMENT. Section 54-10-14 of the North Dakota Century Code is amended and reenacted as follows:

54-10-14. Political subdivisions - Audits - Fees - Alternative audits and reports.

1. The state auditor shall audit the following political subdivisions once every two years, except as provided in this section or otherwise by law:
 - a. Counties.
 - b. Cities, and when a city is audited, to include any political subdivision that was created by the city and has bonding authority.
 - c. Park districts.
 - d. School districts.
 - e. Firefighters relief associations.

- f. Airport authorities.
 - g. Public libraries.
 - h. Water resource districts.
 - i. Garrison Diversion Conservancy District.
 - j. Rural fire protection districts.
 - k. Special education districts.
 - l. Area career and technology centers.
 - m. Correction centers.
 - n. Recreation service districts.
 - o. Weed boards.
 - p. Irrigation districts.
 - q. Rural ambulance service districts.
 - r. Southwest water authority.
 - s. Regional planning councils.
 - t. Soil conservation districts.
 - u. Western area water supply authority industrial water sales on an annual basis.
2. The state auditor shall charge the political subdivision an amount equal to the fair value of the audit and any other services rendered. The fees must be deposited in the state auditor operating account. The state treasurer shall credit the state auditor operating account with the amount of interest earnings attributable to the deposits in that account. Expenses relating to political subdivision audits must be paid from the state auditor operating account, within the limits of legislative appropriation.
 3. In lieu of conducting an audit every two years, the state auditor may require annual reports from ~~school districts with less than one hundred enrolled students; cities with less than five hundred population; and other~~ political subdivisions subject to this section, or otherwise provided by law, with less than ~~three hundred~~ seven hundred fifty thousand dollars of annual receipts, excluding any federal funds passed through the political subdivision to another entity. If any federal agency performs or requires an audit of a political subdivision that receives federal funds to pass through to another entity, the political subdivision shall provide a copy to the state auditor upon request by the state auditor. The reports must contain the financial information required by the state auditor. The state auditor also may make any additional examination or audit determined necessary in addition to the annual report. When a report is not filed, the state auditor may charge the political subdivision an amount equal to the fair value of the additional examination or audit and any other services rendered. The state auditor may charge a political subdivision a fee not to exceed ~~eighty-eighty-six~~ eighty-eighty-six dollars an hour for the costs of reviewing the annual report.

4. A political subdivision, at the option of its governing body, may be audited by a certified public accountant or licensed public accountant rather than by the state auditor. The public accountant shall comply with generally accepted government auditing standards for audits of political subdivisions. The report must be in the form and content required by the state auditor. The number of copies of the audit report requested by the state auditor must be filed with the state auditor when the public accountant delivers the audit report to the political subdivision. The state auditor shall review the audit report to determine if the report is in the required form and has the required content, and if the audit meets generally accepted government auditing standards. The state auditor also may periodically review the public accountant's workpapers to determine if the audit meets generally accepted government auditing standards. If the report is in the required form and has the required content, and the report and workpapers comply with generally accepted government auditing standards, the state auditor shall accept the audit report. The state auditor may charge the political subdivision a fee of up to ~~eighty-eighty-six~~ eighty-eighty-six dollars an hour, but not to exceed ~~five-seven~~ five-seven hundred ~~fifty~~ fifty dollars per review, for the related costs of reviewing the audit report and workpapers.
5. A political subdivision may not pay a public accountant for an audit until the state auditor has accepted the audit. However, a political subdivision may make progress payments to the public accountant. A political subdivision shall retain twenty percent of any progress payment until the audit report is accepted by the state auditor.
6. The state auditor may require the correction of any irregularities, objectionable accounting procedures, or illegal actions on the part of the governing board, officers, or employees of the political subdivision disclosed by the audit report or workpapers, and failure to make the corrections must result in audits being resumed by the state auditor until the irregularities, objectionable accounting procedures, or illegal actions are corrected.

SECTION 5. AMENDMENT. Section 54-10-27 of the North Dakota Century Code is amended and reenacted as follows:

54-10-27. Occupational and professional boards - Audits and reports.

The governing board of any occupational or professional board shall provide for an audit once every two years by a certified public accountant or licensed public accountant. The accountant conducting the audit shall submit the audit report to the state auditor's office. If the report is in the form and style prescribed by the state auditor, the state auditor may not audit that board. An occupational or professional board may request the state auditor to conduct its audit, and if the state auditor agrees to conduct the audit, the state auditor shall deposit the fees charged to the occupational or professional board into the state auditor operating account. Instead of providing for an audit every two years, an occupational or professional board that has less than two hundred thousand dollars of annual receipts may submit an annual report to the state auditor. The report must contain the information required by the state auditor. The state auditor also may make any additional examination or audit determined necessary in addition to the annual report. When a report is not filed, the state auditor may charge the occupational or professional board an amount equal to the fair value of the additional examination or audit and any other services rendered.

The state auditor may charge an occupational or professional board a fee not to exceed ~~fifty~~eighty-six dollars an hour for the costs of reviewing the annual report.

SECTION 6. AMENDMENT. Section 54-52.1-04.16 of the North Dakota Century Code is amended and reenacted as follows:

54-52.1-04.16. Prescription drug coverage - Performance audits - Legislative audit and fiscal review committee.

1. Except for Medicare part D, prescription drug coverage, the board may not enter or renew a contract for prescription drug coverage unless the contract authorizes the board during the term of the contract to conduct a performance audit of the prescription drug coverage and any related pharmacy benefits management services.
2. Under subsection 1, directly following the term of the contract for prescription drug coverage, the state auditor, in accordance with chapter 54-10, shall contract for a performance audit of the prescription drug coverage and any related pharmacy benefits management service. The contract for prescription drug coverage must provide:
 - a. The board must have full access to claim-level data regarding:
 - (1) The total dollars paid to the pharmacy benefits manager by the carrier and the board;
 - (2) The total amount of dollars paid to the pharmacy benefits manager by the carrier which were not subsequently paid to a licensed pharmacy in the state; and
 - (3) Payments made to all pharmacy providers which show line item detail to include product reimbursement and dispensing fees as two separate fields to arrive at the aggregate total amounts compared to what the board was charged for those same claims; and
 - (4) Any recoupment by the pharmacy benefits manager either at the point of sale or retrospectively, including the reason and the reason code.
 - b. The board must have full access to data regarding the ~~average per claim detail of~~ average per claim detail of reimbursement, by drug ingredient cost, dispensing fee, and any other fee paid by a pharmacy benefits manager to licensed pharmacies with which the pharmacy benefits manager shares common ownership or control or is affiliated through any contractual agreement.
 - c. The board must have full access to data regarding the average reimbursement, by drug ingredient cost, dispensing fee, and any other fee paid by a pharmacy benefits manager to pharmacies licensed in the state.
 - d. The board must have full access to data regarding any direct and indirect fees, charges, or recoupment, or any kind of assessments imposed by the pharmacy benefits manager on pharmacies licensed

with which the pharmacy benefits manager shares common ownership or control or is affiliated.

- e. The board must have full access to data on an individual claim basis regarding any prospective and retrospective direct and indirect fees, charges, or recoupment, or any kind of assessments or effective rates imposed by the pharmacy benefits manager, on pharmacies licensed in the state.
- f. ~~The contract must provide that~~ That all drug rebates, financial incentives, fees, and discounts must be disclosed to the board at the national drug code level.
- g. The terms of the contract between the carrier and the pharmacy benefits manager.

~~2.3.~~ The following apply to conducting a performance audit as required under this section:

- a. ~~The board shall use an independent auditor who has no~~ may not have a conflict of interest with the carrier, pharmacy benefits manager, or board.
- b. Data and documents provided by the pharmacy benefits manager to the board or the auditor may not be redacted or altered by the pharmacy benefits manager. ~~The board's auditor, the insurance department, and the employee benefits programs committee~~ may access any information the board may access under this section. All information accessed by the board, ~~board's or the auditor, insurance department, or employee benefits programs committee~~ which is trade secret is a confidential record. This subsection does not limit the information required to be disclosed to the board under subsection 1.

~~3.4.~~ If the board contracts directly with a pharmacy benefits manager or provides prescription drug coverage through a self-insurance plan, the contract must provide the pharmacy benefits manager shall disclose to the board and the board's auditor all rebates and any other fees that provide the pharmacy benefits manager with sources of income under the contract, including under related contracts the pharmacy benefits manager has with third parties, such as drug manufacturers.

- 4. ~~Anything the board has access to under this section, the insurance department and employee benefits programs committee has access to.~~
- 5. The auditor shall provide to the legislative audit and fiscal review committee the report of each performance audit conducted under this section.

SECTION 7. PUBLIC EMPLOYEES RETIREMENT SYSTEM - STATE AUDITOR - PRESCRIPTION DRUG COVERAGE PERFORMANCE AUDIT - REPORT TO LEGISLATIVE MANAGEMENT. In addition to the requirement under section 54-52.1-04.16 that the state auditor shall contract in accordance with chapter 54-10 to conduct a prescription drug coverage performance audit of the public employees retirement system health pharmacy benefits, the state auditor shall contract in accordance with chapter 54-10 to conduct a prescription drug coverage performance audit of the main public employees retirement system health benefit plan during the

2021-22 interim, in the same manner as provided for under section 54-52.1-04.16, for calendar years 2019, 2020, and 2021. Audit fees, not to exceed \$375,000, for audits performed under this section must be on a flat fee or hourly basis and be paid by the public employees retirement system board. The state auditor shall provide reports to the legislative management regarding contracts to conduct prescription drug coverage performance audits, performance audit results, and audit reports issued.

SECTION 8. EMERGENCY. Sections 6 and 7 of this Act are declared to be an emergency measure. "

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1004 - State Auditor - Conference Committee Action

	Base Budget	House Version	Conference Committee Changes	Conference Committee Version	Senate Version	Comparison to Senate
Salaries and wages	\$12,668,218	\$11,880,488	\$1,243,071	\$13,123,559	\$13,289,084	(\$165,525)
Operating expenses	1,161,820	1,262,547	109,156	1,371,703	1,381,703	(10,000)
Information technology consultants	450,000	450,000		450,000	450,000	
Total all funds	\$14,280,038	\$13,593,035	\$1,352,227	\$14,945,262	\$15,120,787	(\$175,525)
Less estimated income	4,173,178	4,667,785	1,158,367	5,826,152	5,826,152	0
General fund	\$10,106,860	\$8,925,250	\$193,860	\$9,119,110	\$9,294,635	(\$175,525)
FTE	58.00	54.00	7.00	61.00	62.00	(1.00)

Department 117 - State Auditor - Detail of Conference Committee Changes

	Adjusts Funding for Salary Increases ¹	Adds Local Government Division Audit Positions ²	Restores Auditor IV Position ³	Total Conference Committee Changes
Salaries and wages	\$14,469	\$1,054,155	\$174,447	\$1,243,071
Operating expenses		99,156	10,000	109,156
Information technology consultants				
Total all funds	\$14,469	\$1,153,311	\$184,447	\$1,352,227
Less estimated income	5,056	1,153,311	0	1,158,367
General fund	\$9,413	\$0	\$184,447	\$193,860
FTE	0.00	6.00	1.00	7.00

¹ Funding is adjusted to provide salary increases of 1.5 percent on July 1, 2021, with a minimum monthly increase of \$100, and 2 percent on July 1, 2022, the same as the Senate version. The House provided salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250.

² Six FTE Local Government Division audit positions, including salaries and wages and operating expenses, are added to provide a total of 8 new Local Government Division audit positions, the same as the Senate version. Funding for operating expenses for each new audit position is increased from \$10,422 as provided by the House to \$15,000, the same as the Senate version. The House added 2 FTE Local Government Division audit positions, including salaries and wages (\$351,385) and operating expenses (\$20,844).

³ One vacant FTE auditor IV position and related salaries and wages and operating expenses removed by the House is restored. The Senate restored 2 FTE vacant positions removed by the House.

This amendment also:

- Amends Section 3 to provide the statutory changes necessary to increase the State Auditor's salary from the current salary of \$110,582 to \$112,241 (1.5 percent) in fiscal year 2022, and to \$114,486 (2 percent) in fiscal

- year 2023, the same as the Senate version. The House provided salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250.
- Adds Section 4, the same as the Senate version, to increase the:
 - Threshold for political subdivisions to provide an annual report in lieu of an audit from \$300,000 of annual receipts to \$750,000 of annual receipts;
 - Hourly fee for the review of political subdivision annual reports from \$80 per hour to \$86 per hour;
 - Hourly fee for the review of political subdivision audit reports and workpapers from \$80 per hour to \$86 per hour;
 - Maximum fee for review of political subdivision audit reports and workpapers from \$500 per review to \$750 per review.
 - Removes the population thresholds for political subdivision reports in the amendments in Section 4. This change was not part of the House or Senate version.
 - Adds Section 5 to increase the hourly fee for the review of occupational and professional board annual reports from \$50 per hour to \$86 per hour, the same as the Senate version.
 - Adds Section 6 to amend North Dakota Century Code Section 54-52.1-04.16 relating to prescription drug coverage performance audits.
 - Adds Section 7 to require the State Auditor contract to conduct a prescription drug coverage performance audit of the main Public Employees Retirement System health benefit plan during the 2021-22 interim for calendar years 2019, 2020, and 2021.
 - Adds Section 8 to declare Sections 6 and 7 to be an emergency measure.

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1004

That the Senate recede from its amendments as printed on pages 1563-1566 of the House Journal and pages 1289-1293 of the Senate Journal and that Engrossed House Bill No. 1004 be amended as follows:

Page 1, line 1, replace "and" with a semicolon

Page 1, line 2, replace "section" with "sections"

Page 1, line 2, after "54-10-10" insert ", 54-10-14, and 54-10-27"

Page 1, line 3, after "auditor" insert ", political subdivision audits, and occupational and professional board audits; to provide for a prescription drug coverage performance audit; and to provide for legislative management reports"

Page 1, replace lines 12 through 18 with:

"Salaries and wages	\$12,668,218	\$455,341	\$13,123,559
Operating expenses	1,161,820	209,883	1,371,703
Information technology consultants	<u>450,000</u>	<u>0</u>	<u>450,000</u>
Total all funds	\$14,280,038	\$665,224	\$14,945,262
Less estimated income	<u>4,173,178</u>	<u>1,652,974</u>	<u>5,826,152</u>
Total general fund	\$10,106,860	(\$987,750)	\$9,119,110
Full-time equivalent positions	58.00	3.00	61.00"

Page 2, line 5, replace "thirteen" with "fourteen"

Page 2, line 6, replace "nine" with "four"

Page 2, line 6, replace "twenty-five" with "eighty-six"

Page 2, after line 6, insert:

"SECTION 4. AMENDMENT. Section 54-10-14 of the North Dakota Century Code is amended and reenacted as follows:

54-10-14. Political subdivisions - Audits - Fees - Alternative audits and reports.

1. The state auditor shall audit the following political subdivisions once every two years, except as provided in this section or otherwise by law:
 - a. Counties.
 - b. Cities, and when a city is audited, to include any political subdivision that was created by the city and has bonding authority.
 - c. Park districts.
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 - e. Firefighters relief associations.
 - f. Airport authorities.

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- g. Public libraries.
 - h. Water resource districts.
 - i. Garrison Diversion Conservancy District.
 - j. Rural fire protection districts.
 - k. Special education districts.
 - l. Area career and technology centers.
 - m. Correction centers.
 - n. Recreation service districts.
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2. The state auditor shall charge the political subdivision an amount equal to the fair value of the audit and any other services rendered. The fees must be deposited in the state auditor operating account. The state treasurer shall credit the state auditor operating account with the amount of interest earnings attributable to the deposits in that account. Expenses relating to political subdivision audits must be paid from the state auditor operating account, within the limits of legislative appropriation.
3. In lieu of conducting an audit every two years, the state auditor may require annual reports from ~~school districts with less than one hundred enrolled students; cities with less than five hundred population; and other~~ political subdivisions subject to this section, or otherwise provided by law, with less than ~~three hundred~~ seven hundred fifty thousand dollars of annual receipts, excluding any federal funds passed through the political subdivision to another entity. If any federal agency performs or requires an audit of a political subdivision that receives federal funds to pass through to another entity, the political subdivision shall provide a copy to the state auditor upon request by the state auditor. The reports must contain the financial information required by the state auditor. The state auditor also may make any additional examination or audit determined necessary in addition to the annual report. When a report is not filed, the state auditor may charge the political subdivision an amount equal to the fair value of the additional examination or audit and any other services rendered. The state auditor may charge a political subdivision a fee not to exceed ~~eighty~~ eighty-six dollars an hour for the costs of reviewing the annual report.

CPA
4/12/21
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4. A political subdivision, at the option of its governing body, may be audited by a certified public accountant or licensed public accountant rather than by the state auditor. The public accountant shall comply with generally accepted government auditing standards for audits of political subdivisions. The report must be in the form and content required by the state auditor. The number of copies of the audit report requested by the state auditor must be filed with the state auditor when the public accountant delivers the audit report to the political subdivision. The state auditor shall review the audit report to determine if the report is in the required form and has the required content, and if the audit meets generally accepted government auditing standards. The state auditor also may periodically review the public accountant's workpapers to determine if the audit meets generally accepted government auditing standards. If the report is in the required form and has the required content, and the report and workpapers comply with generally accepted government auditing standards, the state auditor shall accept the audit report. The state auditor may charge the political subdivision a fee of up to ~~eighty-eighty-six~~ eighty-eight dollars an hour, but not to exceed ~~five-seven~~ five-seven hundred ~~fifty~~ fifty dollars per review, for the related costs of reviewing the audit report and workpapers.
5. A political subdivision may not pay a public accountant for an audit until the state auditor has accepted the audit. However, a political subdivision may make progress payments to the public accountant. A political subdivision shall retain twenty percent of any progress payment until the audit report is accepted by the state auditor.
6. The state auditor may require the correction of any irregularities, objectionable accounting procedures, or illegal actions on the part of the governing board, officers, or employees of the political subdivision disclosed by the audit report or workpapers, and failure to make the corrections must result in audits being resumed by the state auditor until the irregularities, objectionable accounting procedures, or illegal actions are corrected.

SECTION 5. AMENDMENT. Section 54-10-27 of the North Dakota Century Code is amended and reenacted as follows:

54-10-27. Occupational and professional boards - Audits and reports.

The governing board of any occupational or professional board shall provide for an audit once every two years by a certified public accountant or licensed public accountant. The accountant conducting the audit shall submit the audit report to the state auditor's office. If the report is in the form and style prescribed by the state auditor, the state auditor may not audit that board. An occupational or professional board may request the state auditor to conduct its audit, and if the state auditor agrees to conduct the audit, the state auditor shall deposit the fees charged to the occupational or professional board into the state auditor operating account. Instead of providing for an audit every two years, an occupational or professional board that has less than two hundred thousand dollars of annual receipts may submit an annual report to the state auditor. The report must contain the information required by the state auditor. The state auditor also may make any additional examination or audit determined necessary in addition to the annual report. When a report is not filed, the state auditor may charge the occupational or professional board an amount equal to the fair value of the additional examination or audit and any other services rendered.

The state auditor may charge an occupational or professional board a fee not to exceed fifty-eighty-six dollars an hour for the costs of reviewing the annual report.

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SECTION 6. PUBLIC EMPLOYEES RETIREMENT SYSTEM - STATE AUDITOR - PRESCRIPTION DRUG COVERAGE PERFORMANCE AUDIT - REPORTS TO LEGISLATIVE MANAGEMENT. In lieu of the requirement under section 54-52.1-04.16 that the public employees retirement system contract to conduct a prescription drug coverage performance audit of the main public employees retirement system health benefit plan for calendar year 2021, the state auditor shall contract in accordance with chapter 54-10 to conduct a prescription drug coverage performance audit of the main public employees retirement system health benefit plan during the 2021-22 interim, in the same manner as provided for under section 54-52.1-04.16, for calendar years 2019, 2020, and 2021. Audit fees, not to exceed \$375,000, for audits performed under this section must be on a flat fee or hourly basis and be paid by the public employees retirement system board. The state auditor shall provide reports to the legislative management regarding contracts to conduct prescription drug coverage performance audits, performance audit results, and audit reports issued."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1004 - State Auditor - Conference Committee Action

	Base Budget	House Version	Conference Committee Changes	Conference Committee Version	Senate Version	Comparison to Senate
Salaries and wages	\$12,668,218	\$11,880,488	\$1,243,071	\$13,123,559	\$13,289,084	(\$165,525)
Operating expenses	1,161,820	1,262,547	109,156	1,371,703	1,381,703	(10,000)
Information technology consultants	450,000	450,000		450,000	450,000	
Total all funds	\$14,280,038	\$13,593,035	\$1,352,227	\$14,945,262	\$15,120,787	(\$175,525)
Less estimated income	4,173,178	4,667,785	1,158,367	5,826,152	5,826,152	0
General fund	\$10,106,860	\$8,925,250	\$193,860	\$9,119,110	\$9,294,635	(\$175,525)
FTE	58.00	54.00	7.00	61.00	62.00	(1.00)

Department 117 - State Auditor - Detail of Conference Committee Changes

	Adjusts Funding for Salary Increases ¹	Adds Local Government Division Audit Positions ²	Restores Auditor IV Position ³	Total Conference Committee Changes
Salaries and wages	\$14,469	\$1,054,155	\$174,447	\$1,243,071
Operating expenses		99,156	10,000	109,156
Information technology consultants				
Total all funds	\$14,469	\$1,153,311	\$184,447	\$1,352,227
Less estimated income	5,056	1,153,311	0	1,158,367
General fund	\$9,413	\$0	\$184,447	\$193,860
FTE	0.00	6.00	1.00	7.00

¹ Funding is adjusted to provide salary increases of 1.5 percent on July 1, 2021, with a minimum monthly increase of \$100, and 2 percent on July 1, 2022, the same as the Senate version. The House provided salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250.

² Six FTE Local Government Division audit positions, including salaries and wages and operating expenses, are added to provide a total of 8 new Local Government Division audit positions, the same as the Senate version. Funding for operating expenses for each new audit position is increased from \$10,422 as provided by the House to \$15,000, the same as the Senate version. The House added 2 FTE Local Government Division audit positions,

including salaries and wages (\$351,385) and operating expenses (\$20,844).

³ One vacant FTE auditor IV position and related salaries and wages and operating expenses removed by the House is restored. The Senate restored 2 FTE vacant positions removed by the House.

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This amendment also:

- Amends Section 3 to provide the statutory changes necessary to increase the State Auditor's salary from the current salary of \$110,582 to \$112,241 (1.5 percent) in fiscal year 2022, and to \$114,486 (2 percent) in fiscal year 2023, the same as the Senate version. The House provided salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250.
- Adds Section 4, the same as the Senate version, to increase the:
 - Threshold for political subdivisions to provide an annual report in lieu of an audit from \$300,000 of annual receipts to \$750,000 of annual receipts;
 - Hourly fee for the review of political subdivision annual reports from \$80 per hour to \$86 per hour;
 - Hourly fee for the review of political subdivision audit reports and workpapers from \$80 per hour to \$86 per hour;
 - Maximum fee for review of political subdivision audit reports and workpapers from \$500 per review to \$750 per review.
- Removes the population thresholds for political subdivision reports in the amendments in Section 4. This change was not part of the House or Senate version.
- Adds Section 5 to increase the hourly fee for the review of occupational and professional board annual reports from \$50 per hour to \$86 per hour, the same as the Senate version.
- Adds Section 6 to require the State Auditor contract to conduct prescription drug coverage performance audits of the main Public Employees Retirement System health benefit plan.

**2021 HOUSE CONFERENCE COMMITTEE
ROLL CALL VOTES**

BILL/RESOLUTION NO. HB1004 as (re) engrossed

House Government Operations Committee

- Action Taken**
- HOUSE accede to Senate Amendments
 - HOUSE accede to Senate Amendments and further amend
 - SENATE recede from Senate amendments
 - SENATE recede from Senate amendments and amend as follows
 - Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion Made by: Representative Mock Seconded by: Representative Howe

Representatives	4/29		Yes	No		Senators	4/29		Yes	No
Chairman Vigesaa	X		X			Senator Oehlke	X			X
Representative Mock	X		X			Senator Poolman	X			X
Representative Howe	X		X			Senator Dever	X			X
Total Rep. Vote			3			Total Senate Vote				3

Vote Count Yes: 3 No: 3 Absent: 0

House Carrier _____ Senate Carrier _____

LC Number _____ . _____ of amendment

LC Number _____ . _____ of engrossment

Emergency clause added or deleted

Statement of purpose of amendment – to adopt amendment .02009

Motion failed

**2021 HOUSE CONFERENCE COMMITTEE
 ROLL CALL VOTES**

BILL/RESOLUTION NO. HB1004 as (re) engrossed

House Government Operations Committee

- Action Taken**
- HOUSE accede to Senate Amendments
 - HOUSE accede to Senate Amendments and further amend
 - SENATE recede from Senate amendments
 - SENATE recede from Senate amendments and amend as follows
 - Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion Made by: Senator Poolman Seconded by: Senator Dever

Representatives					Senators				
	4/29		Yes	No		4/29		Yes	No
Chairman Vigesaa	X			X	Senator Oehlke	X		X	
Representative Mock	X			X	Senator Poolman	X		X	
Representative Howe	X			X	Senator Dever	X		X	
Total Rep. Vote				3	Total Senate Vote			3	

Vote Count Yes: 3 No: 3 Absent: 0

House Carrier _____ Senate Carrier _____

LC Number _____ . _____ of amendment

LC Number _____ . _____ of engrossment

Emergency clause added or deleted

Statement of purpose of amendment – to adopt amendment .02008 without section 6.

Motion failed

**2021 HOUSE CONFERENCE COMMITTEE
 ROLL CALL VOTES**

BILL/RESOLUTION NO. HB1004 as (re) engrossed

House Government Operations Committee

- Action Taken** **HOUSE accede to Senate Amendments**
 HOUSE accede to Senate Amendments and further amend
 SENATE recede from Senate amendments
 SENATE recede from Senate amendments and amend as follows
- Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion Made by: Representative Mock Seconded by: Representative Howe

Representatives	4/29			Yes	No	Senators	4/29			Yes	No
Chairman Vigesaa	X			X		Senator Oehlke	X			X	
Representative Mock	X			X		Senator Poolman	X			X	
Representative Howe	X			X		Senator Dever	X			X	
Total Rep. Vote				3		Total Senate Vote				3	

Vote Count Yes: 6 No: 0 Absent: 0

House Carrier Representative Mock Senate Carrier Senator Oehlke

LC Number _____ . _____ of amendment

LC Number _____ . _____ of engrossment

Emergency clause added or deleted

Statement of purpose of amendment – to adopt amendment .02008 with section 6

REPORT OF CONFERENCE COMMITTEE

HB 1004, as engrossed: Your conference committee (Sens. Oehlke, Piepkorn, Dever and Reps. Vigesaa, Mock, Howe) recommends that the **SENATE RECEDE** from the Senate amendments as printed on HJ pages 1563-1566, adopt amendments as follows, and place HB 1004 on the Seventh order:

That the Senate recede from its amendments as printed on pages 1563-1566 of the House Journal and pages 1289-1293 of the Senate Journal and that Engrossed House Bill No. 1004 be amended as follows:

Page 1, line 1, replace "and" with a semicolon

Page 1, line 2, replace "section" with "sections"

Page 1, line 2, after "54-10-10" insert ", 54-10-14, and 54-10-27"

Page 1, line 3, after "auditor" insert ", political subdivision audits, and occupational and professional board audits; to provide for a prescription drug coverage performance audit; and to provide for legislative management reports"

Page 1, replace lines 12 through 18 with:

"Salaries and wages	\$12,668,218	\$455,341	\$13,123,559
Operating expenses	1,161,820	209,883	1,371,703
Information technology consultants	<u>450,000</u>	<u>0</u>	<u>450,000</u>
Total all funds	\$14,280,038	\$665,224	\$14,945,262
Less estimated income	<u>4,173,178</u>	<u>1,652,974</u>	<u>5,826,152</u>
Total general fund	\$10,106,860	(\$987,750)	\$9,119,110
Full-time equivalent positions	58.00	3.00	61.00"

Page 2, line 5, replace "thirteen" with "fourteen"

Page 2, line 6, replace "nine" with "four"

Page 2, line 6, replace "twenty-five" with "eighty-six"

Page 2, after line 6, insert:

"SECTION 4. AMENDMENT. Section 54-10-14 of the North Dakota Century Code is amended and reenacted as follows:

54-10-14. Political subdivisions - Audits - Fees - Alternative audits and reports.

1. The state auditor shall audit the following political subdivisions once every two years, except as provided in this section or otherwise by law:
 - a. Counties.
 - b. Cities, and when a city is audited, to include any political subdivision that was created by the city and has bonding authority.
 - c. Park districts.
 - d. School districts.
 - e. Firefighters relief associations.
 - f. Airport authorities.

- g. Public libraries.
 - h. Water resource districts.
 - i. Garrison Diversion Conservancy District.
 - j. Rural fire protection districts.
 - k. Special education districts.
 - l. Area career and technology centers.
 - m. Correction centers.
 - n. Recreation service districts.
 - o. Weed boards.
 - p. Irrigation districts.
 - q. Rural ambulance service districts.
 - r. Southwest water authority.
 - s. Regional planning councils.
 - t. Soil conservation districts.
 - u. Western area water supply authority industrial water sales on an annual basis.
2. The state auditor shall charge the political subdivision an amount equal to the fair value of the audit and any other services rendered. The fees must be deposited in the state auditor operating account. The state treasurer shall credit the state auditor operating account with the amount of interest earnings attributable to the deposits in that account. Expenses relating to political subdivision audits must be paid from the state auditor operating account, within the limits of legislative appropriation.
3. In lieu of conducting an audit every two years, the state auditor may require annual reports from ~~school districts with less than one hundred enrolled students; cities with less than five hundred population; and other~~ political subdivisions subject to this section, or otherwise provided by law, with less than ~~three hundred~~seven hundred fifty thousand dollars of annual receipts, excluding any federal funds passed through the political subdivision to another entity. If any federal agency performs or requires an audit of a political subdivision that receives federal funds to pass through to another entity, the political subdivision shall provide a copy to the state auditor upon request by the state auditor. The reports must contain the financial information required by the state auditor. The state auditor also may make any additional examination or audit determined necessary in addition to the annual report. When a report is not filed, the state auditor may charge the political subdivision an amount equal to the fair value of the additional examination or audit and any other services rendered. The state auditor may charge a political subdivision a fee not to exceed ~~eighty~~eighty-six dollars an hour for the costs of reviewing the annual report.

4. A political subdivision, at the option of its governing body, may be audited by a certified public accountant or licensed public accountant rather than by the state auditor. The public accountant shall comply with generally accepted government auditing standards for audits of political subdivisions. The report must be in the form and content required by the state auditor. The number of copies of the audit report requested by the state auditor must be filed with the state auditor when the public accountant delivers the audit report to the political subdivision. The state auditor shall review the audit report to determine if the report is in the required form and has the required content, and if the audit meets generally accepted government auditing standards. The state auditor also may periodically review the public accountant's workpapers to determine if the audit meets generally accepted government auditing standards. If the report is in the required form and has the required content, and the report and workpapers comply with generally accepted government auditing standards, the state auditor shall accept the audit report. The state auditor may charge the political subdivision a fee of up to ~~eighty~~~~six~~ dollars an hour, but not to exceed ~~five~~~~seven~~ hundred ~~fifty~~ dollars per review, for the related costs of reviewing the audit report and workpapers.
5. A political subdivision may not pay a public accountant for an audit until the state auditor has accepted the audit. However, a political subdivision may make progress payments to the public accountant. A political subdivision shall retain twenty percent of any progress payment until the audit report is accepted by the state auditor.
6. The state auditor may require the correction of any irregularities, objectionable accounting procedures, or illegal actions on the part of the governing board, officers, or employees of the political subdivision disclosed by the audit report or workpapers, and failure to make the corrections must result in audits being resumed by the state auditor until the irregularities, objectionable accounting procedures, or illegal actions are corrected.

SECTION 5. AMENDMENT. Section 54-10-27 of the North Dakota Century Code is amended and reenacted as follows:

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SECTION 6. PUBLIC EMPLOYEES RETIREMENT SYSTEM - STATE AUDITOR - PRESCRIPTION DRUG COVERAGE PERFORMANCE AUDIT - REPORTS TO LEGISLATIVE MANAGEMENT. In lieu of the requirement under section 54-52.1-04.16 that the public employees retirement system contract to conduct a prescription drug coverage performance audit of the main public employees retirement system health benefit plan for calendar year 2021, the state auditor shall contract in accordance with chapter 54-10 to conduct a prescription drug coverage performance audit of the main public employees retirement system health benefit plan during the 2021-22 interim, in the same manner as provided for under section 54-52.1-04.16, for calendar years 2019, 2020, and 2021. Audit fees, not to exceed \$375,000, for audits performed under this section must be on a flat fee or hourly basis and be paid by the public employees retirement system board. The state auditor shall provide reports to the legislative management regarding contracts to conduct prescription drug coverage performance audits, performance audit results, and audit reports issued."

ReNUMBER accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1004 - State Auditor - Conference Committee Action

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Department 117 - State Auditor - Detail of Conference Committee Changes

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Less estimated income	5,056	1,153,311	0	1,158,367
General fund	\$9,413	\$0	\$184,447	\$193,860
FTE	0.00	6.00	1.00	7.00

¹ Funding is adjusted to provide salary increases of 1.5 percent on July 1, 2021, with a minimum monthly increase of \$100, and 2 percent on July 1, 2022, the same as the Senate version. The House provided salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250.

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³ One vacant FTE auditor IV position and related salaries and wages and operating expenses removed by the House is restored. The Senate restored 2 FTE vacant positions removed by the House.

This amendment also:

- Amends Section 3 to provide the statutory changes necessary to increase the State Auditor's salary from the current salary of \$110,582 to \$112,241 (1.5 percent) in fiscal year 2022, and to \$114,486 (2 percent) in fiscal year 2023, the same as the Senate version. The House provided salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250.
- Adds Section 4, the same as the Senate version, to increase the:
 - Threshold for political subdivisions to provide an annual report in lieu of an audit from \$300,000 of annual receipts to \$750,000 of annual receipts;
 - Hourly fee for the review of political subdivision annual reports from \$80 per hour to \$86 per hour;
 - Hourly fee for the review of political subdivision audit reports and workpapers from \$80 per hour to \$86 per hour;
 - Maximum fee for review of political subdivision audit reports and workpapers from \$500 per review to \$750 per review.
- Removes the population thresholds for political subdivision reports in the amendments in Section 4. This change was not part of the House or Senate version.
- Adds Section 5 to increase the hourly fee for the review of occupational and professional board annual reports from \$50 per hour to \$86 per hour, the same as the Senate version.
- Adds Section 6 to require the State Auditor contract to conduct prescription drug coverage performance audits of the main Public Employees Retirement System health benefit plan.

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