

**2015 SENATE APPROPRIATIONS**

**SB 2004**

# 2015 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee  
Harvest Room, State Capitol

SB 2004  
1/14/2015  
Job # 21978

- Subcommittee  
 Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

A BILL for an ACT to provide an appropriation for defraying the expenses of the State Auditor.

## Minutes:

Testimony 1 & 2 (# 3 submitted after hearing)

**V.Chairman Bowman** called the committee back to order on Wednesday, January 14, 2015 at 2:00 p.m. All committee members were present except Chairman Holmberg and Senator Erbele who were ill. Tammy Dolan, OMB and Michael Johnson, Legislative Council, were also present.

**Robert R. Peterson, State Auditor** Testified in favor of SB 2004 and provided written Testimony Attached # 1, Office of the State Auditor stating the Brief Historical Perspective, Program Goals and Objectives, Requested changes to SB 2004 and Proposed Amendments to SB 2004. He started on the last page, page 9 and there are 3 requested amendments to this budget:

- #1. Add two FTE's and related general funds for additional performance auditors.
- #2. Add general funds of \$234,720 for salaries.
- #3. Add \$150,000 one-time funding for renovating office space

He referred to Testimony Attachment # 2 - Audit Report and stated there has been a total of 38 audits. I believe The Legislature would benefit from giving us two more performance audits. It takes 5 or 6 months to get the performance audit out the door. If we could have a couple more people I think we could add one or two more per year, depending upon the complexity. (2.07)

**Senator Carlisle:** On these 3 requests are these in the governor's budget?

**Mr. Peterson:** No. I would like to talk about # 2 request - to add general funds of \$234,720 for salaries. We're requesting these additional dollars to attract better candidates and retain our existing staff. In our last attempt to fill two vacancies, we were unable to find even one candidate that we felt was qualified to meet our minimum standards. We talked to the chairs of the accounting program at UND and NDSU; one chair addressed the fact that

even the accounting students from the western part of the state don't want to go back to the western part of the state for accounting jobs. And the other chair addressed the fact that the accounting students were leary of trying to get a job in Bismarck just because of the high housing costs and trouble finding a place to stay if they were to apply for a job in Bismarck. I think we will be facing some issues getting students to come back from the eastern part of the state to come to work here.

**Senator O'Connell:** What is the pay scale that you're offering and what is the pay scale that they can pick up someplace else?

**Mr. Peterson:** \$3,800 a month, the privates are maybe 2 to \$400 more than that. Gordy retired September of 2013, two came in, one went to Legislative Council, one went to MDU, not only were they going to pay her more than I was paying her, they gave her a \$5,000 signing bonus and they gave her a \$10,000 retention bonus if she'd stay for two years. The economy is going, there are jobs out there, and they are good paying jobs, but we are going to struggle to retain our employees, I think any state office is going to struggle.

**Senator O'Connell:** Which agency seems to be hiring away from anybody else?

**Mr. Peterson:** In the past, because I'm in accounting, I've had people leave for OMB, and this has been truly before I became State Auditor, OMB and Legislative Council, Ag Dept. I don't mind losing my auditors to other state agencies because the state is still getting the benefit of these trained and experienced employees. That's a positive thing to have those auditors out there in other roles. We traditionally hire out of college and train, it takes about a year of training and supervision to get them up to where they need to be for their job.

**Senator Carlisle:** Are you talking about CPA's or just auditors? He also commented about the CPA jobs is a desired job in Bismarck.

**Mr. Peterson:** I am talking about both. I don't differentiate. There is a big demand for CPA's and in Minot Hess just came in and bought a building and staffed it. It's positive for the economy but it is driving up the price of people skills. My last topic, I would like \$150,000 one-time funding for renovating office space.

**Senator Heckaman:** is that office space in the capitol. She was told yes, Its' on 3<sup>rd</sup> floor. She asked if he has any office space out of the capitol building?

**Mr. Peterson:** I do I have an office down town Bismarck 3<sup>rd</sup> floor of a bank building, it is the MNS Management system. These are auditors that work for me, but they are paid for by the federal government, they audit coal, oil and gas royalties for the federal government in ND. It's been a very positive and productive program for the federal government. This is in at least 10 other states. Also in Fargo, I have a political sub division office and they audit the university system as well as political subs in ND. Political Subs We've been pretty much operating in the eastern part of the state.

**V. Chairman Krebsbach:** Your proposed amendments, did they come in after the budget went to the governor?

**Mr. Peterson:** The performance audit we did request, and the 2<sup>nd</sup> one as well. We thought about getting some one-time funding for fixing up the office space. OMB's position is if the legislature wants more performance audits they could put the performance audits back in.

**V.Chairman Bowman:** How many of these dollars are going to eastern ND for education. Maybe we should move some of that out there, so we can be better educated.

**Mr. Peterson:** what I was suggesting is why I have auditors in the eastern part of the state auditing the university system since that is where the preponderance of dollars are going.

**Senator Kilzer:** Could you tell us more about the expense of having contracting auditors as opposed to having them in-house, assuming that you'd be able to have adequate numbers in-house in the future?

**Mr. Peterson:** I have some recent numbers on the performance audits, on the second page, I show the audits that we don't do, that we bid out, for 2014, partners in the CPA firms that submitted bids are making about \$210 to \$26055 t \$80 an per hour. The managers are making about \$140 to \$155 per hour. My managers we charge out at about \$85 to \$90 an hour. The private firms the staff runs about \$85 to \$115 an hour. My staff costs are about \$55 to \$80 an hour. And then clerical is \$50 to \$80 an hour. My auditors print their own reports. Since the legislature two sessions back gave me electronic work papers, it's really been a boom to us. We don't do a lot of paper, except to print reports for people who want to read them. We're producing our own reports and putting them out on the web.(14.31)

**Senator Kilzer:** How much less money would we put out if all of these were done in-house? Practically all, I assume there are some that have to be done outside.

**Mr. Peterson:** At one time we looked at that. I don't have a current number. The Bank of ND (BND) is problematic, because I would need a bank auditor. To have a bank auditor on staff to do one job it's really not cost efficient, especially when the private CPA firms, they do a lot of banks throughout ND. Other than that, I don't know. It would take a number of people. I could possibly work up a number.

**Senator Kilzer:** I'd like to hear just a rough estimate. On the laws of supply and demand, is it difficult to get these outsiders to do the work in a timely manner?

**Mr. Peterson:** Almost everyone knows that I'm going to be bidding these jobs. The BND I bid on a 10 year basis and it goes between I Bailey and Brady Marks, are the two firms that are capable of taking care of the BND. They all know what the schedule is so they're all prepared to, and you do that because you to want change auditors, you don't want your same auditors looking at your books time and again. You want fresh eyes on it, which is why we rotate people from doing different agencies, so we'll move different people so you get a different flavor and different perspective. We want new thinking approaching the problem. But all the firms know that we're going to be bidding these out. As far as your requests, I will certainly look at that. You will meet some resistance because I Bailey, Brady Marks they have invested a lot of money in creating staffs to do this.

**Senator Robinson:** our friends at Dickinson State in the Foundation Office went through a rough time, for whatever reason their operation was not audited by the state for some time, from the stand point, not for catching something but preventing something, what's the history of Dickinson, why didn't they intervene earlier?

**Mr. Peterson:** Foundations are audited by private firms. Yes, they have to be included in the financial statements of that university or college. I can't speak to what happened, because I did not do the audit on the Foundation. They made some bad decisions. They took funds that are dedicated, if you dedicate money and I say I want it to be used for a specific purpose, well they were taking their money and using it for operating costs, which is in direct violation of what their trustee responsibility supposed to be. If someone donates money for a scholarship in their name, you have to continue to honor that.

**Senator Robinson** talked about the procedures used at Valley City State College concerning audits and commented if something isn't right, it is better to know before things happen than after the fact. He also made comments about whether Dickinson State uses the State Auditor's audit.

**Mr. Peterson:** That is up to the Foundation and the University as to whether they want to enter into that relationship with us. I have no authority over the Foundation and so they have to want to do what you're doing. They are independent but they have to have an audit but they don't have to involve the State Auditor's Office.

**V.Chairman Bowman:** We can probably get the answers for that when they come in for their budget. He then asked if there was any other testimony or anyone in opposition to the Bill. Seeing none, he closed the hearing on SB 2004.

Testimony requested by Senator Kilzer at this hearing held on 01-14-15 was submitted on 1-26-2015.

#3 - Office of the State Auditor RE: resources needed to perform the audits the State auditor contracts to CPA firms.

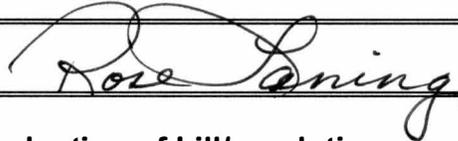
# 2015 SENATE STANDING COMMITTEE MINUTES

## Appropriations Committee Harvest Room, State Capitol

SB 2004  
2/11/2015  
Job # 23640

- Subcommittee  
 Conference Committee

Committee Clerk Signature



### Explanation or reason for introduction of bill/resolution:

This is a subcommittee hearing on the budget of the State Auditor budget.

### Minutes:

Attachment 1 - 2

Legislative Council - Sheila Sandness  
OMB - Becky Keller

**Senator Wanzek** called the sub-committee to order on SB 2004. Senator Holmberg and Senator Heckaman are also present.

**Senator Wanzek** said it was a fairly simple budget with no new FTEs. It's mostly the salary package and the cost to continue with the salary. I'm trying to understand the adjustments to meet hold even general fund limits minus \$104,904. Could someone explain that to me?

**Don LaFleur, Information Systems Manager, Budget Auditor:** The Governor requested we do hold even budget for the general funds. In order to do that with our current salaries that we were paying people, we were over budget for next biennium, so we had to underfund salaries. The underfunding was actually \$173,000. There was a net to get to the \$104,000 that you're seeing on the green sheet - Attachment 1. The only place we can cut is salaries because their operating is very small. We're primarily salaries in the auditor's office.

Discussed the hold even budget.

**Becky Keller, OMB:** When they did that change package, it is a net. They subtracted their salaries \$173,712 but they added some funding for operating of \$68,808. When you net out, you get a negative \$104,904. The reason they did that is because they had to have their increases in their operating to maintain their office, so the only place they could cut to meet the base limit that we established was to cut salaries.

When we went to do their budget, then we let them add their salaries back in and we let them keep the operating.

**Don LaFleur:** That \$68,000 that was added was for the desktop support for ITD. We are one of the agencies that ITD will take over our desktop support.

**Becky Keller:** In order to get to your base adjustment where you subtracted the \$173,000 for salaries, you also added the \$68,000 in operating to get to that \$104,000.

**Don LaFleur:** I see that now.

**Senator Holmberg:** So where are we at? Are we happy or in trouble?

**Becky Keller:** Their budget is fine. By adding that little bit of operating, then we also added some additional for the ITD desktop support that they asked for. We did not give them much of what they asked for. We let them keep the FTE that they got from the emergency commission, but we just changed the funding source. We didn't allow them to add a new FTE for that. We had them use a vacant FTE position. Any other increase would have been their cost to continue in their salaries.

**Senator Wanzek:** That was an FTE authorized in the last session, but it took budget section action to actually implement that.

**Becky Keller:** For the emergency commission request, they just used a vacant FTE position, but they had gotten additional federal funds to fund it. When you get something from the emergency commission, you have to re-request it for the new biennium. When they did that request, we changed it up on them. We let them continue to use that vacant FTE rather than give them a new FTE, so then we had to change the funding source because the FTE they were using was special funds and now it's federal funds. The net change for them switching funding sources, we allowed them an additional \$4000 for that federal position because they paid them a little higher apparently. The \$102,000 that you see on the sheet is the net of that change and then their cost to continue salaries.

Discussing the cost to continue and costs on the green sheet.

**Senator Wanzek:** I think I'm understanding it. The \$104,904 basically was to hold their base budget even and after they did that, now we come in with the new changes in salary a add those back in.

**Senator Holmberg** to further complicate, the sheet we have anticipates the 4/4 so that would also be adjusted slightly.

**Sheila Sandness, Legislative Council** handed out the worksheet on the Base Level Funding Changes - Attachment 2. You can see under the Senate version section. That is the actual base budget which is last times appropriation minus any one-times. When you go to work on this budget, it will be up to you to decide which items move over from the executive budget recommendation over into the Senate version. You can either go through the list item by item and decide what you want to include or you can make a motion to include all of the executive recommendation items with the exception of the adjustment for the payroll package. It's however you want to do that but at the end of the day, we'll take your direction as to what goes into the Senate version column. With the salary

package, we'll adjust the language in section 3 which has to do with the State Auditor's salary.

Discussed the workings of the worksheet -

**Senator Holmberg** moved that they leave the budget as presented with the exception of making those salary adjustments and the state auditor salary adjustment which is automatic with the other ones.

**Senator Wanzek** seconded the motion.

**Senator Holmberg** said this was not full committee so they would just be making a recommendation to the committee. We'll just ask that that amendment be drafted.

**Senator Heckaman** asked for clarification of the salary package.

Talked about a bill in the House that takes the internal auditor from the University System and transfers them all to the auditor's office.

**Bob Peterson, North Dakota State Auditor:** We did have other additional requests, but hopefully the committee will take those up at some point. I was looking for a couple more performance auditors and additional funding for renovating the third floor office area.

**Senator Wanzek:** This isn't over until the session is over, but based on the latest revenue forecast, I don't know if it would pay to take a lot of time to review that right at the moment.

**Senator Heckaman:** When I look at the sheet we got from council, we don't have any other one-time funding requests on there, so is that right?

**Bob Peterson:** It was in our testimony.

**Sheila Sandness:** What's on your sheet is what the executive recommendation included, so if they requested it, it was in their request, but the governor didn't provide it.

**Senator Heckaman:** Where it says one-time funding, and you have no one-time funding included in the executive recommendation, I thought his request would be on other one-time funding, but it's not?

**Sheila Sandness:** This sheet only includes what the governor recommended. It would only be included on the sheet if it was a request from a committee member.

**Senator Wanzek:** The OARS would be ongoing requests?

**Bob Peterson:** They would be ongoing.

**Senator Wanzek** closed the hearing on SB 2004

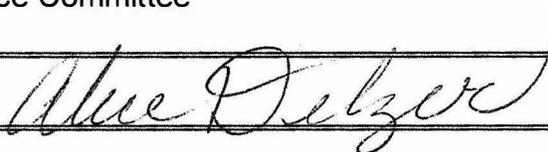
# 2015 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee  
Harvest Room, State Capitol

SB 2004  
2/13/2015  
Job # 23824

- Subcommittee  
 Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

A BILL for an Act to defray the expenses of the State Auditor's Office

## Minutes:

Attachment # 1

**Chairman Holmberg** called the committee to order on Friday, February 13, 2015 in regards to SB 2004. All committee members were present. Tammy Dolan, OMB and Brady Larson, Legislative Council and Chris Kadrmaz, Legislative Council were also present.

**Senator Wanzek** explained the Amendment # 15.8137.01001, attachment # 1.

**Senator Wanzek** moved the amendment. 2<sup>nd</sup> by V.Chairman Bowman.

**Chairman Holmberg:** All in favor of the amendment say aye. It carried.

**Senator Wanzek** moved a Do Pass as Amended. 2<sup>nd</sup> by Senator Erbele.

**Chairman Holmberg:** Call the roll on a a Do Pass as Amended on Sb 2004.

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

**Senator Wanzek** will carry the bill. The hearing was closed on SB 2004.

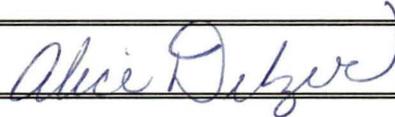
# 2015 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee  
Harvest Room, State Capitol

SB 2004  
4/7/2015  
Job # 25855

- Subcommittee  
 Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

Discussion regarding Bills in committee and also regarding Conference Committee appointments for SB 2001, 2017, 2011 and 2004. .

## Minutes:

No testimony submitted

**Chairman Holmberg** called the committee to order on Tuesday, April 07, 2015 at 8:30 am. All committee members were present. Adam Mathiak, Legislative Council and Becky Deichert, OMB were also present. As you see we have quite a few bills out. We need them done by Friday. I've visited with some of the chairs and they feel pretty comfortable that we can get them to Legislative Council before too long. I think Thursday and Friday will be big days. Some are close, some need some meetings, and tomorrow is a good day for meetings. There are still bills that may or may not have fiscal notes on them.

**Senator Carlisle:** We are meeting at 4:00 today on 1014. On 1358, there is a meeting with some folks with the governor today and we'll know today at 4:00 if they will have something they can resolve. 1443, we don't need to do anything yet. With the revolving fund, we have the amendment. Just hold onto the bill. This afternoon we'll do 1014. We found a correction, we need to add \$10M in for the Housing Incentive Fund, and we'll bring that up today and see what happens on 1358, if they have resolution on that.

**Chairman Holmberg** asked if there was anything else that is ready right now.

**Senator Carlisle** I got asked about HB 1059, new transmission line property tax exemption? .

**Chairman Holmberg:** I haven't heard anything about it. Who's asking?

**Senator Carlisle:** Some of the folks from lignite, Sandy Tabor, who just changed jobs with Basin Electric. I'll catch her.

**Chairman Holmberg:** That is the one where Senator Oehlke had amendments. Sandy Tabor was working on that. I don't have a note on here on Oehlke's amendments. Were these other folks supportive of it? He was told they were just asking the status and I said

it's not on the board. Oehlke's amendment was the homestead tax credit issue, which the House has disposed of.

**Chairman Holmberg:** I have 4 Bills that have come back from the House:

SB 2001, The Governor's Bill: (3.52) I did not concur. It is the governor's budget. The House took out the section that allows the governor to accept federal money as it comes in. I visited with Senator Erbele. I do know the governor's office would like us to work on that bill a little more. So we will not concur. The conference committee members will be: Senator Erbele, Senator Bowman and Senator Mathern.

SB 2017 - Game and Fish: (4.42) I did not concur. They did not like some things we had done. We are going to do a conference committee: The conference committee members are: Senator Wanzek, Senator Carlisle and Senator O'Connell.

SB 2011 - Securities Commission: (5.26) We did not have a subcommittee. The House did the health insurance, and then took out the accrued leave. Becky, do you know why they did that?

Becky Deichert, OMB: They kind of talked about maybe they shouldn't have taken it out. It's one-time funds that they got. It's been there for 50 years.

Chairman Holmberg: Let us then not concur. The conference committee members are: Senator Bowman, Senator Erbele and Senator O'Connell. That should be one meeting. They would accede from their amendments and further amend because you still have to have the health item.

**SB 2004 - State Auditor: (7.13) I will concur. Two changes in the Auditor's budget which will cause some discussion is that the external audit system, for the University system was put into the auditor's budget. The money came from the campuses that was used to pay those people that are being transitioned. But where the problem arises from the campus level, these people were, mostly internal auditors, and they were at UND and NDSU. There is no prohibition, UND and NDSU can have internal auditors because the external auditors, the auditors from the auditor's office cannot audit themselves. So what we have looked at in the Higher Ed budget is, there was a pool of the money stripped away from UND and NDSU, where the auditors were to pay for buses that the people who used to be at NDSU and UND had wanted, but they're gone. The DOT, everyone has got their hands up in the air because someone is stuck with the old maid, if you play that card, and no one wants to pay. What we are looking at is kicking the can down the road and taking that \$325 that's in each campus, put it together, not all of it; but enough to cover the cost of the internal audit, put it in the Board Office and they can either contract internal auditing, with whatever auditor firm, and many campuses do that, or they would not be prohibited from hiring people on those campuses to do the internal audit. So there would be an internal audit function. I think one of the challenges that occurred with the publicity on that move was that they could have no internal auditors. Then there was a lot of discussions taken out of context. For example, the State Auditor went to the Board, and they asked him the question, can your people**

**that work for you do internal auditing? And he said it can't be done, so that was the headline they had that the change couldn't be done. Well, it wasn't the change, it was the fact that still have to have their own internal auditors, not prohibited but they kind of took out the money. So now we have the money back in so I would suggest we concur. (10.14) He asked if there was anything else.**

**Senator Erbele:** HB1393, the STEM one, is just an up and down vote whether we want to add that \$100,000 whether they want to do job fairs.

**Chairman Holmberg:** Anything else? HB 1377, that was the balance of the SIIF fund, there seems to be agreement, at least 3 of the 4, that the \$712M isn't necessary to be hidden there. The legacy fund transfer was included in 1176 that we passed the other day. So there is only one other aspect of that. Let's not come back at 9:30 today. We will start tomorrow morning at 8:30. The hearing was closed.

2/13/15  
 JWR  
 1/2

February 12, 2015

PROPOSED AMENDMENTS TO SENATE BILL NO. 2004

Page 1, replace lines 12 through 19 with:

"Salaries and wages	\$10,113,137	\$1,131,794	\$11,244,931
Accrued leave payments	201,157	(201,157)	0
Operating expenses	901,113	190,397	1,091,510
Information technology consultants	<u>250,000</u>	<u>200,000</u>	<u>450,000</u>
Total all funds	\$11,465,407	\$1,321,034	\$12,786,441
Less estimated income	<u>3,036,918</u>	<u>478,249</u>	<u>3,515,167</u>
Total general fund	\$8,428,489	\$842,785	\$9,271,274
Full-time equivalent positions	53.80	0.00	53.80"

Page 2, line 8, remove "one hundred"

Page 2, remove line 9

Page 2, line 10, replace "thousand eight hundred thirty-three" with "one hundred two thousand six hundred eighty-nine dollars through June 30, 2016, and one hundred five thousand seven hundred seventy"

Re-number accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2004 - State Auditor - Senate Action

	Base Budget	Senate Changes	Senate Version
Salaries and wages	\$10,113,137	\$1,131,794	\$11,244,931
Operating expenses	901,113	190,397	1,091,510
Information technology consultants	250,000	200,000	450,000
Accrued leave payments	<u>201,157</u>	<u>(201,157)</u>	
Total all funds	\$11,465,407	\$1,321,034	\$12,786,441
Less estimated income	<u>3,036,918</u>	<u>478,249</u>	<u>3,515,167</u>
General fund	\$8,428,489	\$842,785	\$9,271,274
FTE	53.80	0.00	53.80

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

	Adjusts Base Payroll <sup>1</sup>	Adds Funding for Salary and Benefit Increases <sup>2</sup>	Adds Funding for Royalty Auditor <sup>3</sup>	Adds Funding to Continue Other 2013-15 Biennium Salary Adjustments <sup>4</sup>	Adds Funding for University System Security Audits <sup>5</sup>	Adds Funding for IT Desktop Support <sup>6</sup>
Salaries and wages	\$401,723	\$643,571	\$86,500	\$173,712		
Operating expenses			16,250			99,600
Information technology consultants					200,000	
Accrued leave payments	<u>(201,157)</u>					
Total all funds	\$200,566	\$643,571	\$102,750	\$173,712	\$200,000	\$99,600
Less estimated income	<u>(23,203)</u>	<u>162,563</u>	<u>102,750</u>	<u>0</u>	<u>200,000</u>	<u>30,400</u>

General fund	\$223,769	\$481,008	\$0	\$173,712	\$0	\$69,200
FTE	0.00	0.00	0.00	0.00	0.00	0.00
	<b>Adjusts Base Level Funding<sup>7</sup></b>	<b>Total Senate Changes</b>				
Salaries and wages	(\$173,712)	\$1,131,794				
Operating expenses	74,547	190,397				
Information technology consultants		200,000				
Accrued leave payments		(201,157)				
Total all funds	(\$99,165)	\$1,321,034				
Less estimated income	5,739	478,249				
General fund	(\$104,904)	\$842,785				
FTE	0.00	0.00				

2/2

<sup>1</sup> Funding is added for cost-to-continue 2013-15 biennium salaries and benefit increases and for other base payroll changes.

<sup>2</sup> The following funding is added for 2015-17 biennium performance salary adjustments of 2 to 4 percent per year and increases in monthly health insurance premiums:

	General Fund	Other Funds	Total
Salary increase - Performance	\$307,054	\$103,356	\$410,410
Health insurance increase	173,954	59,207	233,161
Total	\$481,008	\$162,563	\$643,571

<sup>3</sup> Federal funding is added relating to a royalty auditor position.

<sup>4</sup> Funding is added to continue other salary adjustments made during the 2013-15 biennium.

<sup>5</sup> Funding is added to complete security audits of the 11 institutions in the North Dakota University System.

<sup>6</sup> Funding is added for desktop support services from the Information Technology Department.

<sup>7</sup> Funding for operating expenses is increased and salaries are decreased to adjust to a hold-even budget.

Section 3 is amended to provide the statutory changes increasing the State Auditor's salary. The State Auditor's annual salary is increased from the current level of \$99,698 to \$102,689, effective July 1, 2015, and to \$105,770, effective July 1, 2016, to reflect a 3 percent salary increase each year of the biennium.

Date: 2-13-15  
Roll Call Vote #: 1

2015 SENATE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. 2004

Senate Appropriations Committee

Subcommittee

Amendment LC# or Description: 15.8137.01001

Recommendation:  Adopt Amendment  
 Do Pass     Do Not Pass     Without Committee Recommendation  
 As Amended     Rerefer to Appropriations  
 Place on Consent Calendar  
Other Actions:  Reconsider     \_\_\_\_\_

Motion Made By Wanzek    Seconded By Bowman

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg			Senator Heckaman		
Senator Bowman			Senator Mathern		
Senator Krebsbach			Senator O'Connell		
Senator Carlisle			Senator Robinson		
Senator Sorvaag					
Senator G. Lee					
Senator Kilzer					
Senator Erbele					
Senator Wanzek					

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

Absent \_\_\_\_\_

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

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

*Voice Vote Carried*

Date: 2-13-15  
 Roll Call Vote #: 2

**2015 SENATE STANDING COMMITTEE  
 ROLL CALL VOTES  
 BILL/RESOLUTION NO. \_\_\_\_\_**

Senate Appropriations Committee

Subcommittee

Amendment LC# or Description: \_\_\_\_\_

Recommendation:  Adopt Amendment  
 Do Pass  Do Not Pass  Without Committee Recommendation  
 As Amended  Rerefer to Appropriations  
 Place on Consent Calendar  
 Other Actions:  Reconsider  \_\_\_\_\_

Motion Made By Wanzek Seconded By Erbele

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	✓		Senator Heckaman	✓	
Senator Bowman	✓		Senator Mathern	✓	
Senator Krebsbach	✓		Senator O'Connell	✓	
Senator Carlisle	✓		Senator Robinson	✓	
Senator Sorvaag	✓				
Senator G. Lee	✓				
Senator Kilzer	✓				
Senator Erbele	✓				
Senator Wanzek	✓				

Total (Yes) 13 No 0

Absent 0

Floor Assignment Wanzek

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

**REPORT OF STANDING COMMITTEE**

**SB 2004: Appropriations Committee (Sen. Holmberg, Chairman)** recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (13 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2004 was placed on the Sixth order on the calendar.

Page 1, replace lines 12 through 19 with:

"Salaries and wages	\$10,113,137	\$1,131,794	\$11,244,931
Accrued leave payments	201,157	(201,157)	0
Operating expenses	901,113	190,397	1,091,510
Information technology consultants	<u>250,000</u>	<u>200,000</u>	<u>450,000</u>
Total all funds	\$11,465,407	\$1,321,034	\$12,786,441
Less estimated income	<u>3,036,918</u>	<u>478,249</u>	<u>3,515,167</u>
Total general fund	\$8,428,489	\$842,785	\$9,271,274
Full-time equivalent positions	53.80	0.00	53.80"

Page 2, line 8, remove "one hundred"

Page 2, remove line 9

Page 2, line 10, replace "thousand eight hundred thirty-three" with "one hundred two thousand six hundred eighty-nine dollars through June 30, 2016, and one hundred five thousand seven hundred seventy"

ReNUMBER accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

**Senate Bill No. 2004 - State Auditor - Senate Action**

	Base Budget	Senate Changes	Senate Version
Salaries and wages	\$10,113,137	\$1,131,794	\$11,244,931
Operating expenses	901,113	190,397	1,091,510
Information technology consultants	250,000	200,000	450,000
Accrued leave payments	201,157	(201,157)	
Total all funds	\$11,465,407	\$1,321,034	\$12,786,441
Less estimated income	<u>3,036,918</u>	<u>478,249</u>	<u>3,515,167</u>
General fund	\$8,428,489	\$842,785	\$9,271,274
FTE	53.80	0.00	53.80

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

	Adjusts Base Payroll <sup>1</sup>	Adds Funding for Salary and Benefit Increases <sup>2</sup>	Adds Funding for Royalty Auditor <sup>3</sup>	Adds Funding to Continue Other 2013-15 Biennium Salary Adjustments <sup>4</sup>	Adds Funding for University System Security Audits <sup>5</sup>	Adds Funding for IT Desktop Support <sup>6</sup>
Salaries and wages	\$401,723	\$643,571	\$86,500	\$173,712		
Operating expenses			16,250			99,600
Information technology consultants					200,000	
Accrued leave payments	(201,157)					
Total all funds	\$200,566	\$643,571	\$102,750	\$173,712	\$200,000	\$99,600
Less estimated income	(23,203)	<u>162,563</u>	<u>102,750</u>	<u>0</u>	<u>200,000</u>	<u>30,400</u>
General fund	\$223,769	\$481,008	\$0	\$173,712	\$0	\$69,200
FTE	0.00	0.00	0.00	0.00	0.00	0.00
	Adjusts Base Level Funding <sup>7</sup>	Total Senate Changes				

Salaries and wages	(\$173,712)	\$1,131,794
Operating expenses	74,547	190,397
Information technology consultants		200,000
Accrued leave payments		(201,157)
Total all funds	(\$99,165)	\$1,321,034
Less estimated income	5,739	478,249
General fund	(\$104,904)	\$842,785
FTE	0.00	0.00

<sup>1</sup> Funding is added for cost-to-continue 2013-15 biennium salaries and benefit increases and for other base payroll changes.

<sup>2</sup> The following funding is added for 2015-17 biennium performance salary adjustments of 2 to 4 percent per year and increases in monthly health insurance premiums:

	General Fund	Other Funds	Total
Salary increase - Performance	\$307,054	\$103,356	\$410,410
Health insurance increase	173,954	59,207	233,161
Total	\$481,008	\$162,563	\$643,571

<sup>3</sup> Federal funding is added relating to a royalty auditor position.

<sup>4</sup> Funding is added to continue other salary adjustments made during the 2013-15 biennium.

<sup>5</sup> Funding is added to complete security audits of the 11 institutions in the North Dakota University System.

<sup>6</sup> Funding is added for desktop support services from the Information Technology Department.

<sup>7</sup> Funding for operating expenses is increased and salaries are decreased to adjust to a hold-even budget.

Section 3 is amended to provide the statutory changes increasing the State Auditor's salary. The State Auditor's annual salary is increased from the current level of \$99,698 to \$102,689, effective July 1, 2015, and to \$105,770, effective July 1, 2016, to reflect a 3 percent salary increase each year of the biennium.

**2015 HOUSE APPROPRIATIONS**

**SB 2004**

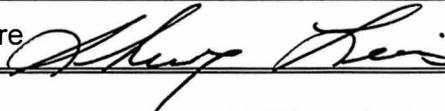
# 2015 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division  
Medora Room, State Capitol

SB2004  
3/6/2015  
Recording Job# 24417

- Subcommittee  
 Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor; and to amend and reenact section 54-10-10 of the North Dakota Century Code, relating to the salary of the state auditor.

## Minutes:

See attachments A and B

**Chairman Thoreson:** Opened the hearing on SB2004.

**Robert Peterson, State Auditor, ND State Auditor's Office:** See attachment A and B.

**Chairman Thoreson:** What are the number of vacancies you have now?

**Robert Peterson:** Two.

**Representative Kempenich:** What are the requirements? Do you have a list?

**Robert Peterson:** We can send that information to you.

Robert Peterson continued with his testimony.

**Chairman Thoreson:** I see you have two ongoing audits; the tuition waivers and the land department. Is that correct?

**Robert Peterson:** That's correct.

**Chairman Thoreson:** What stage are those at?

**Robert Peterson:** The tuition waivers should be done in April.

**Chairman Thoreson:** They won't go to LAFRC because that one is usually quarterly.

**Robert Peterson:** We just started the land department.

Robert Peterson continued with his presentation.

**Sheila Sandness, Fiscal Analyst, ND Legislative Council:** The only change was the salary package.

**Chairman Thoreson:** In the executive budget recommendation was there an increase of FTE's?

**Robert Peterson:** No there was not.

**Chairman Thoreson:** You are requesting that?

**Robert Peterson:** Yes we are.

**Representative Kempenich:** I see there was a request for the mineral royalty auditing. There was a request for one FTE at some point?

**Don LaFleur, Information Systems Auditor, ND State Auditor's Office:** We did put in an emergency request for that additional auditor. They did approve that request and we got that position; however, we had to come back to you to get approved full time. In the executive recommendation the governor moved one of our open political subdivision FTE's over to the federal.

**Representative Kempenich:** You moved it internally around.

**Don LaFleur:** They moved the FTE and the associated funding from the special funds to the federal funds.

**Chairman Thoreson:** The two that you are requesting would be for performance audits only. Is that correct?

**Robert Peterson:** That's correct.

**Chairman Thoreson:** What areas are not being filled right now in that area? You're thinking that there will be more requests for those or do you have some that are outstanding other than what we show here that have been started?

**Robert Peterson:** No. I think we will have more requests. If we do have some turnover, we will be able to finish those audits in a more timely manner. That's one of the issues of performance audits; you want to be able to deliver that information in a timely manner so that the stakeholders can make those decisions. We don't want them to drag out longer than six months if we can help it.

**Chairman Thoreson:** The other issue is HB1003; the budget for higher education. It's passed over to the Senate and moves those positions into your agency. I'm curious as to what discussion went on or if that is the ultimate decision by the legislature. I'm not certain what other accommodations will be needed by your agency to complete that task to have those positions moved over under your supervision.

**Robert Peterson:** It's my understanding that if the Senate approves it that it's basically going to go forward. The amount of money is just a single line item; it's not broken out into the various breakouts. I'm going to need to rent space for them, salaries, equipment, computers; we're basically starting from the ground up.

**Chairman Thoreson:** Right now there is an appropriation of a little over \$1.2 million. That's the line item for the accommodation to get those people into your department.

**Robert Peterson:** Right. By adding two more performance auditors, we can do more performance audits. We could run two teams instead of just one.

**Chairman Thoreson:** Does a team have two persons on it?

**Robert Peterson:** We would like to put three people on each one.

**Representative Hogan:** You're anticipating all the current auditors in the university system would move to Bismarck and be based out of here rather than where they're currently located?

**Robert Peterson:** I'm thinking that we would base them out of Fargo. Ninety percent of the money that the legislature appropriates goes to the valley. We would interview; I'm not going to just take people on. We need to interview because we do have requirements for these positions in my staff.

**Representative Hogan:** The other piece of that is in reviewing your previous performance audits; there's a lot for the university system. I'm interested in how you see that developing.

**Robert Peterson:** Right now with the current performance audit team, we report all the performance audits to the LAFRC. The LAFRC and the legislative assembly have the ability to request performance audits. It's my understanding that these six would be used for the university system. I don't think that that precludes the LAFRC or the legislative assembly from asking for performance audits. They would be dedicated to performance audits.

**Representative Hogan:** Have you reviewed their current functions; their internal auditing requirements? Do you see that continuing or replacing that with your functions?

**Robert Peterson:** We will not be doing internal audit functions.

**Representative Hogan:** Do you have an outline of a plan for transition for those roles and functions and those positions?

**Robert Peterson:** We have a very rough outline because this hasn't become a law yet. Once the governor signs it, we will have time before July 1<sup>st</sup>; but, we'll start the interview process, we'll start acquiring space and equipment.

**Representative Glassheim:** As you understand it now, there will be no internal auditors?

**Robert Peterson:** I don't know.

**Representative Glassheim:** That would cost additional money that we're not enjoying spending.

**Chairman Thoreson:** You're probably correct on that matter. That's still one of the unanswered questions in this process.

**Representative Glassheim:** I agree with what you said; you need internal auditors but they can't report to the president. The board doesn't have an audit committee?

**Robert Peterson:** They do have an audit committee. When we do an audit of the university system we will sit down with the audit committee and visit with them about our findings. They have a chance to respond to our findings.

**Representative Glassheim:** Will these six auditors only be doing university audits or will you use them to do other performance audits?

**Robert Peterson:** They will just be used for the university system.

**Representative Glassheim:** Are you saying there is no need for internal auditors?

**Representative Kempenich:** They probably have half a dozen people that they could put in that place. You could say it's internal auditing but it wouldn't be someone that would be reporting internally to the president.

**Representative Glassheim:** I'm trying to find out the relationship between internal auditors and external auditors; how that works. You added a third body which are the people that do the day to day accounting.

**Robert Peterson:** The internal will help you set up your systems internally and then they will also start looking at safeguards; they will be working with the presidents to implement these things to secure systems data. You report the findings to the board and the president will get a copy. External auditors will come and we do an annual audit; but with these six people we can take other aspects of what's going on with the university.

**Representative Glassheim:** Are these six auditors going to be primarily performance or will they be fiscal as well?

**Robert Peterson:** We will do both using performance audit standards.

**Representative Hogan:** Is there an audit committee on the board of higher education? If there is an audit committee how do you see your relationship with them on the internal audit side?

**Robert Peterson:** I'm not going to do the internal audits.

**Representative Hogan:** There will be no internal audits' it will be all external?

**Robert Peterson:** Right. If they have internal auditors, those internal auditors would report the audit committee.

**Representative Hogan:** So your findings will be reported to the audit committee also?

**Robert Peterson:** Yes.

**Representative Hogan:** Essentially they're losing their internal audit options.

**Robert Peterson:** I don't know.

**Representative Hogan:** Most large corporations all have fairly large internal auditors.

**Robert Peterson:** The Department of Transportation has internal auditors.

**Representative Hogan:** So it's a pretty standard practice.

**Robert Peterson:** Right.

**Representative Vigesaa:** The \$150,000.00 for renovating; is that just for modernizing or creating additional workspace? What's the project?

**Robert Peterson:** It's both. I want to make a couple of offices for my managers. I want to update the layout and refresh things. I want to build a conference room so we can bring in people who are working for us.

**Chairman Thoreson:** Have you spoken with facility management about this or is this just an internal estimate that you've come up with to do the renovation?

**Robert Peterson:** We have spoken with facilities management and with this number we can do what we're trying to accomplish. It would be a one-time spend.

**Representative Boehning:** When you're external auditors come in to audit your stuff; is it all electronic when they're auditing or is it a lot of paper? What are they looking at when they're at your office?

**Robert Peterson:** There's always still documentation that you're going to look at and a lot of it's online; but you also want to see supporting documentation. We're going to be paperless within two years.

**Representative Boehning:** We're looking at doing some conference rooms in the judicial wing that would possibly fit in for what you're looking for. Maybe we could do a reconfiguration to have a space for people in the tower where they can do their conferences; then it could be available for all agencies.

**Representative Kempenich:** Can we get your desktop services and IT and where you're at in your replacement cycle?

**Chairman Thoreson:** There's some money in the budget for the security audits with the university system; is that something they're requesting? Where did that number come from?

**Robert Peterson:** We did the first ever security audit of the university system last biennium and we would like to continue that.

**Chairman Thoreson:** I agree. Is that something you do internally or do you use a third party security firm?

**Robert Peterson:** Yes. We would be hiring an out of state firm.

**Chairman Thoreson:** This is going to be an ongoing thing?

**Robert Peterson:** Yes.

**Chairman Thoreson:** The Senate left that in your request.

**Chairman Thoreson:** Closed the hearing.

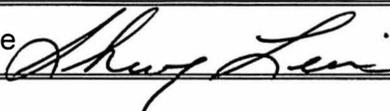
# 2015 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division  
Medora Room, State Capitol

SB2004  
3/16/2015  
Recording Job# 24857

Subcommittee  
 Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor; and to amend and reenact section 54-10-10 of the North Dakota Century Code, relating to the salary of the state auditor.

## Minutes:

See attachments A through D

**Chairman Boehning:** Opened the subcommittee on SB2004.

**Chairman Boehning:** Did you have some more information for what you're going to turn back?

**Ed Nagel, Director, ND Office of the State Auditor:** See attachment A.

**Chairman Boehning:** For your temporary salaries you're going to have a large turn back? You don't have temporary people in there too often? What is that being used for?

**Ed Nagel:** We only have a Fargo intern and for that we have \$25,000.00 budgeted. This other amount is not for our intern. I believe this was for hiring I. Bailey; and we're not going to be doing that this time.

**Chairman Boehning:** Do you have any vacant FTE's in your office?

**Ed Nagel:** We currently have two vacancies that we tried to fill; we turned down all the applicants because we didn't feel that they met our minimum qualifications. See attachment B.

**Chairman Boehning:** Is that what you kind of have open on average?

**Ed Nagel:** It varies; perhaps.

**Representative Kempenich:** When you get these new people in, how many do you have to go through until you finally get one to stay?

**Ed Nagel:** Through the hiring and screening process we try to get people who will stay. It's not that often where we will determine that before the six month probation period has expired that we're not going to keep that individual. That doesn't happen very often.

**Chairman Boehning:** For one time funding for renovating office space; is that the estimate that OMB has put together for you?

**Ed Nagel:** It's our estimate based on what we've spent on renovating our vault. This is an entirely different project. We're hoping it doesn't cost as much; but, we don't know.

**Chairman Boehning:** Would you be able to get an estimate?

**Robert Peterson, State Auditor, ND Office of the State Auditor:** We can try. We can visit with facilities management and see what they have. We're going to require some engineering.

**Chairman Boehning:** Are you going to need temporary office space some place to accommodate these people?

**Robert Peterson:** No.

**Chairman Boehning:** Is this to accommodate the new FTE's?

**Robert Peterson:** It's for a conference room and provides a place for auditors when we get audited, it would be used for a training space.

**Chairman Boehning:** There's some vacant space in the court area that the court's wanted to use for training. We took that out of their budget; why can't we utilize that? Would that be something of interest to you versus having to remodel your office and then you'd have more space for FTE's?

**Robert Peterson:** We usually use meeting rooms like this in the capitol for large staff meetings. I don't think that would suffice for all the things we desire as far as hosting clients or our own auditors when they come on site. I'd also like to turn it into an area where people can have lunch there.

**Representative Skarphol:** In the governor's budget they have other funds for \$102,000.00. They added the funding for another auditor but I don't see an FTE.

**Robert Peterson:** We took an FTE from the political subdivision section and moved them over to the royalty auditing section. We have to have this formally approved by the legislature.

**Representative Skarphol:** How do you envision accomplishing moving 6 auditors to your current space?

**Robert Peterson:** We would put them in Fargo.

**Representative Skarphol:** You would be looking at leasing space in Fargo?

**Robert Peterson:** I already lease space in Fargo. There is a building going up south of where they are now that will be open July 1<sup>st</sup>. I've asked my audit manager in Fargo to investigate the possibility of moving the two divisions that are there and hooking up with this new division in one space.

**Representative Skarphol:** There's \$104,000.00 included in the appropriation for operating expense for those 6 FTE's. Does that seem adequate in your mind to cover the cost for operating?

**Robert Peterson:** It was my understanding that this was just going to be a line item and I could use the line item however I chose.

**Representative Skarphol:** Do you have the ability to transfer between operating and salaries?

**Robert Peterson:** We'd have to go through the emergency commission.

**Representative Skarphol:** Do you want it to be just a line item?

**Robert Peterson:** I don't know what my costs are going to be. I assumed that it was just going to be a line item dedicated to these 6 people and we would use it for the benefit of those 6 people; whether it was going to be space, equipment or salaries.

**Representative Skarphol:** There's going to be some money added to operating and salaries and then you can use it however you wish.

**Robert Peterson:** Yes.

**Representative Skarphol:** In the existing budget there's \$200,000.00 for funding for the university system and other funds. I'm assuming that's the spending authority because it's other funds.

**Robert Peterson:** That's to do the IT penetration audit on the university system for this coming biennium. We're doing two penetration audits now; one on the state of North Dakota as a whole and one on the university system.

**Chairman Boehning:** Wasn't there only one or two positions filled already in higher education out of the whole agency? How many do they have up there now?

**Robert Peterson:** Three and one half. We would interview to determine if those people would fit in with where we're going with this project. That's not to assume that we'd take those three and a half.

**Chairman Boehning:** It's probably pretty hard to find some of those.

**Robert Peterson:** We'll do our best to fill those positions.

**Chairman Boehning:** If you could elaborate on the audits for higher education?

**Robert Peterson:** We could do performance audits that would have certain aspects of internal audits; but we can't do certain aspects of internal auditing. Those aspects deal with management, working with management, developing policies, structure within that section of the university system.

**Chairman Boehning:** We see that you want to add two performance auditors and then there was another line item in there to add general funds for \$234,000.00 for salaries. Is that for market equity?

**Robert Peterson:** Yes. The two performance auditors we would really like.

**Chairman Boehning:** In this amendment those auditors would be exclusively for higher education or would he be able to use them for his general office as well? See attachment D.

**Representative Skarphol:** These are exclusively higher education auditors.

**Representative Glassheim:** When you do a performance audit, you have a chance to comment on your findings. Is that so?

**Robert Peterson:** During performance audits, we will traditionally start working and at the end of each week once we start having findings, we will sit down with the entity and we will visit with them about these findings.

**Representative Glassheim:** At the end of the day, if they have disagreements still what is the status?

**Robert Peterson:** You can disagree with the finding. If it's wrong, we wouldn't publish it.

**Representative Glassheim:** There's no legal consequence to not following your findings except that the governor and the legislature if they agree with you would upset?

**Robert Peterson:** Sometimes a finding will say that they aren't following a statute that the legislature has passed.

**Representative Glassheim:** There's not argument about that?

**Robert Peterson:** We would hope.

**Jason Wald, Performance Audit Manager, ND Office of State Auditor:** Performance audits are done in three phases. The first phase is the background phase; we're trying to obtain an understanding of that audited entity to comply with standards. Part of that process is reviewing all laws, policies and procedures. We do send out employee questionnaires. We then determine areas we believe could be improved. The audit entity is given a copy of what the audit objective is as well as our methodology. We email LAFRC members as well. The third phase is the report; what's presented to LAFRC at the end.

The management is given a minimum of two weeks to provide a response for each of those findings in the report. They will also receive a letter from me that identifies other areas for improvements. Two or three years after the audit is done we'll go back and do an audit follow up and report on the status of recommendations.

**Representative Skarphol:** There are the informal letters as well that you utilize in communicating with the entities. Correct?

**Jason Wald:** That's correct. The head of the agency will receive a letter from us listing those types of recommendations.

**Representative Hogan:** How do you identify the specific topics you're going to address?

**Jason Wald:** Typically the audit starts as agency wide or by program. The background work is going to entail a limited review of information as it relates to the department as a whole.

**Representative Hogan:** That's the hard part.

**Jason Wald:** That is very difficult.

**Representative Kempenich:** Usually the transparency starts generating questions. Usually there are appropriation members on LAFRC.

**Chairman Boehning:** How do we compare with other states in performance audits?

**Jason Wald:** It's been a couple of years since we've updated our tracking list in regards to performance audits. The vast majority of states have some type of performance audit function. Where it resides in state government will differ from state to state. We are on the small end size wise of the spectrum.

**Chairman Boehning:** Do other states audit agencies more frequently; or is it whenever they feel they need one?

**Jason Wald:** There are some states that are driven by legislative request for audits. Certain states will select their own as well.

**Chairman Boehning:** Do you have a list that states they are due for an audit?

**Jason Wald:** No.

**Representative Glassheim:** Are all your papers open records?

**Jason Wald:** No. Not all of our work papers are. By statute we have authority to sign a confidentiality statement to protect the employees surveyed. DHS Medicaid by statute is confidential; we're required to maintain that information as confidential as well. Otherwise, all our work is a public document once the report is finished.

**Representative Hogan:** It's interesting to look at your audit reports.

**Jason Wald:** There have been some changes.

**Representative Skarphol:** Are there pending performance audits in legislation right now?

**Jason Wald:** As far as I know all of them that had a performance audit requirement have been defeated.

**Representative Skarphol:** You said you have a small staff compared to other states. Have you compared to budgets? Have you done any work as far as trying to figure out where we would be on a scale if we were to compare budgets?

**Jason Wald:** The last time we reviewed this was a couple years ago. We're looking strictly at bodies.

**Chairman Boehning:** How many auditors do we have in Fargo?

**Jason Wald:** The college and university have 8 and the political subdivision side has six.

**Chairman Boehning:** You have rental and leases for \$247,000.00. Is that all in Fargo or do we have leasing space in other areas?

**Jason Wald:** There are also our royalty auditors; they're housed downtown in Bismarck.

**Chairman Boehning:** You're also looking at that new building in Fargo to possibly lease some space. Would we have some approximate numbers?

**Robert Peterson:** I can check on that.

**Chairman Boehning:** With that \$104,000.00 that would be enough for the rental of space and equipment to start up?

**Robert Peterson:** Correct.

**Ed Nagel:** See attachment C.

**Representative Kempenich:** Are the numbers for the desktop services the numbers that OMB gave your or did you design that yourself?

**Don LaFleur, IT Manager, ND Office of State Auditor:** I came up with those estimates on my own. We had already submitted our budget.

**Chairman Boehning:** Closed the subcommittee.

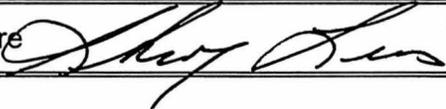
# 2015 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division  
Medora Room, State Capitol

SB2004  
3/26/2015  
Recording Job# 25495

- Subcommittee  
 Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the state auditor; and to amend and reenact section 54-10-10 of the North Dakota Century Code, relating to the salary of the state auditor.

## Minutes:

See attachment A and B

**Chairman Thoreson:** Opened the discussion on SB2004.

**Representative Skarphol:** See attachment A.

**Representative Skarphol:** Made a motion to move the amendment.

**Representative Boehning:** Seconded the motion.

**Chairman Thoreson:** That language on page 2 subsection 4; that is language which auditors use to designate those types of organizations. Is that correct?

**Representative Skarphol:** In legislative audit and fiscal review that's the technical terms used by the auditor's office to describe those entities.

**Representative Boehning:** On page 3 number 2; is that coming out of the operating for the health insurance?

**Representative Skarphol:** I believe that addresses the issue relative to the new health insurance costs.

**Chairman Thoreson:** Brady, is that correct?

**Brady Larson, Fiscal Analyst, ND Legislative Council:** Yes, that's correct.

**Representative Vigesaa:** How did you arrive at the salary increase? Was that taken from the university system's budget?

**Representative Skarphol:** As I understand it, that number is the exact same number that was removed in the higher education budget.

**Brady Larson:** This number is the same that was used in the university appropriation bill to provide funding to the state auditor's office. The salary amounts are a little bit different than what is currently in the university system. The salary amounts are based on an average of what an auditor II or auditor III would be making; plus it added on funding for fringe benefits. There's \$104,000.00 of operating expenses added; that would be for any cost related to any space that would need to be leased for these new people or any other office expenses.

**Representative Hogan:** I'm going to oppose this amendment as I think there's a real function in internal auditors and very distinct from the state auditor's role. I'm not opposed to having the state auditor do this; but to take away the internal auditing function is what concerns me.

**Representative Skarphol:** This doesn't take away the internal auditing capabilities of an institution. They still have the capability to do that if they want to hire someone.

**Representative Hogan:** But we're taking their money.

**Representative Skarphol:** We are taking the money that was appropriated for them to do auditing. Part of the issue is the fact that when the internal auditors in higher education began to create some discomfort in the system office; they were asked to leave. If you're not going to give your internal auditors the ability to function and do what they believe is their job without retribution, I'm not sure that they ought to be able to continue to do it. Until that time arrives that we can get good information; I think this is the appropriate avenue to follow.

**Representative Glassheim:** How would you have a foundation which assists an entity which was close but not blended? Is it impossible to have a foundation which supports something without calling it blended and owned by the major component? There must be foundations which support entities which are not blended. What would we have to have in order to be supportive of an institution without being blended?

**Representative Skarphol:** One of the things that truly bother some about the relationship that currently exists is that the president of one of our research institutions has admitted that he spends more than 1/3 of his time raising funds for that foundation. That linkage is so direct that they are absolutely a blended component unit; you can have foundations that are completely segregated but there isn't that linkage of administrative people and leadership directly to the foundation of performing the functions of the foundation.

**Representative Glassheim:** What do you suppose they're raising this money for? They're raising this money so the state doesn't have to support the institution. You're getting buildings for nothing and yet you don't like it. You don't trust it.

**Representative Skarphol:** Trust is a two way street and let's have it all transparent. I don't expect anything to be revealed that shouldn't be revealed; but, I believe that we as the

policy makers of state government and those expected to provide more and more resources for these institutions should know full well whether or not the actions of those foundations seem to be in conjunction and parallel to what we need and want as taxpayers.

**Robert Peterson, State Auditor, Office of the State Auditor:** See attachment B.

**Representative Vigesaa:** If this goes through, how often would you anticipate auditing a foundation?

**Robert Peterson:** I probably wouldn't pick a foundation right away. I think the LAFRC would be more interested in foundations at this point. We go through a process where we look at risk. The foundations are independently audited by CPA firms. To do a performance audit we would want some information as far as what is the risk of that foundation in relationship to the university that it supports. I can't answer that very well because we've never looked at this before.

**Representative Skarphol:** As I envision the function of your office if this amendment passes in its entirety; I would think as part of the process you would be doing ongoing audits of higher education, sharing your findings with the board. In that process if you saw any need for additional information to be sought in one of these blended component units, you'd have the authority with this amendment to continue that work.

**Robert Peterson:** Performance audits are pretty structured. If we're doing a performance audit at NDSU and we find there is an issue, we would probably stop at that issue. It would probably be a separate event. We probably wouldn't without sitting down with the principles.

**Representative Glassheim:** In the terminology of blending and not blending, this makes no sense to me. These are private individuals that sit on these boards; they volunteer their time. They're not owned by the universities. You will see a decline in the money raised for the universities.

**Robert Peterson:** The only thing I want to point out is Dickinson State University Foundation. That has gone south badly. That was a unique situation.

**Representative Boehning:** I would assume that the auditors from higher education were paid higher than Mr. Peterson's office. I'm assuming that he'll pay them at the normal salary levels that you have for your auditors?

**Robert Peterson:** The university system is a higher pay scale than the state of North Dakota. We're going to bring those salaries down in line with what our auditor II and auditor III make in the state system.

**Representative Boehning:** The fiscal note that we have in here will come in lower.

**Brady Larson:** The amounts you see in this amendment are the amounts based off the lower salary levels. The numbers you see assume an average salary of approximately \$65,000.00/year; which would be close to \$130,000.00 per biennium. Plus you'll see

benefits on there that will raise the biennial cost to \$180,000.00 per position for the biennium. That's how you get up to the \$1.1 million for salaries.

**Representative Boehning:** I thought that we had taken the same amount money out of higher education and put it into this budget.

**Brady Larson:** There was a section in the higher education bill that appropriated money to the state auditor; that is the same amount that you see in these amendments. That section in the higher education bill was also based at the lower salary level.

Roll call vote taken on the amendment. 5 Yeas 2 Nays 1 Absent

Amendment passed.

**Representative Boehning:** Made a motion to take the funding out of the North Dakota university system.

**Chairman Thoreson:** Where are you at?

**Representative Boehning:** It would be \$200,000.00; it's the funding for North Dakota University System security audits.

**Representative Vigesaa:** I think it might be on line 15 of the engrossed Senate bill.

**Chairman Thoreson:** I believe that's correct.

**Brady Larson:** That's correct. It is special funds also.

**Representative Boehning:** Made a motion to remove \$200,000.00.

**Representative Vigesaa:** Seconded the motion.

**Representative Hogan:** Can we ask Mr. Peterson what that would do?

**Robert Peterson:** That \$200,000.00 is for doing an IT penetration testing of the university system set up.

**Representative Hogan:** There will still be some in the base level budget. It's the enhancement that we're eliminating. What you're currently doing will still be available?

**Robert Peterson:** That would be for the state of North Dakota.

**Chairman Thoreson:** The base level is \$250,000.00. You're using that just for the state of North Dakota? The additional \$200,000.00 was directly earmarked for higher education?

**Robert Peterson:** That's correct.

Voice vote taken.

Motion carried

**Representative Boehning:** Made a motion for a "Do Pass as Amended".

**Representative Vigesaa:** Seconded the motion.

Roll call vote: 5 Yeas 2 Nays 1 Absent

Representative Boehning carried the bill.

**Chairman Thoreson:** Closed the discussion.

# 2015 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee  
Roughrider Room, State Capitol

SB 2004  
4/1/2015  
Job #25725

- Subcommittee  
 Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation state auditor; and to amend and reenact section 54-10-10 of the North Dakota Century Code, relating to the salary of the state auditor.

## Minutes:

**Chairman Jeff Delzer** opened the hearing.

**Representative Boehning** explained the bill.

**Chairman Jeff Delzer:** I see in the green sheet, there is a fair amount added; is that new computers?

**Representative Boehning:** We did discuss that a little bit; they did do replacements here; there are some new replacements. There have been some replacements after four years, and the three-year replacement status.

**Chairman Jeff Delzer:** Were they part of desktop support at IT before?

**Representative Boehning:** Yes.

**Representative Streyle:** They were one of the agencies that requested it be put in their budget.

**Chairman Jeff Delzer:** So they were not part of it before.

**Representative Nelson:** The individuals transferred from the university system; you're identifying them as the replacement in the auditor's office at a lower salary? How significant is that salary difference, and if it is significant, why would they do that?

**Representative Boehning:** I believe the auditors who would be at higher ed would not automatically be the auditors at the auditor's office; they are hired separately; we never did find out the wages. It is significantly higher. The feeling of the auditor's office would be that you wouldn't want to bring auditors in from higher ed and pay them at a higher wage because then they would have to raise all the auditors wages in the whole office.

**Representative Nelson:** For those 6 positions, that's the \$1,077,261, and is that just the salary line and benefits?

**Representative Boehning:** They're paid about \$65,000 on average between auditor II and auditor III, so that was the number used for the 6 FTE's and includes benefits and wages.

**Chairman Jeff Delzer:** Whenever anyone changes from one job to another, they are re-hired and they have to be re-hired and whatever that new offer is. Most that take a lateral move in the state are probably getting a promotion. I can certainly understand that the auditor has to hire in his price range, as where the higher ed is pretty much unclassified, and they can do whatever they want.

**Representative Streyle:** In the system office; there are vacant positions and new positions that they asked for. The estimated salary is \$70K; Right now they have two auditors. They have requested three more, there are three more vacant. Of the new positions that they planned on hiring, in their budget, it's \$70,000, so it's not that significant.

**Representative Hogan:** In committee I opposed this movement because the type of audits will change; I was also concerned about the potential impact of adding the blended component units because the foundations generate a fair amount of private money; would we lose some large donations because they would be open to public audit? But I lost.

Motion to adopt amendment 15.8137.02004; Representative Boehning  
Seconded Representative: Thoreson

**Representative Skarphol:** The actions of the E and E subsection on the higher ed budget does not prohibit an institution from hiring an internal auditor. Their action in this particular case merely took the money out of higher ed for these audit positions. And that's what this is all about. This amendment also insures that they are FERPA-eligible; they're not going to be able to be rejected from doing audits because they're not FERPA. That's not going to be a reason for them to be denied access. The third sub-section of the amendment says that if there's a consultant hired by these performance auditors, the Legislative Audit and Fiscal Review Committee has to approve the expenditure for that consultant. And that's a practice that's in place today with regard to performance audit. These are pretty much standard operating procedures.

**Representative Glassheim:** You're taking away the internal auditors of the university; and turning them into external auditors of the state audit department. Do you want to put money in, so they can have internal auditors, to advise? The state auditor will not and cannot do internal audits. That leaves the university with nobody doing day-to-day operational audits. I find that to be a real negative. Blended component units; however, these foundations have been in existence for 50 years or more; they've been audited by consultants to do the audits. They have raised billions of dollars to support the university system that the state either didn't want to pay for or could not afford to pay for. These foundations are run by high level people who have loyalty to the institutions, and are on the finance committees that review the audits. I'm not sure what this change will bring in terms of chilling effect on people donating their time and money, and then having no actual control over what's being audited of the money they've raised.

**Representative Monson:** When we worked on that; we took six FTEs out of 10. We took the money for six. That's what we moved over.

**Representative Streyle:** They got 2 auditors in all of higher ed; there is no audit; this is way better; which is essentially nothing.

**Representative Nelson:** Does that have the potential to affect the fund-raising activities that the foundations undertake?

**Representative Boehning:** A blended component unit;...gave the definition. Fundraising; If I'm going to donate money, I want it to go to a foundation that is being run correctly. I want to insure confidence in the system. The NDSU president spends about one-third of his time raising money for the foundation when he's supposed to be managing the college. There's some issues we need to address.

**Representative Nelson:** The foundations do have a private audit; are we taking one occurrence and are we trying to fix something because of one situation?

**Representative Boehning:** The foundations are all being audited; so if they did fund any misgivings within the foundation, it would be public information.

**Chairman Jeff Delzer:** I don't believe any of them are having any kind of performance audit: I think all of them are financial.

**Representative Skarphol:** They have a financial audit; they simply review that it; very high level: they have nothing to fear. If you have nothing to hide, you should not fear the performance audit. Nothing of a proprietary nature would be revealed.

**Chairman Jeff Delzer:** Audits appear to come across negatively; it's not to find something wrong. Audits should be to try to improve the action of whatever entity is being audited. Fundraising; I don't know how you can predict what kind of effect it will have.

**Representative Glassheim:** Gave an example ; when donors give money, they may have things they want done with it. They state may come around two years later and say, you shouldn't have asked for those things to be done. It doesn't correspond to what really think should be done.

**Chairman Jeff Delzer:** How do we know what it currently goes for? That's part of the problem. When you don't look at that, just because they have a financial one, you don't know they're doing the right things with it, either.

**Representative Glassheim:** Don't you think that the financial looks at that?

**Chairman Jeff Delzer:** No I don't. I think they just look at the numbers.

**Representative Glassheim:** When I gave, it's like a contract. (Gave example)

**Representative Skarphol:** I agree; when you make a donation and get a tax deduction for that donation, it used for a legitimate purpose; and if someone wants to give a gift, and it's not a legitimate purpose, then they should be revealed. If it is a legitimate purpose, they should have to fear of it being revealed. If they do, and they ask for it to be proprietary, that should be honored.

**Chairman Jeff Delzer:** Further discussion on the motion to amend?

VOICE VOTE TAKEN: MOTION IS CARRIED.

**Chairman Delzer:** We have the amended bill before us. Anything further to come before the committee? What are your wishes?

**Rep. Boehning:** I would move SB 2004, 15.8137.02004.

**Rep. Skarphol:** Second.

**Chairman Delzer:** Further discussion on the motion for a Do Pass As Amended?

**Chairman Delzer:** Seeing none, clerk will call the roll.

ROLL CALL VOTE TAKEN: YES: 19 NO: 4 ABSENT: 0

MOTION CARRIES

REP. BOEHNING WILL CARRY.

Chairman Delzer closed the hearing on SB

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2004

Page 1, line 1, after the semicolon insert "to create and enact a new section to chapter 54-10 of the North Dakota Century Code, relating to a higher education audit division of the state auditor's office;"

Page 1, line 2, replace "section" with "sections 54-10-01 and"

Page 1, line 2, after the second "to" insert "the powers and duties of the state auditor and"

Page 1, replace lines 12 through 19 with:

"Salaries and wages	\$10,113,137	\$2,209,055	\$12,322,192
Accrued leave payments	201,157	(201,157)	0
Operating expenses	901,113	294,397	1,195,510
Information technology consultants	<u>250,000</u>	<u>200,000</u>	<u>450,000</u>
Total all funds	\$11,465,407	\$2,502,295	\$13,967,702
Less estimated income	<u>3,036,918</u>	<u>468,952</u>	<u>3,505,870</u>
Total general fund	\$8,428,489	\$2,033,343	\$10,461,832
Full-time equivalent positions	53.80	6.00	59.80"

Page 2, after line 3, insert:

**"SECTION 3. 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.**

The state auditor shall:

1. 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. 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 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 non-general fund moneys. Audits and reviews may be conducted at more frequent intervals if requested by the governor or legislative audit and fiscal review committee.

3. 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. Perform or provide for performance audits of state agencies, or their blended component units or discreetly presented component units as determined necessary by the state auditor or 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. 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. 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. Perform all other duties as prescribed by law."

Page 2, after line 10, insert:

"**SECTION 5.** A new section to chapter 54-10 of the North Dakota Century Code is created and enacted as follows:

**State board of higher education audits - Higher education audit division.**

1. 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. The audit manager shall conduct audits, as determined appropriate by the state auditor, of each institution under the supervision and control of the state board of higher education. The audit manager may consult with the state board of higher education, or a committee designated by the board, regarding audit plans, results of audit activities, and any other appropriate issue. The state auditor shall determine the audit scope and related audit areas of any audit conducted by the audit manager. This section does not require the state auditor to perform any duties that would compromise the auditor's independence under government auditing standards.

2. The audit manager may access and examine any record under the control of the state board of higher education. For purposes of reviewing records under the Family Educational Rights and Privacy Act [20 U.S.C. 1232g; 34 CFR 99] or any other federal privacy law, the audit manager must be considered a state educational official authorized to access student records for audit purposes.
  
3. The state auditor may hire employees necessary to carry out the duties and responsibilities of this section. The state auditor may hire consultants to assist with any duties required under this section subject to approval by the legislative audit and fiscal review committee. The state board of higher education shall pay for the cost of any consultant approved under this section."

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

**Senate Bill No. 2004 - State Auditor - House Action**

	Base Budget	Senate Version	House Changes	House Version
Salaries and wages	\$10,113,137	\$11,244,931	\$1,077,261	\$12,322,192
Operating expenses	901,113	1,091,510	104,000	1,195,510
Information technology consultants	250,000	450,000		450,000
Accrued leave payments	201,157			
Total all funds	\$11,465,407	\$12,786,441	\$1,181,261	\$13,967,702
Less estimated income	3,036,918	3,515,167	(9,297)	3,505,870
General fund	\$8,428,489	\$9,271,274	\$1,190,558	\$10,461,832
FTE	53.80	53.80	6.00	59.80

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

	Adds Funding for Higher Education Auditors <sup>1</sup>	Adjusts Funding for Health Insurance Premium Increases <sup>2</sup>	Total House Changes
Salaries and wages	\$1,117,914	(\$40,653)	\$1,077,261
Operating expenses	104,000		104,000
Information technology consultants			
Accrued leave payments			
Total all funds	\$1,221,914	(\$40,653)	\$1,181,261
Less estimated income	0	(9,297)	(9,297)
General fund	\$1,221,914	(\$31,356)	\$1,190,558
FTE	6.00	0.00	6.00

<sup>1</sup> Funding is added for 6 auditor FTE positions and related operating expenses to provide audit services to the State Board of Higher Education and its institutions.

<sup>2</sup> Funding for employee health insurance premiums is adjusted to reflect the revised premium estimate of \$1,130.22 per month.

This amendment also:

- Amends North Dakota Century Code Section 54-10-01 relating to performance audits conducted by the State Auditor; and
- Creates a new section to Chapter 54-10 to establish a higher education audit division in the State Auditor's office.

*Handwritten:*  
JAB  
4-2-15  
10744

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2004

Page 1, line 1, after the semicolon insert "to create and enact a new section to chapter 54-10 of the North Dakota Century Code, relating to a higher education audit division of the state auditor's office;"

Page 1, line 2, replace "section" with "sections 54-10-01 and"

Page 1, line 2, after the second "to" insert "the powers and duties of the state auditor and"

Page 1, replace lines 12 through 19 with:

"Salaries and wages	\$10,113,137	\$2,209,055	\$12,322,192
Accrued leave payments	201,157	(201,157)	0
Operating expenses	901,113	294,397	1,195,510
Information technology consultants	<u>250,000</u>	<u>0</u>	<u>250,000</u>
Total all funds	\$11,465,407	\$2,302,295	\$13,767,702
Less estimated income	<u>3,036,918</u>	<u>268,952</u>	<u>3,305,870</u>
Total general fund	\$8,428,489	\$2,033,343	\$10,461,832
Full-time equivalent positions	53.80	6.00	59.80"

Page 2, after line 3, insert:

**"SECTION 3. 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.**

The state auditor shall:

1. 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. 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 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 non-general fund moneys. Audits and reviews may be conducted at more frequent intervals if requested by the governor or legislative audit and fiscal review committee.

11/10/14

3. 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. 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 state auditor or 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. 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. 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. Perform all other duties as prescribed by law."

Page 2, after line 10, insert:

"**SECTION 5.** A new section to chapter 54-10 of the North Dakota Century Code is created and enacted as follows:

**State board of higher education audits - Higher education audit division.**

1. 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. The audit manager shall conduct audits, as determined appropriate by the state auditor, of each institution under the supervision and control of the state board of higher education. The audit manager may consult with the state board of higher education, or a committee designated by the board, regarding audit plans, results of audit activities, and any other appropriate issue. The state auditor shall determine the audit scope and related audit areas of any audit conducted by the audit manager. This section does not require the state auditor to perform any duties that would compromise the auditor's independence under government auditing standards.

2/11/14

2. The audit manager may access and examine any record under the control of the state board of higher education. For purposes of reviewing records under the Family Educational Rights and Privacy Act [20 U.S.C. 1232g; 34 CFR 99] or any other federal privacy law, the audit manager must be considered a state educational official authorized to access student records for audit purposes.
  
3. The state auditor may hire employees necessary to carry out the duties and responsibilities of this section. The state auditor may hire consultants to assist with any duties required under this section subject to approval by the legislative audit and fiscal review committee. The state board of higher education shall pay for the cost of any consultant approved under this section."

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

**Senate Bill No. 2004 - State Auditor - House Action**

	Base Budget	Senate Version	House Changes	House Version
Salaries and wages	\$10,113,137	\$11,244,931	\$1,077,261	\$12,322,192
Operating expenses	901,113	1,091,510	104,000	1,195,510
Information technology consultants	250,000	450,000	(200,000)	250,000
Accrued leave payments	201,157			
<b>Total all funds</b>	<b>\$11,465,407</b>	<b>\$12,786,441</b>	<b>\$981,261</b>	<b>\$13,767,702</b>
Less estimated income	3,036,918	3,515,167	(209,297)	3,305,870
<b>General fund</b>	<b>\$8,428,489</b>	<b>\$9,271,274</b>	<b>\$1,190,558</b>	<b>\$10,461,832</b>
FTE	53.80	53.80	6.00	59.80

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

	Adds Funding for Higher Education Auditors <sup>1</sup>	Adjusts Funding for Health Insurance Premium Increases <sup>2</sup>	Removes Funding for University System Security Audits <sup>3</sup>	Total House Changes
Salaries and wages	\$1,117,914	(\$40,653)		\$1,077,261
Operating expenses	104,000			104,000
Information technology consultants			(200,000)	(200,000)
Accrued leave payments				
<b>Total all funds</b>	<b>\$1,221,914</b>	<b>(\$40,653)</b>	<b>(\$200,000)</b>	<b>\$981,261</b>
Less estimated income	0	(9,297)	(200,000)	(209,297)
<b>General fund</b>	<b>\$1,221,914</b>	<b>(\$31,356)</b>	<b>\$0</b>	<b>\$1,190,558</b>
FTE	6.00	0.00	0.00	6.00

<sup>1</sup> Funding is added for 6 auditor FTE positions and related operating expenses to provide audit services to the State Board of Higher Education and its institutions.

<sup>2</sup> Funding for employee health insurance premiums is adjusted to reflect the revised premium estimate of \$1,130.22 per month.

<sup>3</sup> Funding to complete security audits of the 11 institutions in the North Dakota University System is

AK  
4/20/04

removed.

---

This amendment also:

- Amends Section 54-10-01 relating to performance audits conducted by the State Auditor; and
- Creates a new section to Chapter 54-10 to establish a higher education audit division in the State Auditor's office.

**2015 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. SB2004**

House Appropriations - Government Operations Division Committee

Subcommittee

Amendment LC# or Description: \_\_\_\_\_

Recommendation:  Adopt Amendment  
 Do Pass     Do Not Pass     Without Committee Recommendation  
 As Amended     Rerefer to Appropriations  
 Place on Consent Calendar

Other Actions:  Reconsider     \_\_\_\_\_

Motion Made By Representative Skarphol Seconded By Representative Boehning

Representatives	Yes	No	Representatives	Yes	No
Chairman Thoreson	x		Representative Hogan		x
Vice Chairman Brandenburg	x		Representative Glassheim		x
Representative Kempenich					
Representative Vigesaa	x				
Representative Boehning	x				
Representative Skarphol	x				

Total (Yes) 5 No 2

Absent 1

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

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

**2015 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. SB2004**

House Appropriations - Government Operations Divison Committee

Subcommittee

Amendment LC# or Description: \_\_\_\_\_

Recommendation:  Adopt Amendment  
 Do Pass     Do Not Pass     Without Committee Recommendation  
 As Amended     Rerefer to Appropriations  
 Place on Consent Calendar  
Other Actions:  Reconsider     \_\_\_\_\_

Motion Made By Representatie Boehning    Seconded By Representative Vigesaa

Representatives	Yes	No	Representatives	Yes	No
Chairman Thoreson	x		Representative Hogan		x
Vice Chairman Brandenburg	x		Representative Glassheim		x
Representative Kempenich					
Representative Vigesaa	x				
Representative Boehning	x				
Representative Skarphol	x				

Total    (Yes) 5    No 2

Absent 1

Floor Assignment Representative Boehning

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



Date: 4/1/15

Roll Call Vote #: 2

2015 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES

BILL/RESOLUTION NO. 2004

House: Appropriations Committee

Subcommittee

Amendment LC# or Description: \_\_\_\_\_

Recommendation:  Adopt Amendment  
 Do Pass  Do Not Pass  Without Committee Recommendation  
 As Amended  Rerefer to Appropriations  
 Place on Consent Calendar  
Other Actions:  Reconsider  \_\_\_\_\_

Motion Made By: Boehning Seconded By: Skarphol

Representatives	Yes	No	Absent
Chairman Jeff Delzer	✓		
Vice Chairman Keith Kempenich	✓		
Representative Bellew	✓		
Representative Brandenburg	✓		
Representative Boehning	✓		
Representative Dosch	✓		
Representative Kreidt	✓		
Representative Martinson	✓		
Representative Monson	✓		
Representative Nelson	✓		
Representative Pollert	✓		
Representative Sanford	✓		
Representative Schmidt	✓		
Representative Silbernagel	✓		
Representative Skarphol	✓		
Representative Streyle	✓		
Representative Thoreson	✓		
Representative Vigesaa	✓		
Representative Boe	✓		
Representative Glassheim		✓	
Representative Guggisberg		✓	
Representative Hogan		✓	
Representative Holman		✓	
TOTALS	19	4	0

Door Assignment: Boehning

the vote is on an amendment, briefly indicate intent: \_\_\_\_\_

**REPORT OF STANDING COMMITTEE**

**SB 2004, as engrossed: Appropriations Committee (Rep. Delzer, Chairman)** recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (19 YEAS, 4 NAYS, 0 ABSENT AND NOT VOTING). Engrossed SB 2004 was placed on the Sixth order on the calendar.

Page 1, line 1, after the semicolon insert "to create and enact a new section to chapter 54-10 of the North Dakota Century Code, relating to a higher education audit division of the state auditor's office;"

Page 1, line 2, replace "section" with "sections 54-10-01 and"

Page 1, line 2, after the second "to" insert "the powers and duties of the state auditor and"

Page 1, replace lines 12 through 19 with:

"Salaries and wages	\$10,113,137	\$2,209,055	\$12,322,192
Accrued leave payments	201,157	(201,157)	0
Operating expenses	901,113	294,397	1,195,510
Information technology consultants	<u>250,000</u>	<u>0</u>	<u>250,000</u>
Total all funds	\$11,465,407	\$2,302,295	\$13,767,702
Less estimated income	<u>3,036,918</u>	<u>268,952</u>	<u>3,305,870</u>
Total general fund	\$8,428,489	\$2,033,343	\$10,461,832
Full-time equivalent positions	53.80	6.00	59.80"

Page 2, after line 3, insert:

**"SECTION 3. 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.**

The state auditor shall:

1. 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. 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 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 non-general fund moneys. Audits and reviews may be conducted at more frequent intervals if requested by the governor or legislative audit and fiscal review committee.
3. 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. 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 state auditor or 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. 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. 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. Perform all other duties as prescribed by law."

Page 2, after line 10, insert:

"SECTION 5. A new section to chapter 54-10 of the North Dakota Century Code is created and enacted as follows:

**State board of higher education audits - Higher education audit division.**

1. 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. The audit manager shall conduct audits, as determined appropriate by the state auditor, of each institution under the supervision and control of the state board of higher education. The audit manager may consult with the state board of higher education, or a committee designated by the board, regarding audit plans, results of audit activities, and any other appropriate issue. The state auditor shall determine the audit scope and related audit areas of any audit conducted by the audit manager. This section does not require the state auditor to perform any duties that would compromise the auditor's independence under government auditing standards.
2. The audit manager may access and examine any record under the control of the state board of higher education. For purposes of reviewing records under the Family Educational Rights and Privacy Act [20 U.S.C. 1232g; 34 CFR 99] or any other federal privacy law, the audit manager must be considered a state educational official authorized to access student records for audit purposes.

3. The state auditor may hire employees necessary to carry out the duties and responsibilities of this section. The state auditor may hire consultants to assist with any duties required under this section subject to approval by the legislative audit and fiscal review committee. The state board of higher education shall pay for the cost of any consultant approved under this section."

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

**Senate Bill No. 2004 - State Auditor - House Action**

	Base Budget	Senate Version	House Changes	House Version
Salaries and wages	\$10,113,137	\$11,244,931	\$1,077,261	\$12,322,192
Operating expenses	901,113	1,091,510	104,000	1,195,510
Information technology consultants	250,000	450,000	(200,000)	250,000
Accrued leave payments	201,157			
<b>Total all funds</b>	<b>\$11,465,407</b>	<b>\$12,786,441</b>	<b>\$981,261</b>	<b>\$13,767,702</b>
Less estimated income	3,036,918	3,515,167	(209,297)	3,305,870
<b>General fund</b>	<b>\$8,428,489</b>	<b>\$9,271,274</b>	<b>\$1,190,558</b>	<b>\$10,461,832</b>
FTE	53.80	53.80	6.00	59.80

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

	Adds Funding for Higher Education Auditors <sup>1</sup>	Adjusts Funding for Health Insurance Premium Increases <sup>2</sup>	Removes Funding for University System Security Audits <sup>3</sup>	Total House Changes
Salaries and wages	\$1,117,914	(\$40,653)		\$1,077,261
Operating expenses	104,000			104,000
Information technology consultants			(200,000)	(200,000)
Accrued leave payments				
<b>Total all funds</b>	<b>\$1,221,914</b>	<b>(\$40,653)</b>	<b>(\$200,000)</b>	<b>\$981,261</b>
Less estimated income	0	(9,297)	(200,000)	(209,297)
<b>General fund</b>	<b>\$1,221,914</b>	<b>(\$31,356)</b>	<b>\$0</b>	<b>\$1,190,558</b>
FTE	6.00	0.00	0.00	6.00

<sup>1</sup> Funding is added for 6 auditor FTE positions and related operating expenses to provide audit services to the State Board of Higher Education and its institutions.

<sup>2</sup> Funding for employee health insurance premiums is adjusted to reflect the revised premium estimate of \$1,130.22 per month.

<sup>3</sup> Funding to complete security audits of the 11 institutions in the North Dakota University System is removed.

This amendment also:

- Amends Section 54-10-01 relating to performance audits conducted by the State Auditor; and
- Creates a new section to Chapter 54-10 to establish a higher education audit division in the State Auditor's office.

**2015 TESTIMONY**

**SB 2004**

STATE AUDITOR  
ROBERT R. PETERSON



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

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

SB 2004  
1-14-15

**TESTIMONY BEFORE THE  
SENATE APROPRIATIONS COMMITTEE  
Senator Ray Holmberg, Chairman**

January 14, 2014

---

S.B. No. 2004

Testimony - Presented by:  
Robert R. Peterson, State Auditor

---

Brief Historical Perspective

The duties and responsibilities of the State Auditor are included in Article V, § 2 of the ND Constitution and Chapter 54-10 of the ND Century Code. Significant events include the following:

- 1889 – North Dakota's first State Auditor took office. Much as county and city auditors function to this day, for the first 72 years of the state's existence the State Auditor functioned as a bookkeeper or accountant rather than a true "auditor."
- 1961 – The State Auditor's responsibilities were changed to performing the post audit of all financial transactions of state government. At the time this meant auditing 100 separate departments.
- 1969 – The State Auditor began performing audits of political subdivisions.
- 1971 – The Legislature gave counties the option to contract for their own audits and soon after that other political subdivisions were given the same power.
- 1973 – The State Auditor modernized operations of the office by adopting generally accepted auditing standards.
- 1975 – The State Auditor started to conduct performance audits to help improve the effectiveness and efficiency of state government.
- 1982 – The State Auditor was given the responsibility for performing royalty audits to ensure royalties are properly paid on federal oil, gas, and coal leases.

- 1984 – The Single Audit Act was passed. This act combined the responsibilities for auditing government financial statements with auditing compliance with requirements relating to federal financial assistance. The State Auditor was given this responsibility, significantly increasing the auditors' work load.
- 1986 – Because of the demands associated with the Single Audit Act, performance audits were discontinued.
- 1991 – The Legislature funded additional positions for the State Auditor to establish a performance audit function.
- 1991 – The Legislature required the State Auditor to audit the state-wide financial statements. At this time biennial agency audit reports went from including financial statements prepared in accordance with generally accepted accounting principles to only including reports on internal control and compliance with laws and regulations.
- 1991 – The State Auditor's Division of Local Government Audits became self-sufficient by the establishment of an operating fund for its revenues and expenditures.
- 1997 – Biennial agency audits started to include a statement of revenues and expenditures and an appropriations statement. These statements were audited in accordance with the financial statement audit standards.
- 2000 – Biennial agency audits switched to following the performance audit standards rather than the financial statement audit standards. This change was done in consultation with the Legislative Audit and Fiscal Review Committee. The objectives for biennial agency performance audits are to: provide reliable financial statements; identify and test controls for the most important areas of internal control; identify and test compliance for the most significant and high-risk areas of legislative intent; and determine if there are areas of agency operations where we can help to improve efficiency or effectiveness.
- 2005 – The State Auditor received funding and authority to conduct the first information technology security audit of the state.
- 2013 - The first IT security audit of the North Dakota University System.

**Known or potential changes in level of federal funding to be received**

There are no known or potential changes in the level of federal funding to be received by our office.

**Department's plan to address the changes**

This is not applicable at this time.

**Use of one-time funding in the 2013-2015 biennium**

There was \$40,000 appropriated during the 2013-2015 biennium for the removal of a vault and conversion of that area into usable office space. An additional \$50,000 was added to that appropriation by the Emergency Commission in November 2014. We anticipate using most, if not all, of the total amount before the end of the 2013-2015 biennium.

**Major agency initiatives for the 2015-17 biennium**

Our major initiatives include increasing the number of performance auditors, increasing the salary of our auditors to be competitive and reduce turnover, and to obtain funds to complete a remodel of office space. Each of these initiatives are needed to increase our office's performance and improve on the effectiveness of the work we can perform. The initiatives are discussed in further detail in the following narrative.

We have to be able to keep up with the increase in state government programs, functions, and spending. We have seen an increase in requests for performance audits and also have seen risks increase in various government programs and functions. Without the addition of more performance auditors, certain areas we would like to be able to review to increase efficiency and effectiveness in government will continue to go without any review.

We are requesting additional salary dollars to attract better candidates and to retain our existing staff. In our latest attempt to fill two vacancies, we were unable to find even one candidate that we felt was qualified to meet our minimum standards. We will need to re-advertise those two vacancies.

---

## Program Goals and Objectives

---

The activities of the Office of the State Auditor are carried out through four programs, each of which has its own goals, objectives, and strategies. The following pages provide an overview of each of these programs.

### **Program 1 - Administration**

This program includes all expenses associated with the State Auditor and the office manager, which consist primarily of salaries, travel expenses, professional development expenses, and professional services costs which benefit all programs of the office.

Senate Bill No. 2004 provides the necessary funding to successfully carry out the objectives of this program.

### **Program 2 - Division of State Audits**

The Division of State Audits conducts performance, operational, information technology, and financial statement audits of state agencies. Each of these is discussed below.

#### **Performance Audits -**

During the 2013-2015 biennium, the section responsible for conducting performance audits had significant turnover. As such, the number of audits able to be completed was diminished. The performance audit of the Game and Fish Department identified several significant areas where improvements were needed. The audit report included 44 recommendations. The audit included a review of G&F's Private Land Program and also included a review of compliance with the use of resources.

A performance audit follow-up is conducted to determine the status of recommendations contained in the original performance audit report. Two follow-up reports have been completed. One was conducted to follow-up on the status of recommendations from the performance audit report entitled "Medicaid Provider and Recipient Fraud and Abuse" (dated September 2010). The

other report was conducted to follow-up on the status of recommendations from the performance audit report entitled "Dickinson State University" (dated February 28, 2012).

At the request of the Legislative Audit and Fiscal Review Committee, the performance audit team is currently conducting a performance audit of tuition waivers. In addition, work has also began on a performance audit requested by the Legislative Audit and Fiscal Review Committee on the Department of Trust Lands.

### **Operational Audits -**

Our two-year biennial audits of state agencies are conducted in accordance with performance audit standards. The objectives of these audits are to provide reliable, audited financial statements and to answer the following questions: 1) What are the highest risk areas of the agencies' operations and is internal control adequate in these areas; 2) What are the significant and high-risk areas of legislative intent applicable to the agencies and are they in compliance with significant laws and regulations; and 3) Are there areas of the agencies' operations where we can help to improve efficiency or effectiveness?

Operational improvements come from working with state agencies, and using our expertise and research to offer constructive assistance and make recommendations for improvement. Our goal is to help individuals do their assigned work as efficiently and effectively as possible while giving them better control over the process. Because state government keeps growing and our staffing remains the same, we are not spending much time looking for operational improvements.

### **Information Technology Audits --**

The Office of the State Auditor performs information systems audits on individual computer applications and on the Information Technology Department. In addition, we hire a consultant once a biennium to do a security audit of the Information Technology Department and the state network. In the 2013-2015 biennium we also hired a consultant to do a security audit of the North Dakota University System.

During the current biennium we hired consultants for the statewide security audit of ITD and NDUS, completed information system audits on the ConnectND Human Capital Management system and the Odyssey case management system at the Judicial Branch.

The information systems auditors continue to maintain our electronic working paper system (TeamMate). Information systems auditors are also responsible for helping with computer assisted audit techniques and handling computer support for our office at its three different locations.

### **Financial Statement Audits -**

The Office of the State Auditor performs annual financial statement audits that include the state's Comprehensive Annual Financial Report (CAFR), ND University System (NDUS), State Mill and Elevator, and the ND Lottery.

The statewide single audit of federal assistance received by state agencies is a type of financial statement audit. This audit is required by federal law and is performed once every two years. The 2013-2014 single audit budget is over 14,000 hours and will cover over \$3.2 billion of federal assistance. All colleges and universities, and 33 state agencies receive and spend federal financial assistance.

The increase in federal regulations relating to auditing federal funds received by the state has required a substantial increase in audit effort. An example of this is the additional audit requirements relating to the Federal Funding Accountability and Transparency Act. To illustrate the increased audit effort required to audit federal funds, consider the budget for the Statewide Single Audit (audit of federal funds received by the state of North Dakota). The audit effort for this project has increased from 6,700 audit hours in the 2003-2004 audit, to more than 14,000 hours for the audit of 2013-2014 federal funds. Thus in the last ten years the federal audit work required has more than doubled.

### **Program 3 – Division of Local Government Audits**

The local government division is entirely self-funded. It operates on revenue generated from audit fees, fees charged for reviewing small government reports, and private auditing firms' audit reports.

### **Financial and Compliance Audits -**

Section 54-10-14 of the North Dakota Century Code requires counties, cities, school districts, and other political subdivisions to be audited every two years. The governing board of these entities may select the Office of the State Auditor, or a public accounting firm to perform the audit. Over a two-year period our office performs about 85 audits, with public accounting firms performing about 600 local government audits during that time.

### **Annual Reports of Small Entities -**

Cities with less than 500 population, school districts with less than 100 enrolled students, park districts and soil conservation districts with less than \$200,000 of annual receipts, and other political subdivisions with less than \$200,000 of annual receipts may file an annual report in lieu of an audit. These reports are reviewed and approved by our office. We review about 700 of these reports each year. Smaller local government reports reviewed include: park districts, school districts, rural fire protection districts, and rural ambulance service districts.

### **Review of State Subrecipient Audit Reports -**

This division also reviews audit reports of local governments receiving federal financial assistance from ten state agencies. This service saves those agencies from having to review the reports themselves. We review about 300 audit reports for these ten state agencies.

Senate Bill No. 2004 provides the necessary funding to successfully carry out the objectives of this program.

### **Program 4 - Mineral Royalty Auditing**

This program was started in 1982, and in 1985 the federal government started funding the program 100%. This program is responsible for ensuring that the federal government and the state of North Dakota are receiving their share of royalty payments for federal leases located within the state. Royalty payments are made on oil, gas, and coal leases. There are currently ten states and seven Native American tribes participating in this program with the U.S.

Department of Interior, Office of Natural Resources Revenue (ONRR). There are four auditors in this program.

The Executive budget added one new mineral royalty auditor. The increased oil activity in the state has greatly increased the auditing demands on this program.

**SENATE APPROPRIATIONS COMMITTEE**

Senator Ray Holmberg, Chairman

January 14, 2014

Requested changes to Senate Bill 2004

1. Add two FTEs and related general funds for additional performance auditors - \$296,686.
2. Add general funds of \$234,720 for salaries.
3. Add \$150,000 one-time funding for renovating office space.

\*\*\*\*\*

**PROPOSED AMENDMENTS TO SENATE BILL NO. 2004**

Page 1, line 12, replace "11,511,619" with "12,036,075"

Page 1, line 14, replace "1,091,510" with "1,098,460"

Page 1, after line 14, insert:

    "Capital assets        150,000"

Page 1, line 16, replace "13,053,129" with "13,734,535"

Page 1, line 18, replace "9,472,746" with "10,154,152"

Page 1, line 19, replace "53.80" with "55.80"

Page 2, line 2, replace "Vault renovation \$0" with "Office renovation \$150,000"

Page 2, line 3, replace "\$0" with "150,000"

Renumber accordingly

1-14-15 P.0  
SB 2004

# 2

Port #	Audit	How Selected	Report Date
3001	Department of Human Services	Budget Committees	8/31/1992
3002	Workers Compensation	LAFRC	4/20/1992
3003	State Leases	LAFRC	3/2/1993
3004	Fleet Services	LAFRC	4/29/1993
3005	Drug Rebate	SAO	11/21/1993
3006	Child Support	SAO	7/8/1994
3007	Mandatory Sentencing	SAO	9/23/1994
3008	Protection and Advocacy	SAO	3/7/1995
3009	Third Party Liability	LAFRC	5/3/1995
3010	Ag Mediation	LAFRC	8/31/1995
3011	Department of Public Instruction	LAFRC/Session Law	5/1/1996
3012	Children Services Coordinating Committee	Session Law	11/1/1996
3013-2	Info Tech Projects	LAFRC	9/12/1997
3013-1	OMB Central Services	LAFRC	8/18/1997
3013-3	NDUS Procurement	LAFRC	12/15/1997
3014-1	State Agency - Personnel	LAFRC	8/31/1998
3014-2	NDUS - Personnel	LAFRC	1/7/1999
3015	Risk Analysis - DHS	LAFRC	5/25/1999
3016	Contracts for Services	LAFRC	3/27/2000
3017	Child Support Enforcement	SAO	9/14/2000
3018	SPED/Expanded Sped	SAO	10/26/2001
3019	Veterans' Home	Session Law	6/24/2002
3020	DOT Office of Driver and Vehicle Services	LAFRC	7/11/2003
3021	Dept. of Vets' Affairs and Admin Comm. on Vets' Affairs	Session Law	3/22/2004
3022	Department of Corrections and Rehabilitation	LAFRC/Session Law	11/24/2004
3023-1	Division of Emergency Management	Session Law	11/18/2005
3023-2	911 Fees - Collection and Use	Session Law	11/18/2005
3024	Workforce Safety and Insurance	SAO	10/26/2006
3025	UND School of Medicine and Health Sciences	LAFRC	8/22/2007
3026	Wildlife Services	Session Law	5/9/2008
3027	Department of Commerce	SAO	8/11/2009
3028	University System Capital Projects	SAO	4/5/2010
3029	Medicaid Provider and Recipient Fraud and Abuse	SAO	9/2/2010
3030	State Supplied Vaccines	SAO	9/29/2011
3031	Dickinson State University	SAO	2/28/2012
3032	NDSU and UND Fees	SAO	6/5/2012
3033	NDUS Office	LAFRC	2/4/2013
3034	Game & Fish	SAO	4/9/2014
ongoing	Tuition Waivers	LAFRC	
ongoing	Department of Trust Lands	LAFRC	

**Completed Performance Audits**

LAFRC	15
Budget Committee	1
Session Law	6
LAFRC/Session Law	2
SAO	14
<b>Total Count</b>	<b>38</b>

J. I.

Bors

**AUDITS PERFORMED BY CPA FIRMS**

As of June 30, 2014

<u>REPORT NUMBER</u>		<u>NAME OF STATE AGENCY</u>
471	1	BANK OF NORTH DAKOTA (1)
		BANK OF ND ADMINISTERED:
964	2	AGPACE FUND (1)
950	3	BEGINNING FARMER REVOLVING LOAN FUND (1)
969	4	COMMUNITY WATER FACILITY LOAN FUND (1)
966	5	DEVELOPMENTALLY DISABLED FAC. LOAN FUND (1)
960	6	GUARANTEED STUDENT LOAN PROGRAM (1)
963	7	PACE FUND (1)
961	8	STUDENT LOAN TRUST PROGRAM (1)
	9	COLLEGE SAVE (2)
945	10	BUILDING AUTHORITY (1)
473	11	HOUSING FINANCE AGENCY (1)
380	12	JOB SERVICE NORTH DAKOTA (1)
226	13	BOARD OF UNIVERSITY & SCHOOL LANDS (LAND DEPARTMENT) (1)
	14	LEGISLATIVE ASSEMBLY (3)
	15	LEGISLATIVE COUNCIL (3)
472	16	PUBLIC FINANCE AUTHORITY (1)
967	17	ND DEVELOPMENT FUND - (2) (NDCC ¶ 10-30.3-08)
	18	OFFICE OF THE STATE AUDITOR (3) (NDCC ¶ 54-10-04)
	19	PUBLIC EMPLOYEES RETIREMENT SYSTEM (1)
J	20	RETIREMENT AND INVESTMENT OFFICE (1)
665	21	STATE FAIR ASSOCIATION - (2) (NDCC ¶ 4-02.1-18)
485	22	WORKFORCE SAFETY & INSURANCE (1)
	23	REBUILDERS LOAN FUND
	24	HOUSING INCENTIVE FUND (1)
	25	MANDAN REMEDIATION TRUST (2)
	26	MEDICAL FACILITY INFRASTRUCTURE LOAN PROGRAM - 7/2013 (1)

(1) Audit contracted for by the State Auditor's Office.

(2) Board of Directors required to contract with CPA firm for audit.

(3) Audit contracted for by the Legislative Council.

(4) Audit contracted for by the Trust

SAO does 58 audits of state agencies and 11 higher education institutions, for a total of 69 audits.  
CPA firms audit 26 state agencies or programs.

2-2

STATE AUDITOR  
ROBERT R. PETERSON



SB 2004  
requested material  
Submitted 1/26/15

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

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

*in minutes dated*  
*1-14-15 SB 2004*

Senate Appropriations Committee  
Senator Ray Holmberg – Chair  
January 21, 2015

Below you will find our response to Senator Kilzer's inquiry about resources needed to perform the audits the State Auditor contracts to CPA firms.

The biggest obstacle to auditing the entities we contract out is the uniqueness of the entities. Banking, pensions, sophisticated investments and insurance industry experience would need to be obtained. The second biggest obstacle is the timing of these audits happen during our busiest times. We estimate we'd need six specialist auditors (two Banking, two pension and two insurance) and approximately 20 other auditors as noted below. We would also need consultant funding for actuaries and investment valuations.

**Detail:**

The following entities are audited by CPA firms primarily because the State Auditor does not have adequate staff to perform the audits.

- Building Authority and Public Finance Authority (contracted together).
- Housing Finance Authority (including the Housing Incentive Fund).
- Job Service North Dakota
- Department of Trust Lands (Board of University and School Lands)

The four of the five entities noted above have June 30 year ends, which coincides with most state entities. Therefore these audits would need to be done at the same time as most state entities (our busy season when we are working overtime). Given the timing of these audits we estimate it would take **five additional auditors** to get these audits done timely (needed for the State CAFR audit and for the Public Finance Authority for the State Single Audit report every other year). We have had trouble hiring qualified staff and retaining experienced staff. Together with office space limitations, hiring and retaining adequate staff may not be feasible. Even if we were to hire additional staff, ensuring we are fully staffed when we need to be is not guaranteed.

Below you will find the entities where the State Auditor does not have the appropriate expertise and staffing to conduct the audits.

# 3-1

### **Bank of North Dakota:**

We do not have statutory authority to audit the Bank of North Dakota. We are responsible for issuing the contract. (NDCC 6-09-29) Auditing standards state that the staff should "collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed before beginning work on that audit." Since we do not currently employ banking experts we'd need to hire at least one experienced auditor with banking expertise. We believe that a minimum of **two experienced bank auditors should be hired**. The five additional auditors noted above, plus these experts should be enough to audit the Bank of North Dakota.

### **Bank of North Dakota related entities:**

NDCC 6-09-29 states that the State Auditor shall audit or contract for an audit of the separate programs and funds administered by the Bank of North Dakota. The State Auditor has contracted for these audits along with the Bank of North Dakota because he believes this is most efficient. These entities include:

- Ag PACE
- PACE
- Community Water Facility Loan Fund
- Guaranteed Student Loan Program
- Student Loan Trust

The following BND related entities' enabling legislation states that the industrial commission is responsible for contracting the audit. These are contracted by the State Auditor along with the Bank of North Dakota's contract.

- Beginning farmers revolving loan fund (NDCC 6-09-15.5)
- Rebuilders loan program (NDCC 6-09-46 subsection 8)
- Medical facility infrastructure loan program (NDCC 6-09-47 subsection 8)

Several of these audits occur in our peak work period. So it is estimated that four additional auditors would be needed. In addition to the five additional auditors, and the two bank experienced auditors, we would need approximately **four additional auditors** to do these audits.

### **Pension audits:**

The audits of the Public Employees Retirement System (PERS) and the Retirement and Investment Office (including Teacher's Fund For Retirement) have been contracted to CPA firms for their pension and investment expertise. These are specialized areas (pensions and complex investments) where we would need to hire experienced auditors, and consultants (actuaries for sure and investment specialists). We estimate that we'd need **two experienced pension auditors**. Further we would need approximately **six more staff** because these audits happen in our peak work period. Additionally we'd need significant consulting funds (\$100,000?).

**Workforce Safety & Insurance:**

The financial audit of WSI has been contracted by the State Auditor for a number of decades. Again, this is a specialized audit and the State Auditor would need to hire auditors with insurance industry experience and contract with an actuary. This audit would also be during our peak work load so we'd need additional auditors.

**Two auditors with insurance industry experience and two additional auditors.**

**Lack of statutory authority:**

**Legislative Assembly and Legislative Council:**

The State Auditor Does not have the power or responsibility to audit these entities.

**North Dakota Development Fund:**

In accordance with NDCC 10-30.5-08 the responsibility for contracting for this audit lies with the board of directors.

**State Fair Association:**

In accordance with NDCC 4-02.1-18 the responsibility for contracting for this audit lies with the board of directors.

**Mandan Remediation Trust:**

The audit for this private purpose trust fund is contracted as specified in the legal settlement that set up the fund.

These are smaller entities, but their audits would be during our peak period. We estimate we'd need an **additional three auditors** to complete these audits timely.

SB 2004  
 2-11-15  
 #1

Department 117 - State Auditor  
 Senate Bill No. 2004

**Executive Budget Comparison to Prior Biennium Appropriations**

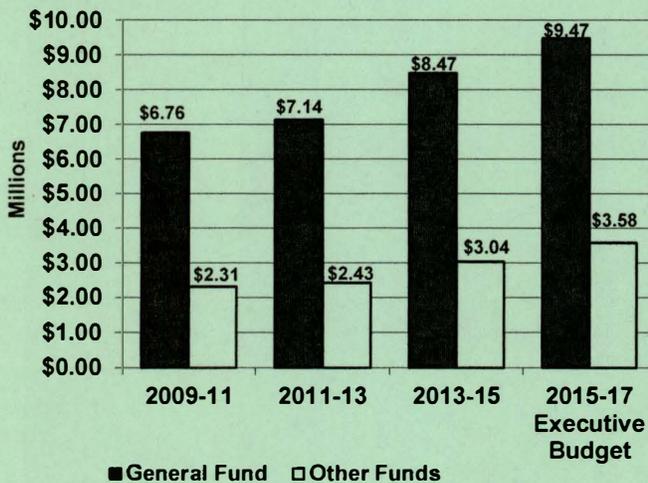
	FTE Positions	General Fund	Other Funds	Total
2015-17 Executive Budget	53.80	\$9,472,746	\$3,580,383	\$13,053,129
2013-15 Legislative Appropriations <sup>1</sup>	53.80	8,473,489	3,036,918	11,510,407
Increase (Decrease)	0.00	\$999,257	\$543,465	\$1,542,722

<sup>1</sup>The 2013-15 appropriation amounts do not include additional federal funds spending authority of \$102,750 relating to a royalty auditor resulting from Emergency Commission action during the 2013-15 biennium.

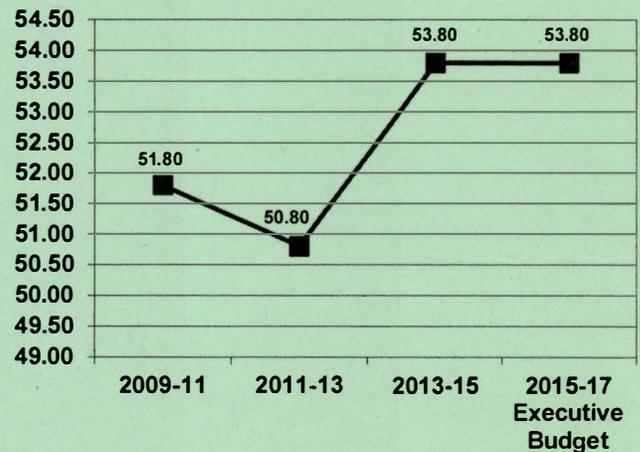
**Ongoing and One-Time General Fund Appropriations**

	Ongoing General Fund Appropriation	One-Time General Fund Appropriation	Total General Fund Appropriation
2015-17 Executive Budget	\$9,472,746	\$0	\$9,472,746
2013-15 Legislative Appropriations	8,428,489	45,000	8,473,489
Increase (Decrease)	\$1,044,257	(\$45,000)	\$999,257

**Agency Funding**



**FTE Positions**



**Executive Budget Comparison to Base Level**

	General Fund	Other Funds	Total
2015-17 Executive Budget	\$9,472,746	\$3,580,383	\$13,053,129
2015-17 Base Level	8,428,489	3,036,918	11,465,407
Increase (Decrease)	\$1,044,257	\$543,465	\$1,587,722

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. Provides funding for state employee salary and benefit increases, of which \$548,911 relates to performance increases, \$71,706 is for market equity adjustments, \$233,161 is for health insurance increases, and \$56,481 is for retirement contribution increases	\$682,480	\$227,779	\$910,259
2. Adds funding to continue salary adjustments made during the 2013-15 biennium	\$173,712	\$0	\$173,712
3. Adjustments to meet hold even general fund limit	(\$104,904)	\$5,739	(\$99,165)
4. Adds funding for royalty auditor authorized by the Budget Section during the 2013-14 interim	\$0	\$102,750	\$102,750

5. Adds funding for Information Technology Department desktop support	\$69,200	\$30,400	\$99,600
6. Adds funding from the North Dakota University System to complete security audits of the eleven institutions	\$0	\$200,000	\$200,000

**Other Sections in Bill**

**State Auditor's salary** - Section 3 provides the statutory changes increasing the State Auditor's salary. The State Auditor's annual salary is increased from the current level of \$99,698 to \$103,686, effective July 1, 2015, and to \$107,833, effective July 1, 2016, to reflect the 4 percent and 4 percent recommended salary increase.

**Continuing Appropriations**

No continuing appropriations for this agency.

**Significant Audit Findings**

There are no significant audit findings for this agency.

**Major Related Legislation**

**House Bill No. 1053 - Centralized Desktop Support Services** - Requires all state agencies to obtain centralized desktop support services from the Information Technology Department, except the legislative and judicial branches and other large state agencies, based on the results of a hardware relocation and consolidation study.

**State Auditor - Budget No. 117  
Senate Bill No. 2004  
Base Level Funding Changes**

	<b>Executive Budget Recommendation</b>			
	<b>FTE Positions</b>	<b>General Fund</b>	<b>Other Funds</b>	<b>Total</b>
<b>2015-17 Biennium Base Level</b>	53.80	\$8,428,489	\$3,036,918	\$11,465,407
<b>2015-17 Ongoing Funding Changes</b>				
Base payroll changes		\$223,769	(\$23,203)	\$200,566
Salary increase - Performance		409,526	139,385	548,911
Salary increase - Market equity		56,862	14,844	71,706
Retirement contribution increase		42,138	14,343	56,481
Health insurance increase		173,954	59,207	233,161
Adds funding for royalty auditor authorized by the Budget Section			102,750	102,750
Adds funding to continue salary adjustments made during the 2013-15 biennium		173,712		173,712
Adds funding for North Dakota University System security audits			200,000	200,000
Adds funding for Information Technology Department desktop support		69,200	30,400	99,600
Other adjustments		(104,904)	5,739	(99,165)
<b>Total ongoing funding changes</b>	<b>0.00</b>	<b>\$1,044,257</b>	<b>\$543,465</b>	<b>\$1,587,722</b>
<b>One-time funding items</b>				
There were no one-time funding items included in the executive recommendation				\$0
<b>Total one-time funding changes</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Total Changes to Base Level Funding</b>	<b>0.00</b>	<b>\$1,044,257</b>	<b>\$543,465</b>	<b>\$1,587,722</b>
<b>2015-17 Total Funding</b>	<b>53.80</b>	<b>\$9,472,746</b>	<b>\$3,580,383</b>	<b>\$13,053,129</b>

**Other Sections in Senate Bill No. 2004**

State Auditor's salary

**Executive Budget Recommendation**  
Section 3 provides the statutory changes increasing the State Auditor's salary. The State Auditor's annual salary is increased from the current level of \$99,698 to \$103,686, effective July 1, 2015, and to \$107,833, effective July 1, 2016, to reflect the 4 percent and 4 percent recommended salary increase.

State Auditor - Budget No. 117  
 Senate Bill No. 2004  
 Base Level Funding Changes

2-11-15

# 2  
 SB 2004  
 2-11-15

	Executive Budget Recommendation			
	FTE Positions	General Fund	Other Funds	Total
2015-17 Biennium Base Level	53.80	\$8,428,489	\$3,036,918	\$11,465,407
<b>2015-17 Ongoing Funding Changes</b>				
Base payroll changes		\$223,769	(\$23,203)	\$200,566
Salary increase - Performance		409,526	139,385	548,911
Salary increase - Market equity		56,862	14,844	71,706
Retirement contribution increase		42,138	14,343	56,481
Health insurance increase		173,954	59,207	233,161
Adds funding for royalty auditor authorized by the Budget Section			102,750	102,750
Adds funding to continue salary adjustments made during the 2013-15 biennium		173,712		173,712
Adds funding for North Dakota University System security audits			200,000	200,000
Adds funding for Information Technology Department desktop support		69,200	30,400	99,600
Other adjustments		(104,904)	5,739	(99,165)
Other change				0
Other change				0
Other change				0
Other change				0
Total ongoing funding changes	0.00	\$1,044,257	\$543,465	\$1,587,722
<b>One-time funding items</b>				
There were no one-time funding items included in the executive recommendation				\$0
Other one-time funding item				0
Other one-time funding item				0
Total one-time funding changes	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	0.00	\$1,044,257	\$543,465	\$1,587,722
2015-17 Total Funding	53.80	\$9,472,746	\$3,580,383	\$13,053,129

add year cost to continue

\$68,000

	Senate Version			
	FTE Positions	General Fund	Other Funds	Total
2015-17 Biennium Base Level	53.80	\$8,428,489	\$3,036,918	\$11,465,407
<b>2015-17 Ongoing Funding Changes</b>				
Base payroll changes		\$223,769	(\$23,203)	\$200,566
Salary increase - Performance		409,526	139,385	548,911
Salary increase - Market equity		56,862	14,844	71,706
Retirement contribution increase		42,138	14,343	56,481
Health insurance increase		173,954	59,207	233,161
Adds funding for royalty auditor authorized by the Budget Section			102,750	102,750
Adds funding to continue salary adjustments made during the 2013-15 biennium		173,712		173,712
Adds funding for North Dakota University System security audits			200,000	200,000
Adds funding for Information Technology Department desktop support		69,200	30,400	99,600
Other adjustments		(104,904)	5,739	(99,165)
Other change				0
Other change				0
Other change				0
Other change				0
Total ongoing funding changes	0.00	\$0	\$0	\$0
<b>One-time funding items</b>				
There were no one-time funding items included in the executive recommendation				\$0
Other one-time funding item				0
Other one-time funding item				0
Total one-time funding changes	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	0.00	\$0	\$0	\$0
2015-17 Total Funding	53.80	\$8,428,489	\$3,036,918	\$11,465,407

Base Budget

Other Sections in Senate Bill No. 2004

State Auditor's salary

Executive Budget Recommendation

Section 3 provides the statutory changes increasing the State Auditor's salary. The State Auditor's annual salary is increased from the current level of \$99,698 to \$103,686, effective July 1, 2015, and to \$107,833, effective July 1, 2016, to reflect the 4 percent and 4 percent recommended salary increase.

Senate Version

ongoing funds - market equt, retirement + salary increases to 3+3

Don Laffeur  
 security audits were ongoing.

1 FTE

Emergency commission - federal funds - so

15.8137.01001  
 Title.  
 Fiscal No. 1

Prepared by the Legislative Council staff for  
 Senator Wanzek

February 12, 2015

2-13-15  
 # 1  
 SB 2004

PROPOSED AMENDMENTS TO SENATE BILL NO. 2004

Page 1, replace lines 12 through 19 with:

"Salaries and wages	\$10,113,137	\$1,131,794	\$11,244,931
Accrued leave payments	201,157	(201,157)	0
Operating expenses	901,113	190,397	1,091,510
Information technology consultants	<u>250,000</u>	<u>200,000</u>	<u>450,000</u>
Total all funds	\$11,465,407	\$1,321,034	\$12,786,441
Less estimated income	<u>3,036,918</u>	<u>478,249</u>	<u>3,515,167</u>
Total general fund	\$8,428,489	\$842,785	\$9,271,274
Full-time equivalent positions	53.80	0.00	53.80"

Page 2, line 8, remove "one hundred"

Page 2, remove line 9

Page 2, line 10, replace "thousand eight hundred thirty-three" with "one hundred two thousand six hundred eighty-nine dollars through June 30, 2016, and one hundred five thousand seven hundred seventy"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2004 - State Auditor - Senate Action

	Base Budget	Senate Changes	Senate Version
Salaries and wages	\$10,113,137	\$1,131,794	\$11,244,931
Operating expenses	901,113	190,397	1,091,510
Information technology consultants	250,000	200,000	450,000
Accrued leave payments	<u>201,157</u>	<u>(201,157)</u>	
Total all funds	\$11,465,407	\$1,321,034	\$12,786,441
Less estimated income	<u>3,036,918</u>	<u>478,249</u>	<u>3,515,167</u>
General fund	\$8,428,489	\$842,785	\$9,271,274
FTE	53.80	0.00	53.80

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

	Adjusts Base Payroll <sup>1</sup>	Adds Funding for Salary and Benefit Increases <sup>2</sup>	Adds Funding for Royalty Auditor <sup>3</sup>	Adds Funding to Continue Other 2013-15 Biennium Salary Adjustments <sup>4</sup>	Adds Funding for University System Security Audits <sup>5</sup>	Adds Funding for IT Desktop Support <sup>6</sup>
Salaries and wages	\$401,723	\$643,571	\$86,500	\$173,712		
Operating expenses			16,250			99,600
Information technology consultants					200,000	
Accrued leave payments	<u>(201,157)</u>					
Total all funds	\$200,566	\$643,571	\$102,750	\$173,712	\$200,000	\$99,600
Less estimated income	<u>(23,203)</u>	<u>162,563</u>	<u>102,750</u>	<u>0</u>	<u>200,000</u>	<u>30,400</u>

(- )

General fund	\$223,769	\$481,008	\$0	\$173,712	\$0	\$69,200
FTE	0.00	0.00	0.00	0.00	0.00	0.00
	<b>Adjusts Base Level Funding<sup>7</sup></b>	<b>Total Senate Changes</b>				
Salaries and wages	(\$173,712)	\$1,131,794				
Operating expenses	74,547	190,397				
Information technology consultants		200,000				
Accrued leave payments		(201,157)				
Total all funds	(\$99,165)	\$1,321,034				
Less estimated income	5,739	478,249				
General fund	(\$104,904)	\$842,785				
FTE	0.00	0.00				

<sup>1</sup> Funding is added for cost-to-continue 2013-15 biennium salaries and benefit increases and for other base payroll changes.

<sup>2</sup> The following funding is added for 2015-17 biennium performance salary adjustments of 2 to 4 percent per year and increases in monthly health insurance premiums:

	General Fund	Other Funds	Total
Salary increase - Performance	\$307,054	\$103,356	\$410,410
Health insurance increase	173,954	59,207	233,161
Total	\$481,008	\$162,563	\$643,571

<sup>3</sup> Federal funding is added relating to a royalty auditor position.

<sup>4</sup> Funding is added to continue other salary adjustments made during the 2013-15 biennium.

<sup>5</sup> Funding is added to complete security audits of the 11 institutions in the North Dakota University System.

<sup>6</sup> Funding is added for desktop support services from the Information Technology Department.

<sup>7</sup> Funding for operating expenses is increased and salaries are decreased to adjust to a hold-even budget.

Section 3 is amended to provide the statutory changes increasing the State Auditor's salary. The State Auditor's annual salary is increased from the current level of \$99,698 to \$102,689, effective July 1, 2015, and to \$105,770, effective July 1, 2016, to reflect a 3 percent salary increase each year of the biennium.

STATE AUDITOR  
ROBERT R. PETERSON



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

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

**TESTIMONY BEFORE THE  
HOUSE APROPRIATIONS COMMITTEE  
GOVERNMENT OPERATIONS DIVISION  
Representative Blair Thoreson, Chairman**

March 6, 2015

---

S.B. No. 2004

Testimony - Presented by:  
Robert R. Peterson, State Auditor

---

Brief Historical Perspective

The duties and responsibilities of the State Auditor are included in Article V, § 2 of the ND Constitution and Chapter 54-10 of the ND Century Code. Significant events include the following:

- 1889 – North Dakota's first State Auditor took office. Much as county and city auditors function to this day, for the first 72 years of the state's existence the State Auditor functioned as a bookkeeper or accountant rather than a true "auditor."
- 1961 – The State Auditor's responsibilities were changed to performing the post audit of all financial transactions of state government. At the time this meant auditing 100 separate departments.
- 1969 – The State Auditor began performing audits of political subdivisions.
- 1971 – The Legislature gave counties the option to contract for their own audits and soon after that other political subdivisions were given the same power.
- 1973 – The State Auditor modernized operations of the office by adopting generally accepted auditing standards.
- 1975 – The State Auditor started to conduct performance audits to help improve the effectiveness and efficiency of state government.
- 1982 – The State Auditor was given the responsibility for performing royalty audits to ensure royalties are properly paid on federal oil, gas, and coal leases.

- 1984 – The Single Audit Act was passed. This act combined the responsibilities for auditing government financial statements with auditing compliance with requirements relating to federal financial assistance. The State Auditor was given this responsibility, significantly increasing the auditors' work load.
- 1986 – Because of the demands associated with the Single Audit Act, performance audits were discontinued.
- 1991 – The Legislature funded additional positions for the State Auditor to establish a performance audit function.
- 1991 – The Legislature required the State Auditor to audit the state-wide financial statements. At this time biennial agency audit reports went from including financial statements prepared in accordance with generally accepted accounting principles to only including reports on internal control and compliance with laws and regulations.
- 1991 – The State Auditor's Division of Local Government Audits became self-sufficient by the establishment of an operating fund for its revenues and expenditures.
- 1997 – Biennial agency audits started to include a statement of revenues and expenditures and an appropriations statement. These statements were audited in accordance with the financial statement audit standards.
- 2000 – Biennial agency audits switched to following the performance audit standards rather than the financial statement audit standards. This change was done in consultation with the Legislative Audit and Fiscal Review Committee. The objectives for biennial agency performance audits are to: provide reliable financial statements; identify and test controls for the most important areas of internal control; identify and test compliance for the most significant and high-risk areas of legislative intent; and determine if there are areas of agency operations where we can help to improve efficiency or effectiveness.
- 2005 – The State Auditor received funding and authority to conduct the first information technology security audit of the state.
- 2013 - The first IT security audit of the North Dakota University System.

**Known or potential changes in level of federal funding to be received**

There are no known or potential changes in the level of federal funding to be received by our office.

**Department's plan to address the changes**

This is not applicable at this time.

**Use of one-time funding in the 2013-2015 biennium**

There was \$40,000 appropriated during the 2013-2015 biennium for the removal of a vault and conversion of that area into usable office space. An additional \$50,000 was added to that appropriation by the Emergency Commission in November 2014. We anticipate using most, if not all, of the total amount before the end of the 2013-2015 biennium.

**Major agency initiatives for the 2015-17 biennium**

Our major initiatives include increasing the number of performance auditors, increasing the salary of our auditors to be competitive and reduce turnover, and to obtain funds to complete a remodel of office space. Each of these initiatives are needed to increase our office's performance and improve on the effectiveness of the work we can perform. The initiatives are discussed in further detail in the following narrative.

We have to be able to keep up with the increase in state government programs, functions, and spending. We have seen an increase in requests for performance audits and also have seen risks increase in various government programs and functions. Without the addition of more performance auditors, certain areas we would like to be able to review to increase efficiency and effectiveness in government will continue to go without any review.

We are requesting additional salary dollars to attract better candidates and to retain our existing staff. In our latest attempt to fill two vacancies, we were unable to find even one candidate that we felt was qualified to meet our minimum standards. We will need to re-advertise those two vacancies.

---

## Program Goals and Objectives

---

The activities of the Office of the State Auditor are carried out through four programs, each of which has its own goals, objectives, and strategies. The following pages provide an overview of each of these programs.

### **Program 1 - Administration**

This program includes all expenses associated with the State Auditor and the office manager, which consist primarily of salaries, travel expenses, professional development expenses, and professional services costs which benefit all programs of the office.

Senate Bill No. 2004 provides the necessary funding to successfully carry out the objectives of this program.

### **Program 2 - Division of State Audits**

The Division of State Audits conducts performance, operational, information technology, and financial statement audits of state agencies. Each of these is discussed below.

#### **Performance Audits -**

During the 2013-2015 biennium, the section responsible for conducting performance audits had significant turnover. As such, the number of audits able to be completed was diminished. The performance audit of the Game and Fish Department identified several significant areas where improvements were needed. The audit report included 44 recommendations. The audit included a review of G&F's Private Land Program and also included a review of compliance with the use of resources.

A performance audit follow-up is conducted to determine the status of recommendations contained in the original performance audit report. Two follow-up reports have been completed. One was conducted to follow-up on the status of recommendations from the performance audit report entitled "Medicaid Provider and Recipient Fraud and Abuse" (dated September 2010). The

other report was conducted to follow-up on the status of recommendations from the performance audit report entitled "Dickinson State University" (dated February 28, 2012).

At the request of the Legislative Audit and Fiscal Review Committee, the performance audit team is currently conducting a performance audit of tuition waivers. In addition, work has also began on a performance audit requested by the Legislative Audit and Fiscal Review Committee on the Department of Trust Lands.

### **Operational Audits -**

Our two-year biennial audits of state agencies are conducted in accordance with performance audit standards. The objectives of these audits are to provide reliable, audited financial statements and to answer the following questions: 1) What are the highest risk areas of the agencies' operations and is internal control adequate in these areas; 2) What are the significant and high-risk areas of legislative intent applicable to the agencies and are they in compliance with significant laws and regulations; and 3) Are there areas of the agencies' operations where we can help to improve efficiency or effectiveness?

Operational improvements come from working with state agencies, and using our expertise and research to offer constructive assistance and make recommendations for improvement. Our goal is to help individuals do their assigned work as efficiently and effectively as possible while giving them better control over the process. Because state government keeps growing and our staffing remains the same, we are not spending much time looking for operational improvements.

### **Information Technology Audits –**

The Office of the State Auditor performs information systems audits on individual computer applications and on the Information Technology Department. In addition, we hire a consultant once a biennium to do a security audit of the Information Technology Department and the state network. In the 2013-2015 biennium we also hired a consultant to do a security audit of the North Dakota University System.

During the current biennium we hired consultants for the statewide security audit of ITD and NDUS, completed information system audits on the ConnectND Human Capital Management system and the Odyssey case management system at the Judicial Branch.

The information systems auditors continue to maintain our electronic working paper system (TeamMate). Information systems auditors are also responsible for helping with computer assisted audit techniques and handling computer support for our office at its three different locations.

### **Financial Statement Audits -**

The Office of the State Auditor performs annual financial statement audits that include the state's Comprehensive Annual Financial Report (CAFR), ND University System (NDUS), State Mill and Elevator, and the ND Lottery.

The statewide single audit of federal assistance received by state agencies is a type of financial statement audit. This audit is required by federal law and is performed once every two years. The 2013-2014 single audit budget is over 14,000 hours and will cover over \$3.2 billion of federal assistance. All colleges and universities, and 33 state agencies receive and spend federal financial assistance.

The increase in federal regulations relating to auditing federal funds received by the state has required a substantial increase in audit effort. An example of this is the additional audit requirements relating to the Federal Funding Accountability and Transparency Act. To illustrate the increased audit effort required to audit federal funds, consider the budget for the Statewide Single Audit (audit of federal funds received by the state of North Dakota). The audit effort for this project has increased from 6,700 audit hours in the 2003-2004 audit, to more than 14,000 hours for the audit of 2013-2014 federal funds. Thus in the last ten years the federal audit work required has more than doubled.

### **Program 3 – Division of Local Government Audits**

The local government division is entirely self-funded. It operates on revenue generated from audit fees, fees charged for reviewing small government reports, and private auditing firms' audit reports.

### **Financial and Compliance Audits -**

Section 54-10-14 of the North Dakota Century Code requires counties, cities, school districts, and other political subdivisions to be audited every two years. The governing board of these entities may select the Office of the State Auditor, or a public accounting firm to perform the audit. Over a two-year period our office performs about 85 audits, with public accounting firms performing about 600 local government audits during that time.

### **Annual Reports of Small Entities -**

Cities with less than 500 population, school districts with less than 100 enrolled students, park districts and soil conservation districts with less than \$200,000 of annual receipts, and other political subdivisions with less than \$200,000 of annual receipts may file an annual report in lieu of an audit. These reports are reviewed and approved by our office. We review about 700 of these reports each year. Smaller local government reports reviewed include: park districts, school districts, rural fire protection districts, and rural ambulance service districts.

### **Review of State Subrecipient Audit Reports -**

This division also reviews audit reports of local governments receiving federal financial assistance from ten state agencies. This service saves those agencies from having to review the reports themselves. We review about 300 audit reports for these ten state agencies.

Senate Bill No. 2004 provides the necessary funding to successfully carry out the objectives of this program.

### **Program 4 - Mineral Royalty Auditing**

This program was started in 1982, and in 1985 the federal government started funding the program 100%. This program is responsible for ensuring that the federal government and the state of North Dakota are receiving their share of royalty payments for federal leases located within the state. Royalty payments are made on oil, gas, and coal leases. There are currently ten states and seven Native American tribes participating in this program with the U.S.

Department of Interior, Office of Natural Resources Revenue (ONRR). There are six auditors in this program.

The Executive budget added one new mineral royalty auditor. The increased oil activity in the state has greatly increased the auditing demands on this program.

**Summary of Senate Action:**

<b>117 State Auditor - SB 2004</b>			
	<b>Executive Recommendation</b>	<b>Senate Changes</b>	<b>Senate Version</b>
Salaries and wages	\$11,511,619	(266,688)	\$11,244,931
Accrued Leave Payments	0	-	0
Operating expenses	1,091,510	-	1,091,510
Capital assets	0	-	0
Information technology consultants	450,000	-	450,000
Total all funds	13,053,129	(266,688)	12,786,441
Less estimated income	3,580,383	(65,216)	3,515,167
Total general fund	\$9,472,746	(201,472)	\$9,271,274
Full-time equivalent positions	53.80	-	53.80

**Details of Changes to Base Budget:**

<b>Executive Recommendation</b>				
	<b>FTE</b>	<b>General Fund</b>	<b>Other Funds</b>	<b>Total Funds</b>
<b><u>Ongoing</u></b>				
NDUS security audits		-	200,000	200,000
ITD desktop support		69,200	30,400	99,600
Increase operating		68,808	5,739	74,547
Funding source change - mineral auditor		-	4,316	4,316
Operating adjustment		-	16,250	16,250
Base payroll changes		223,769	58,981	282,750
Performance Increase		409,526	139,385	548,911
Market Increase		56,862	14,844	71,706
Retirement Increase		42,138	14,343	56,481
Health Increase		173,954	59,207	233,161
<b>Total Ongoing</b>	<b>-</b>	<b>1,044,257</b>	<b>543,465</b>	<b>1,587,722</b>
<b>Total Budget Changes</b>		<b>1,044,257</b>	<b>543,465</b>	<b>1,587,722</b>

<b>Senate Version</b>				
	<b>FTE</b>	<b>General Fund</b>	<b>Other Funds</b>	<b>Total Funds</b>
<b><u>Ongoing</u></b>				
NDUS security audits	-	-	200,000	200,000
ITD desktop support	-	69,200	30,400	99,600
Increase operating	-	68,808	5,739	74,547
Funding source change - mineral auditor			4,316	4,316
Operating adjustment			16,250	16,250
Base payroll changes		223,769	58,981	282,750
Performance Increase		307,054	103,356	410,410
Market Increase				-
Retirement Increase				-
Health Increase		173,954	59,207	233,161
<b>Total Ongoing</b>	<b>-</b>	<b>842,785</b>	<b>478,249</b>	<b>1,321,034</b>
<b>Total Budget Changes</b>		<b>842,785</b>	<b>478,249</b>	<b>1,321,034</b>

**HOUSE APPROPRIATIONS COMMITTEE  
GOVERNMENT OPERATIONS DIVISION  
Representative Blair Thoreson, Chairman**

Requested changes to Engrossed Senate Bill No. 2004

1. Add two FTEs and related general funds for additional performance auditors - \$296,686.
2. Add general funds of \$234,720 for salaries.
3. Add \$150,000 one-time funding for renovating office space on 3<sup>rd</sup> Floor of the Tower.

\*\*\*\*\*

**PROPOSED AMENDMENTS TO SENATE BILL NO. 2004**

Page 1, line 12, replace "11,244,931" with "11,769,387"

Page 1, line 14, replace "1,091,510" with "1,098,460"

Page 1, after line 14, insert:

"Capital assets            150,000"

Page 1, line 16, replace "12,786,441" with "13,467,847"

Page 1, line 18, replace "9,271,274" with "9,952,680"

Page 1, line 19, replace "53.80" with "55.80"

Page 2, line 2, replace "Vault renovation \$0" with "Office renovation \$150,000"

Page 2, line 3, replace "\$0" with "150,000"

Renumber accordingly

Report #	Audit	How Selected	Report Date
3001	Department of Human Services	Budget Committees	8/31/1992
3002	Workers Compensation	LAFRC	4/20/1992
3003	State Leases	LAFRC	3/2/1993
3004	Fleet Services	LAFRC	4/29/1993
3005	Drug Rebate	SAO	11/21/1993
3006	Child Support	SAO	7/8/1994
3007	Mandatory Sentencing	SAO	9/23/1994
3008	Protection and Advocacy	SAO	3/7/1995
3009	Third Party Liability	LAFRC	5/3/1995
3010	Ag Mediation	LAFRC	8/31/1995
3011	Department of Public Instruction	LAFRC/Session Law	5/1/1996
3012	Children Services Coordinating Committee	Session Law	11/1/1996
3013-2	Info Tech Projects	LAFRC	9/12/1997
3013-1	OMB Central Services	LAFRC	8/18/1997
3013-3	NDUS Procurement	LAFRC	12/15/1997
3014-1	State Agency - Personnel	LAFRC	8/31/1998
3014-2	NDUS - Personnel	LAFRC	1/7/1999
3015	Risk Analysis - DHS	LAFRC	5/25/1999
3016	Contracts for Services	LAFRC	3/27/2000
3017	Child Support Enforcement	SAO	9/14/2000
3018	SPED/Expanded Sped	SAO	10/26/2001
3019	Veterans' Home	Session Law	6/24/2002
3020	DOT Office of Driver and Vehicle Services	LAFRC	7/11/2003
3021	Dept. of Vets' Affairs and Admin Comm. on Vets' Affairs	Session Law	3/22/2004
3022	Department of Corrections and Rehabilitation	LAFRC/Session Law	11/24/2004
3023-1	Division of Emergency Management	Session Law	11/18/2005
3023-2	911 Fees - Collection and Use	Session Law	11/18/2005
3024	Workforce Safety and Insurance	SAO	10/26/2006
3025	UND School of Medicine and Health Sciences	LAFRC	8/22/2007
3026	Wildlife Services	Session Law	5/9/2008
3027	Department of Commerce	SAO	8/11/2009
3028	University System Capital Projects	SAO	4/5/2010
3029	Medicaid Provider and Recipient Fraud and Abuse	SAO	9/2/2010
3030	State Supplied Vaccines	SAO	9/29/2011
3031	Dickinson State University	SAO	2/28/2012
3032	NDSU and UND Fees	SAO	6/5/2012
3033	NDUS Office	LAFRC	2/4/2013
3034	Game & Fish	SAO	4/9/2014
ongoing	Tuition Waivers	LAFRC	
ongoing	Department of Trust Lands	LAFRC	

**Completed Performance Audits**

LAFRC	15
Budget Committee	1
Session Law	6
LAFRC/Session Law	2
SAO	14
<b>Total Count</b>	<b>38</b>

**State Auditor - Budget No. 117  
Senate Bill No. 2004  
Base Level Funding Changes**

	Executive Budget Recommendation				Senate Version				Senate Changes to Executive Budget			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
<b>2015-17 Biennium Base Level</b>	53.80	\$8,428,489	\$3,036,918	\$11,465,407	53.80	\$8,428,489	\$3,036,918	\$11,465,407	0.00	\$0	\$0	\$0
<b>2015-17 Ongoing Funding Changes</b>												
Base payroll changes		\$223,769	(\$23,203)	\$200,566		\$223,769	(\$23,203)	\$200,566				\$0
Salary increase - Performance		409,526	139,385	548,911		307,054	103,356	410,410		(102,472)	(36,029)	(138,501)
Salary increase - Market equity		56,862	14,844	71,706				0		(56,862)	(14,844)	(71,706)
Retirement contribution increase		42,138	14,343	56,481				0		(42,138)	(14,343)	(56,481)
Health insurance increase		173,954	59,207	233,161		173,954	59,207	233,161				0
Add funding for royalty auditor authorized by the Budget Section			102,750	102,750			102,750	102,750				0
Add funding to continue salary adjustments made during the 2013-15 biennium		173,712		173,712		173,712		173,712				0
Add funding for North Dakota University System security audits			200,000	200,000			200,000	200,000				0
Add funding for Information Technology Department desktop support		69,200	30,400	99,600		69,200	30,400	99,600				0
Other adjustments		(104,904)	5,739	(99,165)		(104,904)	5,739	(99,165)				0
Total ongoing funding changes	0.00	\$1,044,257	\$543,465	\$1,587,722	0.00	\$842,785	\$478,249	\$1,321,034	0.00	(\$201,472)	(\$65,216)	(\$266,688)
<b>One-time funding items</b>				\$0				\$0				\$0
None				\$0				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
<b>Total Changes to Base Level Funding</b>	0.00	\$1,044,257	\$543,465	\$1,587,722	0.00	\$842,785	\$478,249	\$1,321,034	0.00	(\$201,472)	(\$65,216)	(\$266,688)
<b>2015-17 Total Funding</b>	53.80	\$9,472,746	\$3,580,383	\$13,053,129	53.80	\$9,271,274	\$3,515,167	\$12,786,441	0.00	(\$201,472)	(\$65,216)	(\$266,688)

**Other Sections in Senate Bill No. 2004**

State Auditor's salary

**Executive Budget Recommendation**  
Section 3 provides the statutory changes increasing the State Auditor's salary. The State Auditor's annual salary is increased from the current level of \$99,698 to \$103,686, effective July 1, 2015, and to \$107,833, effective July 1, 2016, to reflect the recommended 4 percent salary increase each year of the biennium.

**Senate Version**  
Section 3 provides the statutory changes increasing the State Auditor's salary. The State Auditor's annual salary is increased from the current level of \$99,698 to \$102,689, effective July 1, 2015, and to \$105,770, effective July 1, 2016, to reflect the 3 percent salary increase each year of the biennium.

2



Department 117 - State Auditor  
 Senate Bill No. 2004

**Executive Budget Comparison to Prior Biennium Appropriations**

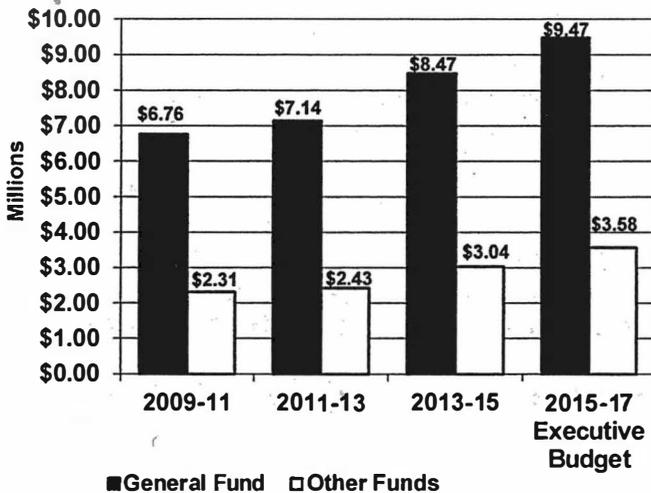
	FTE Positions	General Fund	Other Funds	Total
2015-17 Executive Budget	53.80	\$9,472,746	\$3,580,383	\$13,053,129
2013-15 Legislative Appropriations <sup>1</sup>	53.80	8,473,489	3,036,918	11,510,407
Increase (Decrease)	0.00	\$999,257	\$543,465	\$1,542,722

<sup>1</sup>The 2013-15 appropriation amounts do not include additional federal funds spending authority of \$102,750 relating to a royalty auditor resulting from Emergency Commission action during the 2013-15 biennium.

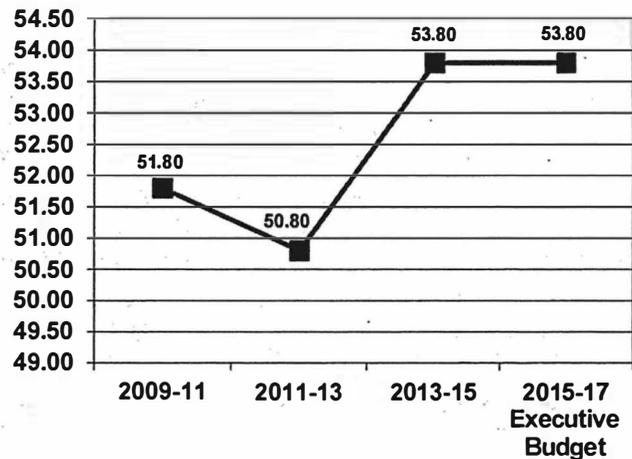
**Ongoing and One-Time General Fund Appropriations**

	Ongoing General Fund Appropriation	One-Time General Fund Appropriation	Total General Fund Appropriation
2015-17 Executive Budget	\$9,472,746	\$0	\$9,472,746
2013-15 Legislative Appropriations	8,428,489	45,000	8,473,489
Increase (Decrease)	\$1,044,257	(\$45,000)	\$999,257

Agency Funding



FTE Positions



**Executive Budget Comparison to Base Level**

	General Fund	Other Funds	Total
2015-17 Executive Budget	\$9,472,746	\$3,580,383	\$13,053,129
2015-17 Base Level	8,428,489	3,036,918	11,465,407
Increase (Decrease)	\$1,044,257	\$543,465	\$1,587,722

**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. Provides funding for state employee salary and benefit increases, of which \$548,911 relates to performance increases, \$71,706 is for market equity adjustments, \$233,161 is for health insurance increases, and \$56,481 is for retirement contribution increases. The Senate provided funding for performance salary increases of 2 to 4 percent per year and funding for health insurance increases, but did not include funding for market equity increases or funding for retirement contribution increases.	\$682,480	\$227,779	\$910,259

2. Adds funding to continue salary adjustments made during the 2013-15 biennium	\$173,712	\$0	\$173,712
3. Adjustments to meet hold even general fund limit	(\$104,904)	\$5,739	(\$99,165)
4. Adds funding for royalty auditor authorized by the Budget Section during the 2013-14 interim	\$0	\$102,750	\$102,750
5. Adds funding for Information Technology Department desktop support	\$69,200	\$30,400	\$99,600
6. Adds funding from the North Dakota University System to complete security audits of the eleven institutions	\$0	\$200,000	\$200,000

### Other Sections in Bill

**State Auditor's salary** - Section 3 provides the statutory changes increasing the State Auditor's salary. The State Auditor's annual salary is increased from the current level of \$99,698 to \$103,686, effective July 1, 2015, and to \$107,833, effective July 1, 2016, to reflect the 4 percent and 4 percent recommended salary increase. **The Senate changed this section of the bill to provide a salary increase of 3 percent effective July 1, 2015, and 3 percent effective July 1, 2016.**

### Continuing Appropriations

No continuing appropriations for this agency.

### Significant Audit Findings

There are no significant audit findings for this agency.

### Major Related Legislation

**House Bill No. 1003 - Audits of Institutions and Entities Under the Control of the State Board of Higher Education** - Provides an appropriation of \$1,221,914 from the general fund and 6 FTE positions to the State Auditor's office to conduct audits of institutions and entities under the control of the State Board of Higher Education.

**House Bill No. 1053 - Centralized Desktop Support Services** - Requires all state agencies to obtain centralized desktop support services from the Information Technology Department, except the legislative and judicial branches and other large state agencies, based on the results of a hardware relocation and consolidation study.

**House Bill No. 1055 - Study of Uniform Chart of Accounts** - Provides the North Dakota Association of Counties may conduct a study of the implementation of a system for uniform chart of accounts and requires the State Auditor provide technical assistance to the association as requested.

**Senate Bill No. 2262 - Annual Report of Certain Political Subdivisions** - Increases the threshold under which the State Auditor may require an annual report from certain political subdivisions in lieu of conducting an audit every two years from \$200,000 to \$300,000 of annual receipts.

**State Auditor - Budget No. 117  
Senate Bill No. 2004  
Base Level Funding Changes**

	<b>Executive Budget Recommendation</b>				<b>Senate Version</b>			
	<b>FTE Positions</b>	<b>General Fund</b>	<b>Other Funds</b>	<b>Total</b>	<b>FTE Positions</b>	<b>General Fund</b>	<b>Other Funds</b>	<b>Total</b>
<b>2015-17 Biennium Base Level</b>	53.80	\$8,428,489	\$3,036,918	\$11,465,407	53.80	\$8,428,489	\$3,036,918	\$11,465,407
<b>2015-17 Ongoing Funding Changes</b>								
Base payroll changes		\$223,769	(\$23,203)	\$200,566		\$223,769	(\$23,203)	\$200,566
Salary increase - Performance		409,526	139,385	548,911		307,054	103,356	410,410
Salary increase - Market equity		56,862	14,844	71,706				0
Retirement contribution increase		42,138	14,343	56,481				0
Health insurance increase		173,954	59,207	233,161		173,954	59,207	233,161
Add funding for royalty auditor authorized by the Budget Section			102,750	102,750			102,750	102,750
Add funding to continue salary adjustments made during the 2013-15 biennium		173,712		173,712		173,712		173,712
Add funding for North Dakota University System security audits			200,000	200,000			200,000	200,000
Add funding for Information Technology Department desktop support		69,200	30,400	99,600		69,200	30,400	99,600
Other adjustments		(104,904)	5,739	(99,165)		(104,904)	5,739	(99,165)
<b>Total ongoing funding changes</b>	<b>0.00</b>	<b>\$1,044,257</b>	<b>\$543,465</b>	<b>\$1,587,722</b>	<b>0.00</b>	<b>\$842,785</b>	<b>\$478,249</b>	<b>\$1,321,034</b>
<b>One-time funding items</b>								
None				\$0				\$0
<b>Total one-time funding changes</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Total Changes to Base Level Funding</b>	<b>0.00</b>	<b>\$1,044,257</b>	<b>\$543,465</b>	<b>\$1,587,722</b>	<b>0.00</b>	<b>\$842,785</b>	<b>\$478,249</b>	<b>\$1,321,034</b>
<b>2015-17 Total Funding</b>	<b>53.80</b>	<b>\$9,472,746</b>	<b>\$3,580,383</b>	<b>\$13,053,129</b>	<b>53.80</b>	<b>\$9,271,274</b>	<b>\$3,515,167</b>	<b>\$12,786,441</b>

**Other Sections in Senate Bill No. 2004**

State Auditor's salary

**Executive Budget Recommendation**  
Section 3 provides the statutory changes increasing the State Auditor's salary. The State Auditor's annual salary is increased from the current level of \$99,698 to \$103,686, effective July 1, 2015, and to \$107,833, effective July 1, 2016, to reflect the recommended 4 percent salary increase each year of the biennium.

**Senate Version**  
Section 3 provides the statutory changes increasing the State Auditor's salary. The State Auditor's annual salary is increased from the current level of \$99,698 to \$102,689, effective July 1, 2015, and to \$105,770, effective July 1, 2016, to reflect the 3 percent salary increase each year of the biennium.

SB 2004

March 16, 2015

Attachment B.

3-16-15  
SB2004

ND State Auditor  
Minimum Requirements for Current Vacancies  
3/16/2015

Minimum Requirements for Current Vacancies  
Auditor 1 Positions

- Bachelor's Degree in Accounting with an overall GPA of 3.0 or higher, from an appropriately accredited institution. Applicants who anticipate receiving their degree in the spring of 2015 are eligible and encouraged to apply.
- Analytical ability.
- Must be able to effectively communicate orally and in writing with other office employees and audit clients.
- Requires successful competition of the hiring process including reference, background, and criminal record checks.

DD004

11/16/2015

Attachment C

ND State Auditor  
Desktop Laptop  
3/16/2015

Attachment C  
3-16-15  
SB2004

Tag Number	Descr	Sector	Acq Date	Replacement	Class
SA1269	HP Compaq 8100 Elite Desktop	BISMARCK	5/3/2011	5/1/2015	CMP_DESKPC
SA1270	HP Compaq 8100 Elite Desktop	BISMARCK	5/3/2011	5/1/2015	CMP_DESKPC
SA1271	HP Compaq 8100 Elite Desktop	BISMARCK	5/3/2011	5/1/2015	CMP_DESKPC
SA1272	HP Compaq 8100 Elite Desktop	BISMARCK	5/3/2011	5/1/2015	CMP_DESKPC
SA1268	HP Compaq 8100 Elite Desktop	BISMARCK	5/3/2011	5/1/2015	CMP_DESKPC
SA1290	HP Compaq 8200 Elite Desktop	BISMARCK	1/4/2012	1/1/2016	CMP_DESKPC
SA1291	HP Compaq 8200 Elite Desktop	BISMARCK	1/4/2012	1/1/2016	CMP_DESKPC
SA1292	HP Compaq 8200 Elite Desktop	BISMARCK	1/4/2012	1/1/2016	CMP_DESKPC
SA1298	HP Compaq 8200 Elite Desktop	BISMARCK	2/6/2012	1/1/2016	CMP_DESKPC
SA1303	HP Compaq 8200 Elite Desktop	BISMARCK	6/18/2012	6/1/2016	CMP_DESKPC
SA1304	HP Compaq 8200 Elite Desktop	BISMARCK	6/18/2012	6/1/2016	CMP_DESKPC
SA1325	HP Compaq Elite 8300 Desktop	BISMARCK	1/7/2013	1/1/2017	CMP_DESKPC
SA1322	HP Compaq Elite 8300 Desktop	BISMARCK	1/7/2013	1/1/2017	CMP_DESKPC
SA1323	HP Compaq Elite 8300 Desktop	BISMARCK	1/7/2013	1/1/2017	CMP_DESKPC
SA1324	HP Compaq Elite 8300 Desktop	BISMARCK	1/7/2013	1/1/2017	CMP_DESKPC
SA1359	HP EliteDesk 800	BISMARCK	5/28/2014	6/1/2018	CMP_DESKPC
SA1375	HP EliteDesk 800	BISMARCK	12/1/2014	12/1/2018	CMP_DESKPC
SA1376	HP EliteDesk 800	BISMARCK	12/1/2014	12/1/2018	CMP_DESKPC
SA1377	HP EliteDesk 800	BISMARCK	12/1/2014	12/1/2018	CMP_DESKPC
SA1305	HP Compaq 8200 Elite Desktop	FARGO	6/18/2012	6/1/2016	CMP_DESKPC
SA1306	HP Compaq 8200 Elite Desktop	FARGO	6/18/2012	6/1/2016	CMP_DESKPC
SA1307	HP Compaq 8200 Elite Desktop	FARGO	6/18/2012	6/1/2016	CMP_DESKPC
SA1308	HP Compaq 8200 Elite Desktop	FARGO	6/18/2012	6/1/2016	CMP_DESKPC
SA1331	HP Compaq Elite 8300 Desktop	FARGO	1/7/2013	1/1/2017	CMP_DESKPC
SA1332	HP Compaq Elite 8300 Desktop	FARGO	1/7/2013	1/1/2017	CMP_DESKPC
SA1347	HP Compaq Elite 8300 Desktop	FARGO	2/10/2014	1/1/2018	CMP_DESKPC
SA1348	HP Compaq Elite 8300 Desktop	FARGO	2/10/2014	1/1/2018	CMP_DESKPC
SA1275	Backups	BISMARCK	5/24/2011		CMP_LAPTOP
SA1296	Backups	BISMARCK	2/3/2012		CMP_LAPTOP
SA1297	Backups	BISMARCK	2/3/2012		CMP_LAPTOP
SA1302	Backups	BISMARCK	6/18/2012		CMP_LAPTOP
SA1327	Backups	BISMARCK	1/7/2013		CMP_LAPTOP
SA1328	Backups	BISMARCK	1/7/2013		CMP_LAPTOP
SA1329	Backups	BISMARCK	1/7/2013		CMP_LAPTOP
SA1330	Backups	BISMARCK	1/7/2013		CMP_LAPTOP
SA1326	HP Elitebook 8570P Notebook	BISMARCK	1/7/2013	1/1/2016	CMP_LAPTOP
SA1336	HP Elitebook 8570P Notebook	BISMARCK	5/10/2013	5/1/2016	CMP_LAPTOP
SA1337	HP Elitebook 8570P Notebook	BISMARCK	5/10/2013	5/1/2016	CMP_LAPTOP
SA1338	HP Elitebook 8570P Notebook	BISMARCK	5/10/2013	5/1/2016	CMP_LAPTOP
SA1345	HP Elitebook 8570P Notebook	BISMARCK	8/5/2013	8/1/2016	CMP_LAPTOP
SA1346	HP Elitebook 8570P Notebook	BISMARCK	8/5/2013	8/1/2016	CMP_LAPTOP
SA1355	HP Elitebook 8570P Notebook	BISMARCK	2/10/2014	2/1/2017	CMP_LAPTOP

ND State Auditor  
 Desktop Laptop  
 3/16/2015

SA1356	HP Elitebook 8570P Notebook	BISMARCK	2/10/2014	2/1/2017	CMP_LAPTOP
SA1357	HP Elitebook 8570P Notebook	BISMARCK	2/10/2014	2/1/2017	CMP_LAPTOP
SA1362	HP Elitebook 850	BISMARCK	7/24/2014	7/1/2017	CMP_LAPTOP
SA1363	HP Elitebook 850	BISMARCK	7/24/2014	7/1/2017	CMP_LAPTOP
SA1364	HP Elitebook 850	BISMARCK	7/24/2014	7/1/2017	CMP_LAPTOP
SA1378	HP EliteBook 850	BISMARCK	12/1/2014	12/1/2017	CMP_LAPTOP
SA1379	HP EliteBook 850	BISMARCK	12/1/2014	12/1/2017	CMP_LAPTOP
SA1380	HP EliteBook 850	BISMARCK	12/1/2014	12/1/2017	CMP_LAPTOP
SA1233	Backups	FARGO	1/19/2010		CMP_LAPTOP
SA1235	Backups	FARGO	1/19/2010		CMP_LAPTOP
SA1245	Backups	FARGO	6/3/2010		CMP_LAPTOP
SA1273	Backups	FARGO	5/24/2011		CMP_LAPTOP
SA1315	HP Elitebook 8570P Notebook	MMS	11/26/2012	11/1/2015	CMP_LAPTOP
SA1358	HP Elitebook 850	MMS	4/23/2014	4/1/2017	CMP_LAPTOP
SA1371	Backup	MMS	12/1/2014		CMP_LAPTOP
SA1371	HP EliteBook 850	MMS	12/1/2014	12/1/2017	CMP_LAPTOP
SA1372	HP EliteBook 850	MMS	12/1/2014	12/1/2017	CMP_LAPTOP
SA1373	HP EliteBook 850	MMS	12/1/2014	12/1/2017	CMP_LAPTOP
SA1374	HP EliteBook 850	MMS	12/1/2014	12/1/2017	CMP_LAPTOP
SA1250	Backups	POLSUB-F	10/5/2010		CMP_LAPTOP
SA1253	Backups	POLSUB-F	10/5/2010		CMP_LAPTOP
SA1255	Backups	POLSUB-F	10/5/2010		CMP_LAPTOP
SA1295	HP Elitebook 8560P Notebook	POLSUB-F	2/3/2012	2/1/2015	CMP_LAPTOP
SA1349	HP Elitebook 8570P Notebook	POLSUB-F	2/10/2014	2/1/2017	CMP_LAPTOP
SA1350	HP Elitebook 8570P Notebook	POLSUB-F	2/10/2014	2/1/2017	CMP_LAPTOP
SA1351	HP Elitebook 8570P Notebook	POLSUB-F	2/10/2014	2/1/2017	CMP_LAPTOP
SA1352	HP Elitebook 8570P Notebook	POLSUB-F	2/10/2014	2/1/2017	CMP_LAPTOP
SA1353	HP Elitebook 8570P Notebook	POLSUB-F	2/10/2014	2/1/2017	CMP_LAPTOP
SA1354	HP Elitebook 8570P Notebook	POLSUB-F	2/10/2014	2/1/2017	CMP_LAPTOP
SA1360	Microsoft Surface Tablet	BISMARCK	6/30/2014		CMP_TABLET

15.8137.02002  
Title.

Prepared by the Legislative Council staff for  
Representative Skarphol  
March 13, 2015

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2004

Page 1, line 1, after the semicolon insert "to create and enact a new section to chapter 54-10 of the North Dakota Century Code, relating to a higher education audit division of the state auditor's office;"

Page 1, line 2, replace "section" with "sections 54-10-01 and"

Page 1, line 2, after the second "to" insert "the powers and duties of the state auditor and"

Page 1, replace lines 12 through 19 with:

"Salaries and wages	\$10,113,137	\$2,249,708	\$12,362,845
Accrued leave payments	201,157	(201,157)	0
Operating expenses	901,113	294,397	1,195,510
Information technology consultants	<u>250,000</u>	<u>200,000</u>	<u>450,000</u>
Total all funds	\$11,465,407	\$2,542,948	\$14,008,355
Less estimated income	<u>3,036,918</u>	<u>478,249</u>	<u>3,515,167</u>
Total general fund	\$8,428,489	\$2,064,699	\$10,493,188
Full-time equivalent positions	53.80	6.00	59.80"

Page 2, after line 3, insert:

**"SECTION 3. 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.**

The state auditor shall:

1. 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. 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 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 non-general fund moneys. Audits and reviews may be conducted at more frequent intervals if requested by the governor or legislative audit and fiscal review committee.

3. 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. Perform or provide for performance audits of state agencies, or their blended component units or discreetly presented component units as determined necessary by the state auditor or 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. 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. 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. Perform all other duties as prescribed by law."

Page 2, after line 10, insert:

"SECTION 5. A new section to chapter 54-10 of the North Dakota Century Code is created and enacted as follows:

**State board of higher education audits - Higher education audit division.**

1. 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. The audit manager shall conduct audits, as determined appropriate by the state auditor, of each institution under the supervision and control of the state board of higher education. The audit manager may consult with the state board of higher education, or a committee designated by the board, regarding audit plans, results of audit activities, and any other appropriate issue. The state auditor shall determine the audit scope and related audit areas of any audit conducted by the audit manager. This section does not require the state auditor to perform any duties that would compromise the auditor's independence under government auditing standards.

2. The audit manager may access and examine any record under the control of the state board of higher education. For purposes of reviewing records under the Family Educational Rights and Privacy Act [20 U.S.C. 1232g; 34 CFR 99] or any other federal privacy law, the audit manager must be considered a state educational official authorized to access student records for audit purposes.
3. The state auditor may hire employees necessary to carry out the duties and responsibilities of this section. The state auditor may hire consultants to assist with any duties required under this section subject to approval by the legislative audit and fiscal review committee. The state board of higher education shall pay for the cost of any consultant approved under this section."

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

This amendment provides for the following:

- Appropriates \$1,221,914 from the general fund for 6 higher education audit FTE positions (\$1,117,914) and related operating expenses (\$104,000).
- Amends Section 54-10-01 relating to performance audits conducted by the State Auditor.
- Creates a new section to Chapter 54-10 to establish a higher education audit division in the State Auditor's office.

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2004

Page 1, line 1, after the semicolon insert "to create and enact a new section to chapter 54-10 of the North Dakota Century Code, relating to a higher education audit division of the state auditor's office;"

Page 1, line 2, replace "section" with "sections 54-10-01 and"

Page 1, line 2, after the second "to" insert "the powers and duties of the state auditor and"

Page 1, replace lines 12 through 19 with:

"Salaries and wages	\$10,113,137	\$2,209,055	\$12,322,192
Accrued leave payments	201,157	(201,157)	0
Operating expenses	901,113	294,397	1,195,510
Information technology consultants	<u>250,000</u>	<u>200,000</u>	<u>450,000</u>
Total all funds	\$11,465,407	\$2,502,295	\$13,967,702
Less estimated income	<u>3,036,918</u>	<u>468,952</u>	<u>3,505,870</u>
Total general fund	\$8,428,489	\$2,033,343	\$10,461,832
Full-time equivalent positions	53.80	6.00	59.80"

Page 2, after line 3, insert:

**"SECTION 3. 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.**

The state auditor shall:

1. 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. 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 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 non-general fund moneys. Audits and reviews may be conducted at more frequent intervals if requested by the governor or legislative audit and fiscal review committee.

3. 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. Perform or provide for performance audits of state agencies, or their blended component units or discreetly presented component units as determined necessary by the state auditor or 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. 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. 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. Perform all other duties as prescribed by law."

Page 2, after line 10, insert:

"**SECTION 5.** A new section to chapter 54-10 of the North Dakota Century Code is created and enacted as follows:

**State board of higher education audits - Higher education audit division.**

1. 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. The audit manager shall conduct audits, as determined appropriate by the state auditor, of each institution under the supervision and control of the state board of higher education. The audit manager may consult with the state board of higher education, or a committee designated by the board, regarding audit plans, results of audit activities, and any other appropriate issue. The state auditor shall determine the audit scope and related audit areas of any audit conducted by the audit manager. This section does not require the state auditor to perform any duties that would compromise the auditor's independence under government auditing standards.

2. The audit manager may access and examine any record under the control of the state board of higher education. For purposes of reviewing records under the Family Educational Rights and Privacy Act [20 U.S.C. 1232g; 34 CFR 99] or any other federal privacy law, the audit manager must be considered a state educational official authorized to access student records for audit purposes.
  
3. The state auditor may hire employees necessary to carry out the duties and responsibilities of this section. The state auditor may hire consultants to assist with any duties required under this section subject to approval by the legislative audit and fiscal review committee. The state board of higher education shall pay for the cost of any consultant approved under this section."

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

**Senate Bill No. 2004 - State Auditor - House Action**

	Base Budget	Senate Version	House Changes	House Version
Salaries and wages	\$10,113,137	\$11,244,931	\$1,077,261	\$12,322,192
Operating expenses	901,113	1,091,510	104,000	1,195,510
Information technology consultants	250,000	450,000		450,000
Accrued leave payments	201,157			
Total all funds	\$11,465,407	\$12,786,441	\$1,181,261	\$13,967,702
Less estimated income	3,036,918	3,515,167	(9,297)	3,505,870
General fund	\$8,428,489	\$9,271,274	\$1,190,558	\$10,461,832
FTE	53.80	53.80	6.00	59.80

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

	Adds Funding for Higher Education Auditors <sup>1</sup>	Adjusts Funding for Health Insurance Premium Increases <sup>2</sup>	Total House Changes
Salaries and wages	\$1,117,914	(\$40,653)	\$1,077,261
Operating expenses	104,000		104,000
Information technology consultants			
Accrued leave payments			
Total all funds	\$1,221,914	(\$40,653)	\$1,181,261
Less estimated income	0	(9,297)	(9,297)
General fund	\$1,221,914	(\$31,356)	\$1,190,558
FTE	6.00	0.00	6.00

<sup>1</sup> Funding is added for 6 auditor FTE positions and related operating expenses to provide audit services to the State Board of Higher Education and its institutions.

<sup>2</sup> Funding for employee health insurance premiums is adjusted to reflect the revised premium estimate of \$1,130.22 per month.

This amendment also:

- Amends North Dakota Century Code Section 54-10-01 relating to performance audits conducted by the State Auditor; and
- Creates a new section to Chapter 54-10 to establish a higher education audit division in the State Auditor's office.

**Peterson, Robert R.**

---

**From:** Ron Tolstad Jr. <rtolstad@bis.midco.net>  
**Sent:** Thursday, March 26, 2015 7:41 AM  
**To:** Peterson, Robert R.  
**Cc:** rtolstad@gmail.com  
**Subject:** Component units

Please reply all so I know you got this. I'll be in training at the heritage center.

The CAFR lists the following state agencies as component units:

Blended:

1. Building Authority

Discretely Presented:

2. Comprehensive Health association of ND (CHAND)  
Comprehensive Health Association (Proprietary Fund Type) -The Association was established by the Legislature with participating membership consisting of those insurance companies, licensed or authorized to do business in the State. It provides low cost access to health insurance coverage for residents of the State who are denied adequate health insurance and are considered uninsurable. The Association is governed by a board of eight members of which five are representatives of the State and is regulated by the State Insurance Department. The Association was audited by other independent auditors for the calendar year ended December 31, 2013, and their report has been previously issued under a separate cover.
3. Public Finance Authority (old Municipal Bond Bank)
4. North Dakota Development Fund  
Part of Growing ND (under Sinner). They contract for their own audit, I'm not sure if they are a state agency, but I would presume they are unless proven wrong.
5. State Historical Society of ND Foundation

Then the NDUS component units are disclosed in total.

From: <https://www.ndus.edu/uploads/reports/133/ndus-annual-financial-report---fiscal-year-2014.pdf>

List of component units:

NDUS

**Blended Component Units**

A component unit whose governing body is substantively the same as the governing body of the primary institution, a financial benefit/burden relationship exists and the entity provides services entirely or almost entirely to the primary institution or otherwise exclusively or almost exclusively benefits the primary institution even though it does not provide services directly to it, is included in the primary institutions financial statements using the blending method.

The Mystic Athletic Club (BSC) is considered a blended component unit. Although it is a legally separate entity, the Mystic Athletic Club is reported as if it were part of the primary institution because the board is comprised of BSC employees and its sole purpose is to provide support for the athletic programs at BSC. Complete financial statements

**State Auditor - Budget No. 117  
Senate Bill No. 2004  
Base Level Funding Changes**

	<u>Executive Budget Recommendation</u>			
	<u>FTE Positions</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
<b>2015-17 Biennium Base Level</b>	53.80	\$8,428,489	\$3,036,918	\$11,465,407
<b>2015-17 Ongoing Funding Changes</b>				
Base payroll changes		\$223,769	(\$23,203)	\$200,566
Salary increase - Performance		409,526	139,385	548,911
Salary increase - Market equity		56,862	14,844	71,706
Retirement contribution increase		42,138	14,343	56,481
Health insurance increase		173,954	59,207	233,161
Adds funding for royalty auditor authorized by the Budget Section			102,750	102,750
Adds funding to continue salary adjustments made during the 2013-15 biennium		173,712		173,712
Adds funding for North Dakota University System security audits			200,000	200,000
Adds funding for Information Technology Department desktop support		69,200	30,400	99,600
Other adjustments		(104,904)	5,739	(99,165)
<b>Total ongoing funding changes</b>	<u>0.00</u>	<u>\$1,044,257</u>	<u>\$543,465</u>	<u>\$1,587,722</u>
<b>One-time funding items</b>				
There were no one-time funding items included in the executive recommendation				\$0
<b>Total one-time funding changes</b>	<u>0.00</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>Total Changes to Base Level Funding</b>	<u>0.00</u>	<u>\$1,044,257</u>	<u>\$543,465</u>	<u>\$1,587,722</u>
<b>2015-17 Total Funding</b>	<u>53.80</u>	<u>\$9,472,746</u>	<u>\$3,580,383</u>	<u>\$13,053,129</u>

**Other Sections in Senate Bill No. 2004**

State Auditor's salary

Executive Budget Recommendation

Section 3 provides the statutory changes increasing the State Auditor's salary. The State Auditor's annual salary is increased from the current level of \$99,698 to \$103,686, effective July 1, 2015, and to \$107,833, effective July 1, 2016, to reflect the 4 percent and 4 percent recommended salary increase.

may be obtained at the entity's administrative office at Bismarck State College, Athletic Department, 1601 Edwards Avenue, Bismarck, ND 58501.

**North Dakota University System Foundation** is considered a blended component unit. Although it is a legally separate, non-profit 501(c)(3) organization, NDUS Foundation is reported as if it were part of the primary institution because its sole purpose is to support the NDUS. Some members of the State Board of Higher Education serve on the Board of Trustees for the foundation. Complete financial statements may be obtained at the entity's administrative office at 600 E. Boulevard Ave. Dept. 215, Bismarck, ND 58505.

#### **Discretely Presented Component Units**

The following component units are legally separate entities; however, a fiscal dependency relationship exists whereby the entity does not have the ability to complete certain essential fiscal events without substantive approval from the primary institution or due to the nature and significance of the relationship to the University System, exclusion would render the financial statements incomplete or misleading. Although the primary institution does not control the timing or amount of receipts from the component units, the majority of resources, or income thereon, that the entities hold and invest are restricted by the donors to the activities of the primary institution or its constituents. Therefore, these entities are discretely presented in the accompanying financial statements using Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, Financial Reporting for Notfor-Profit Organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. Component units that are significant relative to the other component units and to the primary institution are considered "major" component units and are displayed in separate columns in the component unit section of the accompanying financial statements and are included in Note 15 under Major Component Units. Component units that are not significant relative to the other component units and to the primary institution are considered "non-major" component units and are displayed in a combined column in the component unit section of the accompanying financial statements.

#### **Major Component Units**

The Bismarck State College Foundation is a legally separate, tax-exempt organization providing support and recognition to BSC through a variety of programs. The foundation acts primarily as a fundraising organization to supplement the resources that are available to the college. The foundation is managed by a 75-member board of directors comprised of leading citizens, both alumni and friends of the college as well as seven ex-officio members that are officers/employees of BSC. Complete financial statements for Bismarck State College Foundation may be obtained at the entity's administrative offices at 1255 Schafer Street, PO Box 5587, Bismarck, ND 58506-5587.

Dickinson State University Foundation, Inc., was organized in 1952 as a non-profit corporation to provide an avenue through which alumni and friends of the University may contribute financially to the University. Gifts, grants, and bequests to the foundation benefit present and future students by providing scholarship assistance and the funding of special projects. The foundation is managed by a 26-member board of directors comprised of leading citizens, both alumni and friends of DSU as well as one ex-officio member that is an officer/employee of DSU. Complete financial statements for the Foundation may be obtained at Dickinson State University Foundation, 230 Eighth Ave West, Dickinson, ND 58601.

North Dakota State University Development Foundation is an incorporated, nonprofit organization developed solely for the benefit of NDSU. The foundation is approved by the IRS as a charitable, tax-exempt organization and designated by the University as the repository for private giving to the University. Its purpose is to raise, manage, and disburse contributions for the benefit of NDSU. The foundation is managed by a board of trustees comprised of 60 elected alumni and friends of the university as well as four ex-officio members – the president of NDSU, the president and vice president of the Alumni Association and the executive director of the Development Foundation and Alumni Foundation. In fiscal year 2012, the foundation changed their fiscal year end from June 30 to December 31. Foundation financial statements and footnote disclosures are presented as of December 31, 2013. Complete financial statements for North Dakota State University Development Foundation may be obtained at the entity's administrative office at 1241 N. University Drive, Fargo, ND 58102.

NDSU Research & Technology Park, Inc., is a nonprofit organization established in 1999 to promote an economic environment dedicated to applied research and technology discovery for the benefit of NDSU, its faculty and staff and students and the citizens of North Dakota. The majority of the Park's board of directors (7 of 10) works in private industry. Vacancies are filled by a majority vote of the board. Officers of NDSU fill the remaining three positions. The president of NDSU serves as president of the board of directors and has control over final building plans for any new building at the Park. Complete financial statements for NDSU Research & Technology Park, Inc. may be obtained at the entity's administrative office at 1854 NDSU Research Circle North, Fargo, ND 58102.

UND Aerospace Foundation is a nonprofit entity organized in 1985 to encourage and develop the University of North Dakota's John D. Odegard School of Aerospace Sciences. The Foundation's principal activities consist of developing and conducting training programs, research and development, and consulting services related to the aerospace industry. The Foundation is governed by a board of directors consisting of five to seven voting members, including two or more persons who are active in the aerospace industry and/or graduates of UND with an interest in the aerospace industry, elected by the board. Non-voting members/representatives on the board include a senior manager of the foundation elected by the board, the dean of the Odegard School of Aerospace Sciences and the president of the University. The Foundation benefits the University, financially and otherwise, through its promotion of the Odegard School and its programs and in the sharing of resources. Complete financial statements for the UND Aerospace Foundation may be obtained at the entity's administrative office at 4251 University Ave Box 9023, Grand Forks, ND 58202-9023.

The Alumni Association of the University of North Dakota and the University of North Dakota Foundation are nonprofit organizations utilizing a common board of directors and administration organized exclusively for the benefit of the University of North Dakota ("UND"). The administrative offices for the organizations are maintained on the University of North Dakota Campus.

The Alumni Association of the University of North Dakota was incorporated in 1915 and the UND Foundation was incorporated in 1978 to replace the Alumni Association Development Fund. The Foundation receives, holds and manages contributions from alumni and private sources and engages in development activities on behalf of UND. The Alumni Association of the University of North Dakota is organized to keep alumni connected to each other and to UND and to support the growth and enrichment of the University. The organizations are supported primarily through donor contributions and earnings on investments.

These two legally separate nonprofit corporations have the same board of directors and the same executive vice president, but different board presidents and vice-presidents. The board of directors consists of 23 voting members, 21 whom are alumni of UND, and 4 ex-officio members that are officers of UND. Complete combined financial statements for the Alumni Association of the University of North Dakota and UND Foundation, may be obtained at the entity's administrative offices at 3501 University Ave Stop 8157, Grand Forks, ND 58202-8157.

RE Arena Inc. (REA), UND Arena Services Inc. (UAS), UND Sports Facilities Inc. and Arena Holdings Charitable LLC (AHC) are related organizations with commonality among their boards of directors and management organized for the benefit of the University. These organizations operate and maintain a multipurpose sports and entertainment arena in Grand Forks, N.D. known as the Ralph Engelstad Arena Sports Complex (including the Ralph Engelstad Arena, the Olympic Arena, and the Betty Engelstad Sioux Center.) The complex is used primarily for UND athletics and activities. UND Sports Facilities, Inc. (UNDSF) is the sole member of Arena Holdings Charitable LLC. RE Arena, Inc. conducts day-to-day operations of the arena through a contract with UND Arena Services, Inc. UND Arena Services, Inc. is the legal manager of Arena Holdings Charitable LLC. Arena Holdings Charitable, LLC is the lessee of the land from UND and is the title holder of the complex. At the conclusion of the original 30 year lease (2030), the complex shall vest with UND. UAS and AHC have a seven-member board with one member being the UND Vice President for Finance and Operations (VPFO). REA has a five-member board with the President being the REA Manager. The remaining four board members are also board members of UAS and AHC, with no UND employee represented on the board. UNDSF has three board members, who also serve on the other boards, with one of the board members being the UND VPFO. All board members from all four entities have voting rights. A complete combined financial statement for these organizations may be obtained at Ralph Engelstad Arena, One Ralph Engelstad Arena Drive, Grand Forks ND 58203.

Non-major Component Units

Dakota College of Bottineau Foundation was established to act primarily as a fund-raising organization to supplement the resources that are available to DCB. The Logrollers, a legally separate organization, operates as an entity within the Foundation. The foundation and Logrollers are managed by the same eight-member board of directors comprised of leading citizens, both alumni and friends of the college as well as two ex-officio members that are officers of DCB.

However, each entity has separate committees that direct each organization's activities. Complete combined financial statements for Dakota College at Bottineau Development Foundation and Logrollers may be obtained at the entity's administrative offices at 105 Simrall Boulevard, Bottineau, ND 58318.

Lake Region Community College Foundation was established in 1959 to provide a permanent structure through which support for Lake Region State College could be channeled. The work and the resources of the foundation are managed by a 27-member board of directors elected by the foundation membership to serve three-year terms. Complete financial statements for the Community College Foundation may be obtained at the entity's administrative office at 1801 College Drive North, Devils Lake, ND 58301-1598.

Mayville State University Foundation was established to act primarily as a fund-raising organization to supplement the resources that are available to MaSU. The foundation is managed by a 15-member board of directors comprised of leading citizens, both alumni and friends of the university as well as ex-officio members that are officers/employees of MaSU. The Comet Athletic Club, a legally separate nonprofit organization, operates as an entity within the foundation. The Club's purpose is to promote, support, and encourage interest and participation in MaSU sports. Their financial activity is reflected in the foundation's financial statements. Complete financial statements for Mayville State University Foundation may be obtained at the entity's administrative office at 330 3rd Street Northeast, Mayville, ND 58257.

Minot State University Development Foundation was incorporated in 1978 exclusively for the benefit of MiSU. Its purpose is to establish, promote and stimulate voluntary financial support for the benefit of the university, especially in the building of endowment and in addressing the long-term priorities of the university. A board of directors comprising 11 voting members manages the foundation. Two are ex-officio appointments from the Board of Regents and the Alumni Association, and three are ex-officio members who are employees of MiSU. Complete financial statements for Minot State University Development Foundation may be obtained at the entity's administrative office at 500 University Avenue West, Minot, ND 58707.

North Dakota State College of Science Foundation was established to act primarily as a fund-raising organization to supplement the resources that are available to NDSCS. The foundation is managed by a 17 member board of directors comprised of leading citizens, both alumni and friends of the college as well as five ex-officio members that are officers/employees of NDSCS. Complete financial statements for North Dakota State College of Science Foundation may be obtained at the entity's administrative office at 800 Sixth Street North, Wahpeton, ND 58076-0002.

North Dakota State University Research Foundation is a legally separate, non-profit 501(c)(3) organization created to provide support to NDSU in its mission by enabling NDSU faculty to enhance their involvement in research, technology transfer, and business endeavors. Through linkages with public and private businesses and industries, the foundation facilitates the commercialization of research technologies developed by NDSU faculty and staff. The foundation is managed by an 11-member board of directors, comprised of five NDSU employees and six individuals who are not employed by NDSU. Complete financial statements for the Research Foundation may be obtained at the entity's administrative office at 1735 NDSU Research Park Drive, Suite 124, Fargo, ND 58108-6050.

North Dakota State University Team Makers Club was established in 1950 by a group of local business leaders who recognized the need for a community-based support group to benefit NDSU Bison Athletics. Team Makers is a legally separate, non-profit 501(c)(3) organization to provide financial support, promotion and spirit for NDSU student-athletes and the NDSU Athletics Department in order to achieve excellence. The foundation is managed by board of directors comprised of 11 voting members, of which one is an employee of NDSU. Complete financial statements for the NDSU Team Makers may be obtained at the entity's administrative office at NDSU Team Makers, Dept. 1200, PO Box 6050, Fargo ND 58108-6050.

University of North Dakota Center for Innovation Foundation has a mission to foster entrepreneurship statewide as well as support the Center for Innovation and the Department of Entrepreneurship within the College of Business and Public Administration. The Foundation is governed by a board of directors comprised of seven voting members, two non-voting trustee emeritus, and four non-voting members who are officers of UND plus the Director of the Center for Innovation. Complete financial statements for the Center for Innovation Foundation may be obtained at the entity's administrative office at 4200 James Ray Drive, Grand Forks ND 58203.

The University of North Dakota Research Foundation was formed in 2006 to assist the University of North Dakota to advance its research agenda, to commercialize its university innovations and discoveries, and to create economic opportunities for Grand Forks and the State of North Dakota. The Foundation works with UND to build successful and strategic partnerships between the university and private companies, resulting in mutual gains for each. Complete financial statements for the University of North Dakota Research Foundation may be obtained at the entity's administrative office at 4201 James Ray Drive, Grand Forks ND 58202.

Valley City State University Foundation was established to support Valley City State University by involving alumni and friends of the university in activities and private giving that meet the university's needs and advance its welfare. The foundation is managed by a 19 member Board of Directors comprised of leading citizens, both alumni and friends of the university, as well as two ex-officio nonvoting members that are officers of VCSU. Complete financial statements for Valley City State University Foundation may be obtained at the entity's administrative office at 101 College Street SW, Valley City, ND 58072.

Williston State College Foundation was established to act primarily as a fund-raising organization to supplement the resources that are available to WSC. The foundation is managed by an 11-member board of directors comprised of leading citizens, both alumni and friends of the college. Complete financial statements for Williston State College Foundation may be obtained at the entity's administrative office at PO Box 1286, 501 18th Street East, Williston, ND 58802-1286.



**NORTH DAKOTA  
SECURITIES DEPARTMENT**

2013-2015 - February 2015

	<i>Appropriation</i>	<i>Expenses</i>	<i>Balance</i>
(one-time) Salaries Full Time (9 FTE)	1,235,848	955,459	280,389
Accrued leave payments	38,927		38,927
Benefits	437,915	350,503	87,412
<b>Total Salaries &amp; Wages Exp</b>	<b>1,712,690</b>	<b>1,305,962</b>	<b>406,728</b>
516000 Workers Comp Premium		1,064	(1,064)
521000 Travel	59,600	43,323	16,277
531000 Supplies - IT Software	15,950	3,574	12,376
532000 Supply/Material-Professional	75,232	48,143	27,089
534000 Bldg, Grounds, Vehicle Supply	1,500	539	961
535000 Miscellaneous Supplies	5,500	3,900	1,600
536000 Office Supplies	12,335	5,796	6,539
541000 Postage	8,500	3,567	4,933
542000 Printing	15,000	3,038	11,962
551000 IT Equip under \$5,000	21,590	14,886	6,704
552000 Other Equip under \$5000	4,200	1,068	3,132
553000 Equip & Furn-Under \$5,000	6,800	537	6,263
571000 Insurance	3,100	1,816	1,284
581000 Rentals/Leases-Equip & Other	8,600		8,600
582000 Rentals/Leases - Bldg/Land	12,500	3,395	9,105
591000 Repairs	2,200	355	1,845
601000 IT - Data Processing	35,000	27,860	7,140
602000 IT-Communications	26,300	18,788	7,512
603000 IT Contractual Services and Repair:	8,500		8,500
611000 Professional Development	35,435	20,909	14,526
621000 Operating Fees and Services	51,750	19,380	32,370
623000 Professional Fees & Services	175,500	3,147	172,353
<b>Total Operating Expenses</b>	<b>585,092</b>	<b>225,086</b>	<b>360,006</b>
<b>Total Expenses</b>	<b>2,297,782</b>	<b>1,531,047</b>	<b>766,735</b>