

FISCAL NOTE
Requested by Legislative Council
01/20/2021

Bill/Resolution No.: HB 1453

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2019-2021 Biennium		2021-2023 Biennium		2023-2025 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$4,721,399	\$0	\$4,836,342	\$0
Appropriations	\$0	\$0	\$4,721,399	\$0	\$4,836,342	\$0

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2019-2021 Biennium	2021-2023 Biennium	2023-2025 Biennium
Counties	\$0	\$0	\$0
Cities	\$0	\$0	\$0
School Districts	\$0	\$0	\$0
Townships	\$0	\$0	\$0

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

The bill amends the powers and duties of the state auditor by requiring a financial statement audit, in replace of a performance audit, of each state agency, its blended component units or discreetly presented component units, every two years.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

The bill would change the auditing standards of the State Auditor’s Office (SAO) by requiring financial statement audits. Reviews of financial statements would no longer be allowed, requiring more time to complete and increasing the cost of audits. The increased time on behalf of the SAO would require the Comprehensive Annual Financial Report (CAFR) to be outsourced to an accounting firm at the estimated cost of \$1,927,600 for the 21-23 biennium and \$1,985,428 for the 23-25 biennium. In addition, the SAO would need an additional 4 FTE to complete all financial statement audits in an appropriate timeframe.

Currently, most state agencies audited by the SAO do not prepare financial statements or note disclosures in accordance with GASB. The bill would require each agency to prepare their own financial statements and note disclosures. The change would result in each agency needing significantly more staff and training time to understand and implement standards.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

N/A

B. Expenditures: *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

The estimated fiscal impact for the State Auditor's Office for the 21-23 biennium is an increase of \$4,721,399 and \$4,836,342 for the 23-25 biennium.

To fulfill the requirement to perform financial statement audits of each agency every two years, 4 additional FTE would be needed in the SAO, at an estimated cost of \$703,558 for 21-23 and \$712,966 for 23-25.

As mentioned above, the CAFR would need to be outsourced due to staff resources at a cost of \$1,927,600 and \$1,985,428 for the next two biennia. This would continue into any future biennium where financial statement audits are required for each state agency.

The bill changes contracts with licensed accountants to be contracted through the SAO. An estimated continuing appropriation of \$1,590,241, with a minimum 3% increase each biennium, would be required to pay for contracted audits of the SAO. These audits are outsourced due to lack of capacity or expertise needed to complete.

A contingency would be needed for requested performance audits by the Governor, LAFRC, or full Legislative Assembly, as the FTE of the SAO would have no capacity outside of financial statement audits. The contingency would need to be \$500,000 each biennium.

A couple items that cannot be estimated at this time include the effect on political subdivisions, other state agencies, and the state's bond rating. The number of accounting firms auditing government clients has dropped in recent years. Political subdivisions that currently use an accounting firm may be dropped as clients for the firms to prepare other contracted audits due to audit hours and timeline. This would exacerbate a current problem where many political subdivisions are behind on their audit requirements. This will affect their bond rating, increasing costs of future projects.

The costs to other state agencies to prepare GASB financial statements and notes disclosures cannot be determined but would be significant. Costs could include additional FTE, intensive training, or outsourcing to accounting firms (if there is capacity).

There would be additional findings in audit reports, as materiality thresholds decrease, and sample sizes increase and the potential for agencies to not have proper financial statements. This would negatively impact the state's bond rating, costing considerable taxpayer money in the future.

C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

The bill has no appropriation language. Appropriation language will need to be added to this bill or the State Auditor's Office budget bill (HB 1004). General fund appropriations will need to be \$4,721,399 for the 21-23 biennium and \$4,836,342 for the 23-25 biennium.

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