

2001 HOUSE APPROPRIATIONS

HB 1004

18004.0100

Fifty-seventh
Legislative Assembly
of North Dakota

HOUSE BILL NO. 1004

Introduced by

Appropriations Committee

(At the request of the Governor)

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

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

5 **SECTION 1. APPROPRIATION.** The funds provided in this section, or so much of the
6 funds as may be necessary, are hereby appropriated out of any moneys in the general fund in
7 the state treasury, not otherwise appropriated, and from special funds derived from federal
8 funds and other income, to the state auditor for the purpose of defraying the expenses of the
9 state auditor, for the biennium beginning July 1, 2001, and ending June 30, 2003, as follows:

10 Salaries and wages	\$5,716,616
11 Operating expenses	775,320
12 Equipment	<u>78,970</u>
13 Total all funds	\$6,570,906
14 Less estimated income	<u>2,145,837</u>
15 Total general fund appropriation	\$4,425,069

16 **SECTION 2. APPROPRIATION.** Section 1 of this Act includes an appropriation of up
17 to \$1,234,548 in funds generated by the state auditor from political subdivision audit service
18 fees for the period beginning July 1, 2001, and ending June 30, 2003. Any amount in excess of
19 \$1,234,548 must be deposited in the state auditor operating account and made available for
20 appropriation after June 30, 2003.

21 **SECTION 3. AMENDMENT.** Section 54-10-10 of the 1999 Supplement to the North
22 Dakota Century Code is amended and reenacted as follows:

23 **54-10-10. Salary of state auditor.** The annual salary of the state auditor is ~~fifty-eight~~
24 sixty-four thousand two seven hundred sixty-two forty-two dollars through ~~June 30, 2000~~

HB
1004

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1004

House Appropriations Committee
Government Operations Division

Conference Committee

Hearing Date January 10, 2001

Tape Number	Side A	Side B	Meter #
01-10-01 tape #2	-	0 - 4349	
Committee Clerk Signature <i>Patricia Hall</i>			

Minutes:

The committee was called to order, and opened the hearing on HB 1004, the appropriations budget for the State Auditor.

Robert Peterson, State Auditor: Handed out prepared written testimony. Explained that he would highlight his written testimony, and then answer questions. Here because he believes that the department uses the tax payer's dollars prudently, and to show the committee how they intend to make state funds more accountable. As the State Auditor, I have committed my office to making state government better by improving accountability. I have also expanded our work to include operational accountability, including the elements of efficiency, effectiveness, and compliance with legislative intent. On page 2 he has listed agency objectives, to provide reliable, audited financial statements, and to answer the three questions listed as a) What are the highest risk areas of the agency operations and is internal control adequate in these areas; b) What are the significant and high risk areas of legislative intent applicable to the agency and are they in

Page 2

Government Operations Division
Bill/Resolution Number HB 1004
Hearing Date January 10, 2001

compliance; and c) Are there areas of agency operations where we can help to improve efficiency or effectiveness. The written testimony on page 2 explains each objective. On page 3 the testimony covers legislative intent, and in the blue area four areas are highlighted, and then it discusses operational improvements. I have listed five examples found in the area of operational improvements.

Rep. Koppelman: Could you explain #2 on the bottom of page 3, relating to the Labor Department.

Response, Ed Nagel, from the Audit Department: In prior audits the department had some problems with coding packages from OMB, showing fixed asset balances and additions and deletions during the year. What we did in this current audit is help them get the fixed assets in order so that it was easier for them to prepare the closing packages.

Robert Peterson: On page 4 of the written testimony, he continues by saying that the new audit approach also works for information system auditing. Have used this audit approach most recently with the DOT, on the drivers license master system audits. They found six things in the audit that were significant. For good government to work we are the intrical part of making certain that government is operating efficiently and effectively.

Chairman Byerly: Requested that Robert Peterson explain to the committee what an information system audit is, because it is different from a financial audit.

Response: An information system audit is a computer system audit. The standard before was to audit the information going to the computer, and then audit the information coming out. Now the audit is actually going in and seeing how the computer programs operate. It has been a major move, and we have trained, not just the information system auditors to do this, but also the financial auditors as well. The department only has five auditors, that are information system

auditors. Attempting to change their approach to an audit, and allowing more flexibility, based upon the entity to be audited. We can now begin to look at laws that we never audited before.

Rep. Skarphol: I have been told that there is a way to keep points from being assessed on his driving record. Is this the kind of problem you are talking about?

Response: No, not directly, but we have found similar problems, like drivers with negative points (a programming problem).

Robert Peterson: Going to pick up at the bottom of page 4 of the written testimony, and going on to page 5. As the use of computer technology increases, auditing information services is an integral part of determining compliance with legislative intent. This office is the only assurance that these systems are operating as intended. This is truly state of the art information system auditing. The department has incorporated testing of information systems into the biennial agency audits and performance audits. Continued success depends on the ability to retain experienced, trained auditors. The department did a statewide information system risk analysis report. This report identified 295 computer systems of which 25 were rated high risk, 124 were rated moderate risk, and 146 were rated low risk. We do not have the staff to run audits on lots of new systems, with current staffing it would take 6 - 12 years to complete the 25 high risk audits. You will hear different agencies who desire to build new systems, and the audit department does not have the staff to audit these plans.

Rep. Thoreson: Bob, what type of risks are we talking about?

Response, Don from the audit department: Within the risk analysis, we used several different criteria, like number of users, how old a system, the dollars going through, the regulations, confidentiality, security of information, etc.

Rep. Skarphol: Do you audit the security of a system?

Response: Yes, when we do an informational systems audit. Not all state auditors have the advantage of the centralized accounting system that we have, and they don't have the advantage of a centralized computer system, and these are both great blessings. Instead they have systems scattered throughout state government, and they have staff trying to hack into their systems for security measures.

Rep. Koppelman: When you do an audit and an agency - like the DOT - is in near violation of a policy, what happens?

Response: What we found that there were sections of the century code that were in conflict when these points were being restored, and there is legislation presented that will resolve some of this problem. We make the recommendation to fix the problems to the agency.

Robert Peterson: Continuing on page 5 there is a chart indicating the risk analysis. The risk analysis report will guide our audit efforts with the focus being on the 25 high risk systems and some of the more complex systems in the moderate risk group. With the number of important systems and the time necessary to audit each system, I can't overemphasize the importance of retaining the experienced staff. The future development of computer systems in the state, including e-government, will continue to place additional demands on this office to provide information system audits. Performance audits are an investment in better government, the savings generated from performance audits greatly exceeds the costs of the audits. While the performance audits are relatively lean, we have been able to make some important findings and recommendations in the audits we have completed. As stated on pages 5 and 6, we found that there was no requirement to solicit bids for consulting contracts. The report found that for the three year period ending June 30, 1999, there were 2,200 contracts for services with payment in excess of \$272 million. At the top of page 6 he continues talking about the contracts for services,

and the recommendations are listed in blue. As a result of performance audits legislation has been drafted for improved guidance for monitoring contracts for services. The department has been doing a lot of work in the risk analysis audits, and it is really beneficial in targeting areas to audit. Cites an example of the Child Support Enforcement Unit audit, noted at the end of page 6 and beginning page 7. Turnover has hurt our performance audit functions. The department has been working hard to find money to retain these auditors, and page 8 shows the turnover rate since 1998. The department believes they need another \$30,000 to address the continuing turnover problem. In the 1991-1993 biennium, this office had 40 FTE's in the Division of State Audit. The current biennium this same division has 36 FTE's. Even though we have lost 4 positions since then we have been managing to do more with less, due to the use of modern audit technology and innovation from the staff. Page 8 shows five examples of doing more with less.

The executive budget recommendation eliminates two of our current positions, down to 34 FTE's. Page 9 shows the breakdown. The loss of these two employees will hurt his office, and they can't continue to do more with less. The ongoing loss of FTE's cannot continue without affecting their contributions to making state government more accountable, especially when state government is changing more rapidly, becoming more complex, and continuing to grow. He requests the committee to restore the two FTE's to the office, and provide funding for these two positions in the amount of \$140,000. In addition to restoring these FTE's and the \$30,000 for turnover concerns, he is requesting an additional \$100,000 to be used to hire consultants to assist in future performance audits. Four possible audits are listed on page 10.

His proposed amendments to the bill are located in the appendix. Please turn to page 12 of the written testimony, where a number of audit finding examples are listed. Appendix 2 shows a pie chart of the executive budget recommendations, and their budget requests.

Rep. Thoreson: Going back to the high risk systems, the one that you mentioned was the Child Support Enforcement Program, the one most at risk. Do you know where some of these other 25 high risk systems are?

Response: We will make that report available to the committee.

Rep. Carlisle: What was the rationale of the executive budget to eliminate two of positions?

Response: I will defer to the OMB representative.

Response, OMB: The 2 FTE's were actually included in their budget request at -0- funding in order to meet the flat budget requirement. So they came in by reducing their staff by 2, and then turned around and requested they be reinstated through the optional package. When we looked at that and how we were handling other agencies, basically they would have had to lose two employees to stay within the recommendations. To keep the salary levels the same.

Chairman Byerly: Bob, these two FTE's actually exist on your staff at this point, don't they. They are in Bismarck, and work on financial audits?

Response: Yes they do.

Rep. Skarphol: Are you fully staffed now, although turnover has been a problem?

Response: At this point we have just completed hiring two performance auditors. They have no openings now.

Rep. Carlisle: The idea of extra money was to reduce turnover, that was the idea right?

Response: We went from 40 to 36, and he wants to stay at 36. The executive budget would move us down to 34.

Rep. Carlisle: I was talking about percentage of turnover.

Response: He would like to reduce the percentage of turnover. Anything over 20% is tough on the office. They are continually training people, and doesn't expect to keep everyone,

he would like to reduce the turnover rate. They hire in December and May, graduation dates. They want to remain competitive. Had 43% in 1998, and it has gotten better.

Rep. Skarphol: You're asking for \$170,000 increase in salaries, with 2 additional FTE's, and \$100,000 increase in the consulting line. If it were an either-or situation, which would be more productive for you.

Response: \$140,000 for the two FTE's and an additional \$30,000 to pay mid level auditors more. If it comes to either-or, I would like to keep the auditors. The governor's budget has given us \$100,000, as we had last time. We would like an additional \$100,000 so we can do more than just one consultant.

Rep. Skarphol: Do you find it more cost-effective to use consultants for these audits.

Response: Absolutely. They are specialized and we would not have to train our staff to know what these consultants already know. The Child Support audit cost about \$98,000.

Rep. Skarphol: Have you performed an audit on collection of fines issued by judges? He was wondering how many dollars are out there uncollected.

Response: Not sure they have the authority to do so.

Rep. Carlisle: On turnover rates, how do we compare relative to other states.

Response: Everyone is experiencing some turnover. There is increased pressure on CPA's these days. The CPA's are now required to take 5 years of college, and pass all parts of the CPA exam at the same time. They also have to have computer system knowledge now.

Chairman Byerly: Are the IT auditors also CPA's?

Response: Some are. Due to proposed federal requirements in the future, the requirements are getting bigger and better.

Page 8

Government Operations Division

Bill/Resolution Number HB 1004

Hearing Date January 10, 2001

Rep. Skarphol: On page 9 there are pie charts as to your FTE's. You have 6 FTE's in royalty audit. Can you explain.

Response: The royalty audit division is paid for by the federal government. Those auditors audit the coal, oil and gas royalties from federal leases. Instead of the federal government sending its own auditors, they allow him to hire the auditors and contain them.

Rep. Skarphol: Who audits the royalties to the State of North Dakota? As to natural gas audits?

Response: The tax department and the land department. The Industrial Commission maybe regulates this.

The chairman closed the hearing on this bill.

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1004

House Appropriations Committee
Government Operations Division

Conference Committee

Hearing Date January 16, 2001

Tape Number	Side A	Side B	Meter #
01-16-01 tape #2	1823-3570		
Committee Clerk Signature <i>Robert Hall</i>			

Minutes:

The committee was called to order, and opened committee work on HB 1004, the State Auditor's budget. Now is the time to ask questions that we have, so we can get our questions answered by LC, etc.

Chairman Byerly: The budget asks for the net of 2 fewer FTE's, unfund 2, delete 1, hire 1. The one that they are adding is an auditor, in the special fund area, because its an audit position for political subdivisions. Those are paid for by the political subdivisions. What the agency wants over and above the governor's budget is 2 FTE's back, \$140,000, \$30,000 to be put into the fund given last time for turnover, and \$100,000 more to do performance audits. There is also another sum of money for better working conditions.

(It was explained by the OMB or LC staff what was unfunded to get to the governor's budget, and then the governor's recommendation changed this some. The State Auditor did request that both FTE's be funded.)

