

**2013 HOUSE APPROPRIATIONS**

**HB 1004**

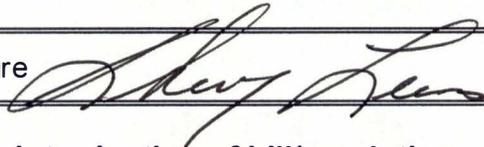
# 2013 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Government Operations Division  
Medora Room, State Capitol

HB1004  
January 14, 2013  
Recording Job# 17134

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:

**Chairman Thoreson:** Opened the hearing on HB 1004.

**Robert Peterson, State Auditor ND Office of the State Auditor:** See testimony attachment 1.

02:00

**Chairman Thoreson:** Why is it that our state and Wyoming are the two that are a biennial?

**Robert Peterson:** We talked them into it. We did have the federal Department of Education insist that the university system have a single audit prepared and performed this year. We managed to successfully argue not to be able to do that.

6:34

**Chairman Thoreson:** Let's go back to that number you just showed, the 6,700 audit hours compared to the 13,000 for the federal. What is it that they're looking for additionally; or is it just the increase in federal funds coming here? Why the doubling of that number in that short of a time period.

**Robert Peterson:** I can give you my short answer; but, Mr. Smith handles the single audit. The federal government has found out, because the states as a whole are much more efficient than they are, we've been able to give them information. When they give us money, we're able to give them answers very quickly about how we're spending it. They've also increased the number of programs they deem major.

**Gordy Smith, Audit Manager ND office of the State Auditor:** Not only have they increased the amount of federal funds that we are getting; but, they also increased the number of strings attached. They require us to make sure that those have been accomplished. One of the things that they are looking for, specifically, is compliance

orientated. A lot of departments want us to do some specific things. The law says instead of each agency at the federal level setting up their own set of criteria, they were going to set up one group of criteria; then it would be more economical or efficient to audit it. The feds continue to expand the amount of those criteria. From the federal side, we have a schedule of federal assistance; and OMB now coordinates that. We then audit those numbers; as we stated it's like \$3.5 billion for the current audit. Then they have a list of all these compliances; so we look up in the Catalog of Federal Domestic Assistance, each of the grants, what the requirements are; there are some criteria for what they deem as major programs. They mandate that if you have a type A program; and we audit it for the State of North Dakota, if there are no findings in it, we don't have to audit it the next time. Then what we have to is replace it with a type B program.

**Chairman Thoreson:** So they're guaranteeing that you have something to do.

**Gordy Smith:** Yes. They would guarantee how many things have to go into this; and then these audits are reviewed during our peer review. Every 3 years the National State Auditor Association puts together a team; they go to each state and they will look at this audit. They will tell us if it is fine; because, one of the members on that team is from the Office of Inspector General. What we run into a lot of times is the OIG will make a finding; when we go to the agency, they'll tell us that our program person in Denver said it was ok. We'll call the program person in Denver; and they did tell them that, but, they won't put it in writing.

**Representative Sanford:** What would be the relationship between the recipients of these funds and their audits; and your audit? The school district is audited, no child left behind and you audit. What is the relationship between the two?

**Gordy Smith:** When we would audit that we would audit the Department of Public Instruction. They would be the primary recipient of those monies. Once they distribute federal monies to a school district, the school district is a sub-recipient. The school district has a responsibility, if they receive in full \$500,000.00 or more in a year, they are required to have an extra audit that follows all the federal guidelines. When we look at DPI, one of the things we look at is the requirement that they monitor sub-recipients; to make sure the sub-recipients are doing what they are supposed to be doing with this federal money. One of those requirements would be to get that single audit from the school district and to review it to make sure that it's legitimate. If there's any findings in there that pertain to money DPI gave them, they then have to follow up on those findings to ensure that the sub-recipient will follow through.

13:01

**Robert Peterson:** Continued with his testimony.

17:03

**Representative Sanford:** When you talk about the 18 to 24 months after these audits are presented, and then you conduct a follow up audit, from a policy standpoint from a legislative body, is it common then that that timeframe is permitted?

**Robert Peterson:** The government auditing standards say that you have to do a follow up. It doesn't define when you have to do that; you wouldn't want to prolong that follow-up for

any unusual reason. We pick 18 to 24 months because it will include a 2 year cycle. They'll be times that we make recommendations that need our legislature to make decisions upon; and this gives the agency an opportunity to come before the legislature. It also gives the agency time to implement some of these recommendations.

**Representative Hawken:** Do they have to do the recommendations?

**Robert Peterson:** No, agencies are not forced.

**Representative Hawken:** There are going to be changes made as a result of it; but, they don't have to do them all.

**Robert Peterson:** They don't have to do any of them if they choose not to. I do not have a statutory authority nor do I want it. I can just make recommendations.

24:37

**Chairman Thoreson:** Any idea when during the session that's going to be available?

**Gordy Smith:** The way the contract is set up, it's supposed to be available January 21, 2013. They've issued the draft, we gave it to the Water Commission; and I think its Friday of this week that their responses are due to the recommendations.

**Chairman Thoreson:** So the Water Commission will issue the response; and the final comports should be available by the 21<sup>st</sup>?

**Gordy Smith:** That's the date in the contract that the company KPMT then would incorporate their responses into that report and finalize it.

**Chairman Thoreson:** Were there a significant number of things that they need to respond to?

**Gordy Smith:** I don't think that it was anything unmanageable. The main thing that the firm was looking at was six elements or portions of the Water Commission's operations. One of the suggestions the firm had for us that our performance audit team take a look at the permitting process for using water in North Dakota for industrial purposes.

**Chairman Thoreson:** This was a recommendation made to your office?

**Gordy Smith:** It was a verbal recommendation. They said we should look at this and with our schedule could not. We asked them to come up with a budget if we have them do it; in hours and in dollars. Then there was a meeting of the LAFRC by teleconference as we need their approval if we add an addendum to that contract to obligate the agency. So we did, they will issue a second report on permitting by February 28<sup>th</sup>.

**Chairman Thoreson:** That's something that you have not seen any preliminary information on?

**Gordy Smith:** No, we have not.

Robert Peterson continued with his testimony.

28:52

**Chairman Thoreson:** How does work, if you do it, who pays the associated costs with the travel and the time involved?

**Robert Peterson:** The host. When I'm being peer reviewed by my peers, I pay for all their travel costs, the expenses of their staying here and per diem. Usually they're here for about a week; because we're a small state. Some states take up to two weeks because of the magnitude of their operations.

**Chairman Thoreson:** When was the last time you hosted somebody here in North Dakota?

**Robert Peterson:** 2011.

**Chairman Thoreson:** Do you know what the associated costs were? I would be curious to see what it is, how many people and what type of time frame and the cost for that.

**Robert Peterson:** I know that the costs were significant.

32:10

**Chairman Thoreson:** On the IT, is it just systems operations or is security also involved; as to how secure the system is when you audit the IT?

**Don LaFleur, Information Systems Audit Manager, ND Office of the State Auditor:** When we audit the Information Technology Department from an IT perspective, we do look at security; but, it's more looking that they have security plans, the overall management of security. We rely on the Mantech Security audit; the consultant we hire. We don't do much of that ourselves.

**Chairman Thoreson:** There is someone who is looking at that on a semi-regular basis?

**Don LaFleur:** ITD does have staff that does that. They not only scan the state system for vulnerabilities, like Mantech does when they come in; but, they are also maintaining the fire walls. We make sure when we audit them that they are doing those activities.

**Representative Kempenich:** So you're basically auditing the IT auditors or security and then Mantech is auditing you?

**Don LaFleur:** No when we look at the Information Technology Department, we look at the security more from the policy standpoint to make sure that they've implemented the best practices and they're doing the things they should be. We're not hacking the system, scanning the system, etc; we have Mantech do that. We look at more than security; we also look at other IT practices. We have guidelines we look at and make sure they're following them.

Robert Peterson continued with his testimony.

36:54

**Chairman Thoreson:** Your request is for five additional FTE? Is that correct?

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

**Chairman Thoreson:** Two were in the budget; am I correct on that? You're looking for five total?

**Robert Peterson:** Six. Two of them were approved by OMB.

**Chairman Thoreson:** We will need some further information on those additional positions. We'll need to have kind of a breakdown of what each of those positions are and what the justification is for them; and what they would be used for.

38:36

**Chairman Thoreson:** Do you make recommendations back upon the review? Do they provide it and you look at it and file it?

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

**Chairman Thoreson:** Do any of them do anything where they have somebody look at it for any kind of recommendations? Because they're such a small entity, it's that this fulfills the requirement?

**Robert Peterson:** Fulfills the requirement.

**Vice Chairman Brandenburg:** Do you have different levels of audits that you do in different agencies?

**Robert Peterson:** We will budget differently. The audit standards require you to sit down and do what's called brainstorming. So every time you approach an audit, there's a fresh approach. We do budget every audit; so, smaller agencies, like the Secretary of State, will take less budgeted hours; than the Department of Human Services.

**Vice Chairman Brandenburg:** I'm trying to compare, in my mind, how you move forward with your audits on different agencies.

**Robert Peterson:** That's why we shifted in 2000 to performance audit standards. We dropped financial standard audits; which are basically boiler plate. We wanted more flexibility to be able to design an audit; to set a scope based upon what we thought might be the most effective way to approach that particular audit.

**Representative Kempenich:** Are you looking at moving the division off campus? Are you looking at moving one of your divisions? How are you looking at doing this?

**Robert Peterson:** Yes. If I receive the requested FTE's, we don't have any more space in the capitol building. So, yes, we would post a division off campus.

**Representative Kempenich:** Do you have in your budget what the space is going to cost; or how much space you'll require?

**Robert Peterson:** I think we did include it in the back page; page 13 #4.

**Chairman Thoreson:** So it's \$145,000.00 to pick up space somewhere?

**Robert Peterson:** Yes.

**Representative Kempenich:** What type of money are you looking at per square foot? How much has that gone up?

**Robert Peterson:** I'm not sure.

44:43

**Chairman Thoreson:** Any idea the number of hours put into doing these reviews? Like for the 700 for the smaller communities and these additional 300?

**Robert Peterson:** I have 2 retirees who work for, who used to work for me; and I pay them an hourly wage to come in and do this review. They can set their own time, they can come in and work when they wish, and they usually take off in January and February to go south. They're being paid out of the local government division; which is special funds. I can get you that answer though.

**Chairman Thoreson:** Do these just come in periodically throughout the year; or do they all come December 31<sup>st</sup> and then they have to crank them out?

**Robert Peterson:** They should come in as they are completed.

47:44

**Chairman Thoreson:** Did they do part of the work and your office part also?

**Robert Peterson:** Eide Bailey came in and provided manpower under our supervision.

**Representative Kempenich:** I see you asked for 7 and you got 2 out of the budget. The mineral auditor I can see; I think the Land Department is looking for one also. Would there be a way for one auditor to work for both agencies?

**Robert Peterson:** The only issue I would find with your suggestion is our royalty auditor is federally funded. The Land Department's auditor is special funded. I think there's enough work right now that it pays for itself. I think that both auditors could be kept extremely busy.

**Representative Kempenich:** I'm saying with the funds that you're wanting to pay, I wonder what you're going to find is what I'm driving at.

**Robert Peterson:** Our funds are based on what Dennis is requesting from the federal government.

**Chairman Thoreson:** Closed the hearing on HB1004.

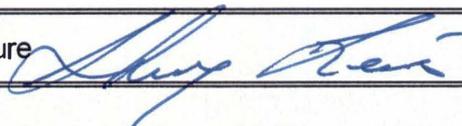
## 2013 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Government Operations Division  
Medora Room, State Capitol

HB1004  
January 21, 2013  
Recording Job# 17545

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:

**Chairman Thoreson:** Opened the hearing on HB1004.

1:41

**Vice Chairman Brandenburg:** How do you interpret this? What are your thoughts?

**Ken Purdy, Human Resources Management Services, ND Office of Management and Budget:** Explained attachments 1, 2, and 3.

4:49

**Chairman Thoreson:** Do you have it available electronically?

**Ken Purdy:** I can do that.

5:45

**Vice Chairman Brandenburg:** Some of these have some pretty high turnovers.

**Ken Purdy:** The size of agency kind of skews the percentages a bit when you boil it down to small agencies.

**Chairman Thoreson:** Some agencies have a little above the average than the rest. Obviously, the size kind of affects the number somewhat also.

**Ken Purdy:** Right.

**Representative Sanford:** I noticed that the involuntary separations are very consistent across the board. Describe what involuntary means.

**Ken Purdy:** Involuntary is generally a discharge or reduction in force; discharge for cause or reduction in force.

**Representative Sanford:** I would imagine that the funding sources would have a lot to do with the reduction in force?

**Ken Purdy:** Some of the reductions of force have occurred in Job Service in recent years where they've had some funding cuts from the feds. There might be some stemming from some reorganizations; where they refocus or eliminate a program. I think most of the involuntary reductions on this list are the discharges.

**Robert Peterson, State Auditor, ND Office of the State Auditor:** See testimony attachment 4.

09:22

**Chairman Thoreson:** How often do those take place? When do you have another one?

**Robert Peterson:** We have one every three years; so, we'll have one next year.

**Chairman Thoreson:** So there will be one during this biennium?

**Robert Peterson:** Yes.

**Vice Chairman Brandenburg:** You're looking for two FTE's. Does that tie into any of that? Will that still continue? Are you trying to cut back on that or is that still part of your budget?

**Robert Peterson:** Those people hopefully will stay as long as possible; they're both retired. The two financial auditors I'm looking to hire would work on agency and compliance audits.

**Vice Chairman Brandenburg:** I wanted to see if you were looking to replace them. But you're still going to keep them on to work with audits that you hire part time?

**Robert Peterson:** I'm going to keep them on as long as the law requires me to review these reports and as long as they'll work for me.

**Vice Chairman Brandenburg:** Do you explain the CAFR audit, agency audit; and what they all entail?

**Robert Peterson:** Every two years my office has to audit the university system and all state agencies in the state of North Dakota. That's required by law. There are a handful of audits that we don't do; the Bank of North Dakota is one of them. We also don't audit Job Service as it is all federal money. We also don't do Housing and Finance, land department, PERS and the state fair; other than that we audit everyone else. The CAFR is a combined annual financial report; we do two of them, the university system as a whole and the state of North Dakota as a whole where the university system is also rolled in.

**Pam Sharp, Director, ND Office of Management and Budget:** They have not upgraded us yet. What they are waiting to see is how we handle the pension issue from Standard &

Poor's and Moody's. Moody's is still evaluating; with Standard & Poor's they want to see if we pass that bill that increases the contribution rate.

**Robert Peterson:** So we could end up being a triple A rated state.

**Chairman Thoreson:** Are there other states that do have the triple A rating:

**Pam Sharp:** Yes there are several states that have triple A.

**Vice Chairman Brandenburg:** Just to go through the green sheet one more time; if we can refer to that.

**Robert Peterson:** The \$90,000.00 will bring us back to the level that we need to start at.

**Chairman Thoreson:** What is the source of the funds for the second position the \$164,321.00?

**Robert Peterson:** The mineral auditor is part of the program that we have with the Department of Interior. The federal government pays for those salaries; to audit the federal coal, oil, and gas leases in North Dakota. Those are the two positions that were part of the governor's budget.

**Representative Kempenich:** You didn't have any temp or contract funds available?

**Robert Peterson:** Right now because, for a number of factors, just looking at agency and compliance audits; we just don't feel that we're getting the job done. We need a couple more bodies.

**Representative Guggisberg:** Following up on your questions, you state that we're one of only two states that the federal government allows to conduct once every two years. Is that because of the size of our budget or is it because we biennially?

**Robert Peterson:** We talked them into it; and somehow we managed to continue to talk them into it. Hopefully they'll let Wyoming and North Dakota continue on a biennial basis.

**Representative Guggisberg:** This audit though only deals with federal money.

**Robert Peterson:** The single audit only deals with the federal money received by the state of North Dakota.

**Representative Glassheim:** This \$600,000.00 in OMB's budget that was set aside in case you're unable to complete the CAFR; if you had two additional auditors, would that replace the \$600,000.00? Would that be taken out of their budget?

**Robert Peterson:** I think if we had the two additional auditors that we could get the single audit and CAFR up and going. The \$600,000.00 is more of an insurance policy for OMB; it

is their audit and so they want to have this audit completed. It's important for them and the state of North Dakota for that bond rating to make sure that that audit gets completed.

**Representative Kempenich:** What were the numbers that were recommended?

**Gordy Smith, Audit Manager, ND Office of the State Auditor:** There are four individuals that are performance auditors, and I'm the audit manager; that's the total of the performance division.

**Representative Kempenich:** You're looking for two more?

**Gordy Smith:** Of the past 15 performance audits we've done over years, eight of them were asked for by the legislative audit fiscal review committee or by the full session

**Representative Kempenich:** If we did get one or two more performance auditors, what would the cost be?

**Gordy Smith:** We're going to have space needs also; I think we stated in our testimony, is for two performance auditors it would be \$250,000.00 plus rental expenses for space somewhere. Facilities management did a study in 2010 and they were using 230 sq. ft. per employee as their standard; and we had 144 sq. ft.

**Representative Kempenich:** Did you have in your testimony from before what your requirements were going to be?

**Gordy Smith:** If we're fortunate enough to get funds for space, that the performance audit team would move. In our original request, we had about \$145,000.00 for the rent and operating expenses if we got two additional auditors.

**Representative Sanford:** Higher education is requesting extra personnel including auditors. What I'd like to know would be the appropriateness in your judgment of these agencies having their auditors. What is the relationship? What does that mean to you? Is it a money saver?

**Robert Peterson:** I think internal auditors are very important. The Department of Transportation currently has internal auditors; and the university system have four right now. They are a very positive force if they're used correctly. For the university system, I would want those internal auditors to report to the chancellor or to the board.

**Representative Sanford:** So would it be a function of size, complexity or all of the above that would generate the need for internal auditors?

**Gordy Smith:** I think UND and NDSU have a combined 2.5 FTE that are dedicated to internal auditing. If used correctly, they should be able to help address issues for the university system. It isn't just our opinion, there's a national organization which is the Institute of Internal Auditor's and they state that in order for those internal auditors to be relatively independent, they should be reporting to a subcommittee of the board.

**Representative Sanford:** So the model that we have is that each of these organizations has their internal auditor. Is there a model where they might be part of your organization?

**Gordy Smith:** We can consider the work they've done and then we can do less work; if we're able to use it. The other use of those internal auditors would be as a troubleshooter.

**Representative Sanford:** So to summarize, internal auditors are a good deal; and the model we have makes good sense to you. So if you had your druthers, you'd leave the organization somewhat like it is?

**Gordy Smith:** If I'm using the university system, those 2.5 FTE that are internal auditors report to the presidents of those campuses. We have recommended in audits that that be changed and moved to the board.

**Representative Hawken:** Who pays for the auditors?

**Gordy Smith:** As far as I know the individual universities do as part of the budget they're given for salaries. The internal auditor they have at the university system office he's funded by charges to the university system.

**Representative Hawken:** The charging off and those kinds of things. If I'm hiring the internal audit, it's because I want to what they're finding; because I'm the president and I'm paying for it. If the university system office is paying for it, they should get the report.

**Chairman Thoreson:** I'm not so certain that there may not be some legislation that's coming forward on that issue.

**Robert Peterson:** The only point I would like to address is I don't believe that Dickinson State would have ended where they ended up if they had an internal auditor function that reported to the board.

**Representative Sanford:** The reporting to the presidents is probably not best practice; it should be to the board.

**Robert Peterson:** The presidents can get the report. We want the auditors to report directly to the board.

**Chairman Thoreson:** Closed the hearing on HB1004.

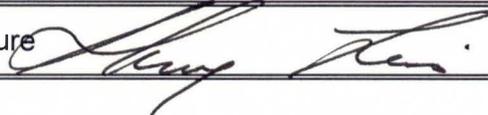
# 2013 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Government Operations Division  
Medora Room, State Capitol

HB1004  
February 11, 2013  
Recording Job# 18736

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:

**Chairman Thoreson:** Opened the discussion on HB1004.

**Vice Chairman Brandenburg:** The discussion here again is FTE's. They're asking for 2; I know they asked for 7 and we gave them 2. Maybe we should take them out and see what happens.

**Representative Guggisberg:** I think the big question is do we add more FTE's here or as OMB thought to outsource the work that's possibly going to be temporary. I don't know what the future is going to hold in auditing.

**Chairman Thoreson:** I tend to maybe agree with that.

**Representative Hawken:** I am not in favor of taking all of the FTE's out.

**Representative Glassheim:** They're in for 2 and they 2 beyond that?

**Vice Chairman Brandenburg:** They wanted 5 more beyond that. They want a total of 7 FTE's and OMB gave them 2 FTE's. We're questioning if they even need the other 2.

**Representative Glassheim:** We're pretty agreed not to go the extra 5.

**Chairman Thoreson:** Referenced page 10 of the auditor's original testimony.

**Chairman Thoreson:** We can put forward the amendment removing both; and then have a discussion as to whether one of those might be necessary.

**Chairman Thoreson:** Ended the discussion.

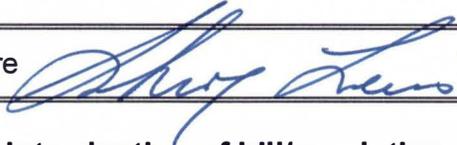
# 2013 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Government Operations Division  
Medora Room, State Capitol

HB1004  
February 18, 2013  
Recording Job# 19130

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:

**Chairman Thoreson:** Opened the discussion on HB1004. It was noted that all members were present.

**Representative Kempenich:** See attachment 1.

**Representative Kempenich:** Made a motion to adopt item #1.

**Vice Chairman Brandenburg:** Seconded the motion.

**Representative Glassheim:** Where does the money come from?

**Representative Kempenich:** The mineral auditor is a federal position.

**Representative Glassheim:** We would just be turning back federal money?

**Representative Kempenich:** Yes.

**Representative Glassheim:** What does the position do that's of use to the state? Could we split the two?

**Vice Chairman Brandenburg:** Removed his second for the motion.

**Representative Kempenich:** Removed his motion.

**Vice Chairman Brandenburg:** Made a motion to keep the mineral auditor and remove the information systems auditor.

**Representative Kempenich:** Seconded the motion.

**Representative Guggisberg:** Were these two positions both in the governor's budget? If that's the case, why are we pulling one of them?

**Vice Chairman Brandenburg:** It's felt by the committee that we need to see if they need that second position.

**Representative Kempenich:** It was indicated to the agency that the fiscal part of this is more of an issue than the information auditor. The agency thought they could use a fiscal audit position more efficiently. So we thought putting in a fiscal auditor and including some temporary dollars would be a better use of these positions than an IT auditor.

**Representative Guggisberg:** The \$70,000.00 for temporary salaries; I think the auditor asked for many more positions that weren't in the governor's budget. This certainly isn't five positions; but, I thought that was to help out with that, not to make up for one of the full-time equivalents.

**Representative Kempenich:** This isn't going to really be cutting anything. We're basically renaming that auditor. On the CAFR part, it was indicated when OMB testified that they used \$65,000.00 to help finish up the CAFR. If we are running into problems that way, it might as well be in the auditor's budget instead of OMB trying to come up with money to finish the CAFR. They're also working on the federal audit and that's another issue.

**Representative Sanford:** Made a motion to move items 3, 4 and 5.

A voice vote was made to on item #1 and the motion was adopted.

**Representative Kempenich:** Explained item #2.

**Representative Glassheim:** Is this putting back an FTE in a financial auditor position? We just took out an information auditor. It's not reducing?

**Representative Kempenich:** No.

**Representative Glassheim:** Then the amendment is wrong?

**Representative Kempenich:** Yes.

**Representative Kempenich:** Explained item #3.

**Representative Sanford:** Made a motion to move items 2 through 5.

**Representative Kempenich:** Seconded the motion.

A voice vote was made and adopted.

**Representative Kempenich:** Made a motion to adopt item #6.

**Vice Chairman Brandenburg:** Seconded the motion.

A voice vote was made and adopted.

**Chairman Thoreson:** We have the issue dealing with HB1159. The floor killed that bill today with the understanding that we would deal with it in the appropriation for the auditor's budget. This would be for contracting with IT consultants for testing.

**Representative Kempenich:** I think there's \$150,000.00 that they use in their budget and we'll amend another \$100,000.00 into that.

**Vice Chairman Brandenburg:** Seconded the motion.

**Representative Glassheim:** Streyle's bill had \$150,000.00 for one additional year; I don't know if \$250,000.00 is enough for two years or not.

**Chairman Thoreson:** I did receive an email from him saying this was the amount he identified.

**Representative Glassheim:** Is the auditor's office aware of this measure?

**Chairman Thoreson:** Yes.

**Representative Guggisberg:** I just wanted to point out that so far we've cut \$124,000.00 for one of the employees, \$357,000.00 in compensation and benefits and now we just put a bill on there that was \$150,000.00 and we're asking the auditor to do it for \$100,000.00.

A voice vote was made and adopted.

**Representative Glassheim:** I would like the auditor to comment on the impact, if any, of switching to the annual leave thing. Does it mean he has to work with 1.5 less people?

**Representative Kempenich:** It basically identifies that of which their annual leave is occurring.

**Representative Sanford:** Is it money that's in the budget? Is it a line item?

**Robert Peterson, State Auditor, ND Office of the Auditor:** I'm really not familiar with this bill. You're setting up money for retirements and obviously I'm going to end up auditing this.

**Pam Sharp, Director, ND Office of Management and Budget:** I think they took a percentage based on number of employees out of the salary line; made it into a separate line and when people retire or quit and we have to pay out annual leave or sick leave, you pay that amount from the new salary line. Your original salary line is reduced. I believe when you get to the end of the biennium and you don't have enough money in your original salary line to pay your employees; and you do have some money in the new salary line then you can go to the emergency commission and have that money transferred from the new line item back to the salary line item.

**Vice Chairman Brandenburg:** If there's any money that's not used during that period, does that go back then?

**Pam Sharp:** It would be turned back.

**Vice Chairman Brandenburg:** How do most agencies plan for retirements or leaving? What's the methodology of figuring this out?

**Pam Sharp:** I don't know how they figured that out. I do know that what most agencies do when someone gives them notice that they're going to retire or quit, they figure out how much they're going to have to pay out with their annual and sick leave; if they don't have that excess money in their salary line and because of other turnover, they would have to hold that position open until they have made up the amount they had to pay that person.

**Representative Sanford:** I imagine timing would be pretty important in this.

**Representative Glassheim:** I think I understand in the long run it's about the same as now. My concern is at the beginning of the biennium, you have \$200,000.00 less in your salary line item and you don't know when someone is going to leave and need that money. Don't you have to fire two people at the beginning to make it?

**Representative Kempenich:** I move to add a performance auditor.

**Vice Chairman Brandenburg:** Seconded the motion.

A voice vote was made and the motion carried.

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

**Representative Sanford:** Seconded the motion.

A roll call vote was done. 7 Yeas 0 Nays 0 Absent.

**Representative Kempenich:** Carried the bill.

**Chairman Thoreson:** Closed the discussion.

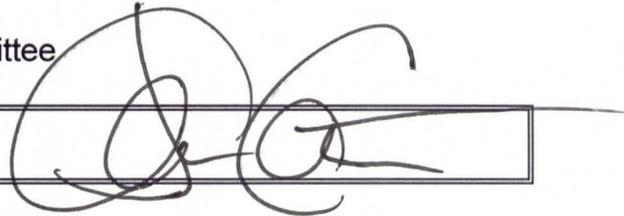
# 2013 HOUSE STANDING COMMITTEE MINUTES

## House Appropriations Committee Roughrider Room, State Capitol

HB 1004  
2/21/2013  
JOB 19363

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:

1,2.

00:23

Rep. Kempenich moved amendment 13.8133.01001, seconded by Rep. Thoreson, and then explained the amendment.

Rep. Thoreson: This was in light of the bill that Rep. Streyle brought forward that we put a DNP on and put into this budget

Chairman Delzer: The executive recommendation was for 2 FTE's you took 1 away and added 2?

Rep. Kempenich: We put them both away.

Chairman Delzer: But your amendment shows from 52.80 to 53.80.

Rep Kempenich: That is a special fund one and is paid for by general funds.

Rep. Skarphol: Is it not funded by the federal government to audit federal acreage?

Rep. Kempenich: We were told that it was run through the land commissioner's office.

Chairman Delzer: So the money is run through the land commissioner's office, but the auditor is going to be located in the auditor's office

Rep. Kempenich: Yes.

Rep. Grande: Is this the governor's two plus these two?

Chairman Delzer: They took one from the governor's away, and added two, for a net increase of three.

Chairman Delzer: Is there any money.

Rep. Kempenich: No, but there is money for the vault.

Rep. Bellew: If you added a financial auditor, why is \$70,000 temporary salary increase needed?

Rep. Kempenich: They're not the same, they are for temporary employees.

Rep. Skarphol: I was wondering about the mineral royalty auditor. That's a pretty important function right now.

Rep. Kempenich: We did not pull that. It was an information systems auditor we pulled.

Rep. Grande: I am confused on the FTE's.

Rep. Kempenich: Clarified the FTE's as amendment.

Chairman Delzer: Further discussion on the motion to amend

Voice vote carries

11:40

Rep. Kempenich moved a Do Pass as amended, seconded by Rep. Thoreson.

Roll call vote taken 15 yeas, 6 nays, 0 absent. Do Pass as amended.

2/12/13  
LSC  
1/8/2

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1004

Page 1, replace line 12 with:

"Salaries and wages	\$8,626,758	\$1,278,808	\$9,905,566
Accrued leave payments	0	201,157	201,157"

Page 1, replace lines 15 through 19 with:

"Information technology consultants	<u>150,000</u>	<u>100,000</u>	<u>250,000</u>
Total all funds	\$9,571,330	\$1,631,506	\$11,202,836
Less estimated income	<u>2,427,522</u>	<u>557,503</u>	<u>2,985,025</u>
Total general fund	\$7,143,808	\$1,074,003	\$8,217,811
Full-time equivalent positions	50.80	3.00	53.80"

Page 2, line 11, overstrike "ninety"

Page 2, line 11, replace "six" with "ninety-five"

Page 2, line 11, replace "seven" with "eight"

Page 2, line 12, replace "ninety-four" with "sixty-three"

Page 2, line 12, replace "one hundred" with "ninety-eight"

Page 2, line 13, replace "six" with "seven"

Page 2, line 13, replace "sixty-six" with "thirty-nine"

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

**House Bill No. 1004 - State Auditor - House Action**

	Executive Budget	House Changes	House Version
Salaries and wages	\$10,263,792	(\$358,226)	\$9,905,566
Operating expenses	806,113		806,113
Capital assets	40,000		40,000
Information technology consultants	150,000	100,000	250,000
Accrued leave payments		201,157	201,157
Total all funds	\$11,259,905	(\$57,069)	\$11,202,836
Less estimated income	<u>3,073,675</u>	<u>(88,650)</u>	<u>2,985,025</u>
General fund	\$8,186,230	\$31,581	\$8,217,811
FTE	52.80	1.00	53.80

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

2/20

	Corrects Executive Compensation Package <sup>1</sup>	Adjusts State Employee Compensation and Benefits Package <sup>2</sup>	Provides Separate Line Item for Accrued Leave Payments <sup>3</sup>	Removes 1 FTE Information Systems Auditor <sup>4</sup>	Adds 1 FTE Financial Auditor <sup>5</sup>	Adds 1 FTE Performance Auditor <sup>6</sup>
Salaries and wages	\$5,987	(\$357,423)	(\$201,157)	(\$124,367)	\$124,367	\$124,367
Operating expenses						
Capital assets						
Information technology consultants						
Accrued leave payments			201,157			
<b>Total all funds</b>	<b>\$5,987</b>	<b>(\$357,423)</b>	<b>\$0</b>	<b>(\$124,367)</b>	<b>\$124,367</b>	<b>\$124,367</b>
Less estimated income	1,497	(90,147)	0	0	0	0
<b>General fund</b>	<b>\$4,490</b>	<b>(\$267,276)</b>	<b>\$0</b>	<b>(\$124,367)</b>	<b>\$124,367</b>	<b>\$124,367</b>
<b>FTE</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>(1.00)</b>	<b>1.00</b>	<b>1.00</b>

	Increases Temporary Salaries <sup>7</sup>	Increases Funding for State IT Vulnerability Testing <sup>8</sup>	Total House Changes
Salaries and wages	\$70,000		(\$358,226)
Operating expenses			
Capital assets			
Information technology consultants		100,000	100,000
Accrued leave payments			201,157
<b>Total all funds</b>	<b>\$70,000</b>	<b>\$100,000</b>	<b>(\$57,069)</b>
Less estimated income	0	0	(88,650)
<b>General fund</b>	<b>\$70,000</b>	<b>\$100,000</b>	<b>\$31,581</b>
<b>FTE</b>	<b>0.00</b>	<b>0.00</b>	<b>1.00</b>

<sup>1</sup>Funding is added due to a calculation error in the executive compensation package.

<sup>2</sup>This amendment adjusts the state employee compensation and benefits package as follows:

- Reduces the performance component from 3 to 5 percent per year to 2 to 4 percent per year.
- Reduces the market component from 2 to 4 percent per year for employees below the midpoint of their salary range to up to 2 percent for employees in the first quartile of their salary range for the first year of the biennium only.
- Removes funding for additional retirement contribution increases.

<sup>3</sup>A portion of salaries and wages funding from the general fund (\$147,106) and from other funds (\$54,051) for permanent employees' compensation and benefits is reallocated to an accrued leave payments line item for paying annual leave and sick leave for eligible employees.

<sup>4</sup>This amendment removes 1 FTE information systems auditor position included in the executive recommendation.

<sup>5</sup>This amendment adds 1 FTE financial auditor position.

<sup>6</sup>This amendment adds 1 FTE performance auditor position.

<sup>7</sup>Funding for temporary salaries is increased relating to the costs of the Comprehensive Annual Financial Report (CAFR).

<sup>8</sup>Funding is added for the State Auditor to contract with information technology consultants for the annual testing of the vulnerability of state computer networks to provide a total of \$250,000 from the general fund for network testing.

Date: February 18, 2013  
Roll Call Vote #: 1

**2013 HOUSE STANDING COMMITTEE ROLL CALL VOTES**  
**BILL/RESOLUTION NO. HB1004**

House Appropriations - Government Operations Division Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Do Pass as Amended

Motion Made By Representative Glassheim Seconded By Representative Sanford

Representatives	Yes	No	Representatives	Yes	No
Chairman Thoreson	x		Representative Glassheim	x	
Vice Chairman Brandenburg	x		Representative Guggisberg	x	
Representative Kempenich	x				
Representative Hawken	x				
Representative Sanford	x				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Representative Kempenich

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

Date: 2/2/13  
Roll Call Vote #: 1

2013 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. 1004

House Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number . 01001

Action Taken:  Do Pass  Do Not Pass  Amended  Adopt Amendment  
 Rerefer to Appropriations  Reconsider

Motion Made By Rep. Kempenich Seconded By Rep. Thoreson

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer			Rep. Streyle		
Vice Chairman Kempenich			Rep. Thoreson		
Rep. Bellew			Rep. Wieland		
Rep. Brandenburg					
Rep. Dosch					
Rep. Grande			Rep. Boe		
Rep. Hawken			Rep. Glassheim		
Rep. Kreidt			Rep. Guggisberg		
Rep. Martinson			Rep. Holman		
Rep. Monson			Rep. Williams		
Rep. Nelson					
Rep. Pollert					
Rep. Sanford					
Rep. Skarphol					

Total Yes \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

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

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

*voice vote carries*

Date: 2/21/13  
 Roll Call Vote #: 2

**2013 HOUSE STANDING COMMITTEE  
 ROLL CALL VOTES  
 BILL/RESOLUTION NO. 1004**

House Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken:  Do Pass  Do Not Pass  Amended  Adopt Amendment  
 Rerefer to Appropriations  Reconsider

Motion Made By Rep. Kempenich Seconded By Rep. Thoreson

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer		X	Rep. Streyle	X	
Vice Chairman Kempenich	X		Rep. Thoreson	X	
Rep. Bellew		X	Rep. Wieland		X
Rep. Brandenburg	X				
Rep. Dosch	X				
Rep. Grande		X	Rep. Boe	X	
Rep. Hawken	X		Rep. Glassheim	X	
Rep. Kreidt		X	Rep. Guggisberg	X	
Rep. Martinson	X		Rep. Holman	X	
Rep. Monson	X		Rep. Williams	X	
Rep. Nelson	X				
Rep. Pollert		X			
Rep. Sanford					
Rep. Skarphol	X				

Total Yes 15 No 6

Absent 1

Floor Assignment Rep. Kempenich

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

**REPORT OF STANDING COMMITTEE**

**HB 1004: Appropriations Committee (Rep. Delzer, Chairman)** recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (15 YEAS, 6 NAYS, 1 ABSENT AND NOT VOTING). HB 1004 was placed on the Sixth order on the calendar.

Page 1, replace line 12 with:

"Salaries and wages	\$8,626,758	\$1,278,808	\$9,905,566
Accrued leave payments	0	201,157	201,157"

Page 1, replace lines 15 through 19 with:

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Page 2, line 11, replace "six" with "ninety-five"

Page 2, line 11, replace "seven" with "eight"

Page 2, line 12, replace "ninety-four" with "sixty-three"

Page 2, line 12, replace "one hundred" with "ninety-eight"

Page 2, line 13, replace "six" with "seven"

Page 2, line 13, replace "sixty-six" with "thirty-nine"

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

**House Bill No. 1004 - State Auditor - House Action**

	Executive Budget	House Changes	House Version
Salaries and wages	\$10,263,792	(\$358,226)	\$9,905,566
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Less estimated income	3,073,675	(88,650)	2,985,025
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FTE	52.80	1.00	53.80

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

Corrects Executive Compensation Package <sup>1</sup>	Adjusts State Employee Compensation and Benefits	Provides Separate Line Item for Accrued Leave	Removes 1 FTE Information Systems Auditor <sup>4</sup>	Adds 1 FTE Financial Auditor <sup>5</sup>	Adds 1 FTE Performance Auditor <sup>8</sup>
--	--	---	--	---	---

		Package <sup>2</sup>	Payments <sup>3</sup>			
Salaries and wages	\$5,987	(\$357,423)	(\$201,157)	(\$124,367)	\$124,367	\$124,367
Operating expenses						
Capital assets						
Information technology consultants						
Accrued leave payments			201,157			
Total all funds	\$5,987	(\$357,423)	\$0	(\$124,367)	\$124,367	\$124,367
Less estimated income	1,497	(90,147)	0	0	0	0
General fund	\$4,490	(\$267,276)	\$0	(\$124,367)	\$124,367	\$124,367
FTE	0.00	0.00	0.00	(1.00)	1.00	1.00

	Increases Temporary Salaries <sup>7</sup>	Increases Funding for State IT Vulnerability Testing <sup>8</sup>	Total House Changes
Salaries and wages	\$70,000		(\$358,226)
Operating expenses			
Capital assets			
Information technology consultants		100,000	100,000
Accrued leave payments			201,157
Total all funds	\$70,000	\$100,000	(\$57,069)
Less estimated income	0	0	(88,650)
General fund	\$70,000	\$100,000	\$31,581
FTE	0.00	0.00	1.00

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<sup>8</sup>Funding is added for the State Auditor to contract with information technology consultants for the annual testing of the vulnerability of state computer networks to provide a total of \$250,000 from the general fund for network testing.

**2013 SENATE APPROPRIATIONS**

**HB 1004**

# 2013 SENATE STANDING COMMITTEE MINUTES

## Senate Appropriations Committee Harvest Room, State Capitol

HB 1004  
03-14-2013  
Job # 19938

Conference Committee

Committee Clerk Signature



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

A BILL for an appropriation for the State Auditor.

### Minutes:

See attached testimony.

**Vice Chairman Bowman** called the committee to order on Thursday, March 14, 2013 at 2:10 pm in regards to HB 1004. All committee members were present except Senator Holmberg. Adam Mathiak, Legislative Council and Sheila Peterson, OMB were present.

**Robert R. Peterson, State Auditor** testified in favor of Engrossed HB 1004 and provided written Testimony attached # 1 which is an overview of the Agency of the Auditor, request regarding the Budget and proposed Amendments to HB 1004. The version of HB 1004 passed by the House leaves us short on salary funds and office space. Out of that 50.8 FTE I have 20 auditors and 3 audit managers that audit the state of ND and the University System. We are requesting additional FTE's and related funding to deal with our significantly increased workload. (7.52) Performance Audits. (13.19) Financial and Compliance Audits. The last page are the requested changes to Engrossed Bill 1004. That concludes my testimony. (16.38)

**Vice Chairman Bowman** asked why the House didn't put the federally funded employee into the budget. **Mr. Peterson** stated he did not know why.

**Vice Chairman Bowman:** I am sure there will be a subcommittee to address that situation.

**Senator Carlisle:** You talked about space constraints, where would you go?

**Mr. Peterson:** We would have to look for office space somewhere in Bismarck. There is no more space in the capitol.

**Vice Chairman Bowman:** Are we growing government too fast?

**Mr. Peterson:** I don't know if we are growing government too fast because I think with a lot of what's happening is necessary. But we need to audit it and we are falling behind.

**Senator Robinson:** (18.53) These positions that you would add, I can see the mineral auditors you'd want in the western part of the state somewhere, but the rest could work elsewhere, could they not?

**Mr. Peterson:** Our mineral auditors are all in Bismarck. We can move them to other areas within Bismarck. We were looking to move the performance team out of the Capitol, because their audits are usually somewhere else.

**Vice Chairman Bowman:** This question is for Sheila Peterson. As we run out of space, are we going to look for additional space, another building some place?

**Sheila Peterson:** He was told they are types of considerations going on at all times regarding expansion space for the state agencies

**Vice Chairman Bowman:** Anyone else going to testify on this bill? No one came forward. The hearing was closed on HB 1004.

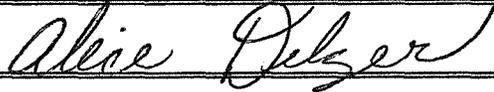
# 2013 SENATE STANDING COMMITTEE MINUTES

## Senate Appropriations Committee Harvest Room, State Capitol

HB 1004  
04-04-2013  
Job # 20854

Conference Committee

Committee Clerk Signature



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

A BILL for the Auditor's Office (DO PASS)

### Minutes:

You may make reference to "attached testimony."

**Chairman Holmberg** called the committee to order on Thursday, April 04, 2013 in regards to HB 1004. All committee members were present except Senator Mathern.

Allen H. Knudson- Legislative Council  
Sheila Peterson - OMB

**Chairman Holmberg:** There was no subcommittee on this bill. Any questions? There were no questions at this time.

**Senator Robinson** moved a Do Pass on HB 1004. 2<sup>nd</sup> by Senator O'Connell.

**Chairman Holmberg:** I will carry the bill. It is possible the Senate will want to discuss the pay package. Call the roll on a Do Pass on HB 1004.

**A Roll Call vote was taken. Yea: 12; Nay : 0; Absent: 1.**

**Chairman Holmberg will carry the bill.**

**The hearing was closed on HB 1004.**

# 2013 SENATE STANDING COMMITTEE MINUTES

## Senate Appropriations Committee Harvest Room, State Capitol

HB 1004  
04-11-2013  
Job # 21107

Conference Committee

Committee Clerk Signature



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

A BILL for the State Auditor's Budget (Do Pass as Amended )

### Minutes:

You may make reference to "attached testimony."

**Chairman Holmberg** called the committee to order on Thursday, April 11, 2013 at 9:00 am in regards to HB 1004. Roll call was taken. All committee members were present.

Sheila M. Sandness - Legislative Council  
Sheila Peterson - OMB .

**Vice Chairman Grindberg moved we reconsider last action. 2<sup>nd</sup> by Senator Robinson**

**Chairman Holmberg:** We have a motion to reconsider our action by which we passed 1004. It's been moved and seconded). All in favor say Aye. It carried. The bill is before us. The amendments do the following: The executive budget increased the number of FTE's and also increased for a Mineral Royalty Auditor position that is funded by the federal government. The House made a change. The Information Systems Auditor position and they put it in its place a Performance Auditor, and the dollar amount was the same, we take out the Performance Auditor and put it back in what was in the executive budget. That's the other change that was made. The final one is providing \$100,000 for increased lease costs, they have a huge space issue, and they have to do some further leasing, and it was not included in the executive recommendation. The House did not include it, but the department had asked for it, and I put it back in again to help stimulate discussion with the House in the conference committee. So those are the changes that were made.

**Senator Robinson moved the Amendment .# 13.8133. 02001. 2<sup>nd</sup> by Senator Erbele.**

**Chairman Holmberg:** All in favor say Aye, it carried.

**Senator Carlisle Moved Do Pass as Amended. 2<sup>nd</sup> by Senator Wanzek.**

**A Roll Call vote was taken. Yea: 13; Nay: 0; Absent: 0. Chairman Holmberg will carry the bill. The hearing was closed on HB 1004.**

102  
 4/11/13  
 TD

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1004

Page 1, replace lines 12 through 14 with:

"Salaries and wages	\$8,626,758	\$1,837,388	\$10,464,146
Accrued leave payments	0	0	0
Operating expenses	794,572	111,541	906,113"

Page 1, replace lines 17 through 19 with:

"Total all funds	\$9,571,330	\$2,088,929	\$11,660,259
Less estimated income	<u>2,427,522</u>	<u>647,650</u>	<u>3,075,172</u>
Total general fund	\$7,143,808	\$1,441,279	\$8,585,087"

Page 2, line 11, replace "ninety-five" with "ninety-six"

Page 2, line 11, replace "eight" with "seven"

Page 2, line 12, replace "sixty-three" with "ninety-four"

Page 2, line 12, replace "ninety-eight" with "one hundred"

Page 2, line 13, replace "seven hundred thirty-nine" with "six hundred sixty-six"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1004 - State Auditor - Senate Action

	Executive Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$10,263,792	\$9,905,566	\$558,580	\$10,464,146
Operating expenses	806,113	806,113	100,000	906,113
Capital assets	40,000	40,000		40,000
Information technology consultants	150,000	250,000		250,000
Accrued leave payments		201,157	(201,157)	
Total all funds	\$11,259,905	\$11,202,836	\$457,423	\$11,660,259
Less estimated income	<u>3,073,675</u>	<u>2,985,025</u>	<u>90,147</u>	<u>3,075,172</u>
General fund	\$8,186,230	\$8,217,811	\$367,276	\$8,585,087
FTE	52.80	53.80	0.00	53.80

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

	Restores Executive Compensation Package <sup>1</sup>	Removes Separate Line Item for Accrued Leave Payments <sup>2</sup>	Restores 1 FTE Information Systems Auditor <sup>3</sup>	Removes 1 FTE Performance Auditor <sup>4</sup>	Increases Funding for Lease Costs <sup>5</sup>	Total Senate Changes
Salaries and wages	\$357,423	\$201,157	\$124,367	(\$124,367)		\$558,580
Operating expenses					100,000	100,000
Capital assets						
Information technology consultants						
Accrued leave payments		(201,157)				(201,157)
	<u>\$357,423</u>	<u>\$0</u>	<u>\$124,367</u>	<u>(\$124,367)</u>	<u>\$100,000</u>	<u>\$457,423</u>

2022

Total all funds						
Less estimated income	90,147	0	0	0	0	90,147
General fund	\$267,276	\$0	\$124,367	(\$124,367)	\$100,000	\$367,276
FTE	0.00	0.00	1.00	(1.00)	0.00	0.00

<sup>1</sup> Funding reductions made by the House to the state employee compensation and benefits package are restored to the Governor's recommended level.

<sup>2</sup> The accrued leave payments line item added by the House is removed and the associated funding returned to line items with salaries and wages funding.

<sup>3</sup> This amendment restores 1 FTE information systems auditor position included in the executive recommendation but removed by the House.

<sup>4</sup> This amendment removes 1 FTE performance auditor position added by the House. This position was not included in the executive recommendation.

<sup>5</sup> Additional funding is provided for increased lease costs. This funding was not included in the executive recommendation.

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Section 3 of the bill is changed to provide 4 percent annual salary increases for the State Auditor, the same as the executive budget. The House provided 3 percent annual increases.

Date: 4-4-13

Roll Call Vote # 1

2013 SENATE STANDING COMMITTEE  
ROLL CALL VOTES

BILL/RESOLUTION NO. 1004

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken  Adopt Amendment  Do Pass  
 Do Pass as Amended  Do Not Pass

Motion Made By Robinson Seconded By O'Connell

Senators	Yes	No	Senator	Yes	No
Chariman Ray Holmberg	✓		Senator Tim Mathern	✓	
Co-Vice Chairman Bill Bowman	✓		Senator David O'Connell	✓	
Co-Vice Chair Tony Grindberg	✓		Senator Larry Robinson	✓	
Senator Ralph Kilzer	✓		Senator John Warner	✓	
Senator Karen Krebsbach	✓				
Senator Robert Erbele	✓				
Senator Terry Wanzek	✓				
Senator Ron Carlisle	✓				
Senator Gary Lee	✓				

Total (Yes) 12 No 0

Absent 1

Floor Assignment Holmberg

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

Date: 4-11-13

Roll Call Vote # 1

2013 SENATE STANDING COMMITTEE  
ROLL CALL VOTES

BILL/RESOLUTION NO. 1004

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number reconsider last <sup>action</sup> amendment

Action Taken  Adopt Amendment  Do Pass  
 Do Pass as Amended  Do Not Pass

Motion Made By Robinson Seconded By Bowman

Senators	Yes	No	Senator	Yes	No
Chairman Ray Holmberg			Senator Tim Mathern		
Co-Vice Chairman Bill Bowman			Senator David O'Connell		
Co-Vice Chair Tony Grindberg			Senator Larry Robinson		
Senator Ralph Kilzer			Senator John Warner		
Senator Karen Krebsbach					
Senator Robert Erbele					
Senator Terry Wanzek					
Senator Ron Carlisle					
Senator Gary Lee					

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

Absent \_\_\_\_\_

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

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

*voice vote passed*

Date: 4-11-13

Roll Call Vote # 2

2013 SENATE STANDING COMMITTEE  
ROLL CALL VOTES

BILL/RESOLUTION NO. 1004

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number 13.8133.02001

Action Taken  Adopt Amendment  Do Pass  
 Do Pass as Amended  Do Not Pass

Motion Made By Robinson Seconded By Bowman

Senators	Yes	No	Senator	Yes	No
Chariman Ray Holmberg			Senator Tim Mathern		
Co-Vice Chairman Bill Bowman			Senator David O'Connell		
Co-Vice Chair Tony Grindberg			Senator Larry Robinson		
Senator Ralph Kilzer			Senator John Warner		
Senator Karen Krebsbach					
Senator Robert Erbele					
Senator Terry Wanzek					
Senator Ron Carlisle					
Senator Gary Lee					

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

Absent \_\_\_\_\_

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

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

*voice vote passed*

Date: 4-11-13

Roll Call Vote # 3

2013 SENATE STANDING COMMITTEE  
ROLL CALL VOTES

BILL/RESOLUTION NO. 1004

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken  Adopt Amendment  Do Pass  
 Do Pass as Amended  Do Not Pass

Motion Made By Carlisle Seconded By Wanzek

Senators	Yes	No	Senator	Yes	No
Chairman Ray Holmberg	✓		Senator Tim Mathern	✓	
Co-Vice Chairman Bill Bowman	✓		Senator David O'Connell	✓	
Co-Vice Chair Tony Grindberg	✓		Senator Larry Robinson	✓	
Senator Ralph Kilzer	✓		Senator John Warner	✓	
Senator Karen Krebsbach	✓				
Senator Robert Erbele	✓				
Senator Terry Wanzek	✓				
Senator Ron Carlisle	✓				
Senator Gary Lee	✓				

Total (Yes) 13 No 0

Absent 0

Floor Assignment Holmberg

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

**REPORT OF STANDING COMMITTEE**

**HB 1004, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman)**  
recommends **DO PASS** (12 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING).  
Engrossed HB 1004 was placed on the Fourteenth order on the calendar.

**REPORT OF STANDING COMMITTEE**

**HB 1004, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman)** recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (13 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1004 was placed on the Sixth order on the calendar.

Page 1, replace lines 12 through 14 with:

"Salaries and wages	\$8,626,758	\$1,837,388	\$10,464,146
Accrued leave payments	0	0	0
Operating expenses	794,572	111,541	906,113"

Page 1, replace lines 17 through 19 with:

"Total all funds	\$9,571,330	\$2,088,929	\$11,660,259
Less estimated income	<u>2,427,522</u>	<u>647,650</u>	<u>3,075,172</u>
Total general fund	\$7,143,808	\$1,441,279	\$8,585,087"

Page 2, line 11, replace "ninety-five" with "ninety-six"

Page 2, line 11, replace "eight" with "seven"

Page 2, line 12, replace "sixty-three" with "ninety-four"

Page 2, line 12, replace "ninety-eight" with "one hundred"

Page 2, line 13, replace "seven hundred thirty-nine" with "six hundred sixty-six"

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

**House Bill No. 1004 - State Auditor - Senate Action**

	Executive Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$10,263,792	\$9,905,566	\$558,580	\$10,464,146
Operating expenses	806,113	806,113	100,000	906,113
Capital assets	40,000	40,000		40,000
Information technology consultants	150,000	250,000		250,000
Accrued leave payments		201,157	(201,157)	
Total all funds	\$11,259,905	\$11,202,836	\$457,423	\$11,660,259
Less estimated income	<u>3,073,675</u>	<u>2,985,025</u>	90,147	<u>3,075,172</u>
General fund	\$8,186,230	\$8,217,811	\$367,276	\$8,585,087
FTE	52.80	53.80	0.00	53.80

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

	Restores Executive Compensation Package <sup>1</sup>	Removes Separate Line Item for Accrued Leave Payments <sup>2</sup>	Restores 1 FTE Information Systems Auditor <sup>3</sup>	Removes 1 FTE Performance Auditor <sup>4</sup>	Increases Funding for Lease Costs <sup>5</sup>	Total Senate Changes
Salaries and wages	\$357,423	\$201,157	\$124,367	(\$124,367)		\$558,580
Operating expenses					100,000	100,000
Capital assets						
Information technology consultants						
Accrued leave payments		(201,157)				(201,157)
Total all funds	\$357,423	\$0	\$124,367	(\$124,367)	\$100,000	\$457,423
Less estimated income	<u>90,147</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>90,147</u>
General fund	\$267,276	\$0	\$124,367	(\$124,367)	\$100,000	\$367,276

FTE	0.00	0.00	1.00	(1.00)	0.00	<input type="text" value="0.00"/>
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<sup>1</sup> Funding reductions made by the House to the state employee compensation and benefits package are restored to the Governor's recommended level.

<sup>2</sup> The accrued leave payments line item added by the House is removed and the associated funding returned to line items with salaries and wages funding.

<sup>3</sup> This amendment restores 1 FTE information systems auditor position included in the executive recommendation but removed by the House.

<sup>4</sup> This amendment removes 1 FTE performance auditor position added by the House. This position was not included in the executive recommendation.

<sup>5</sup> Additional funding is provided for increased lease costs. This funding was not included in the executive recommendation.

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Section 3 of the bill is changed to provide 4 percent annual salary increases for the State Auditor, the same as the executive budget. The House provided 3 percent annual increases.

**2013 CONFERENCE COMMITTEE  
HB 1004**

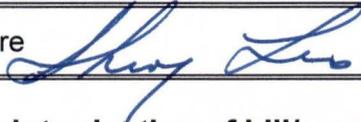
# 2013 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Government Operations Division  
Medora Room, State Capitol

HB1004  
April 20, 2013  
Recording Job# 21370

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:

**Chairman Brandenburg:** Opened the conference committee on HB1004.

**Senator Holmberg:** In our haste to get the bill out we made some changes. You had put in a performance auditor. We changed that to an information systems auditor and what the agency really wants is a financial auditor. The space of the auditors department is very congested. They had asked for some money, we reduced that, and added \$100,000.00 for lease costs.

**Representative Thoreson:** You're talking about item #5 for lease costs?

**Senator Holmberg:** Right.

**Representative Thoreson:** The financial auditor position is neither of these?

**Senator Holmberg:** Right.

**Representative Thoreson:** Is that something we discussed? I don't recall on our discussion on the bill?

**Gordy Smith, Audit Manager, ND office of the State Auditor:** We had originally asked for 2 financial auditors in our budget request. The governor's budget gave us 1 financial auditor and 1 information systems auditor. Our preference would be to have a financial auditor.

**Representative Thoreson:** On that issue with the CAFR; did we make a change where we put some money in HB1015 to hire someone to help with that?

**Sheila Peterson, Fiscal Analyst, ND Office of Management and Budget:** The House took out the money that OMB had in our budget request to asses with the CAFR audit.

**Representative Thoreson:** Has that been restored by the Senate?

**Senator Holmberg:** It is in the suggested amendments that haven't been voted on.

**Chairman Brandenburg:** Closed the conference committee.

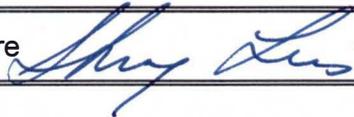
# 2013 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Government Operations Division  
Medora Room, State Capitol

HB1004  
April 22, 2013  
Recording Job# 21385

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:

**Chairman Brandenburg:** Opened the conference committee on HB1004. All members were present.

**Chairman Brandenburg:** Is there any discussion concerning the financial auditor?

**Senator Holmberg:** We all agreed on the dollar amount.

**Senator Holmberg:** Made a motion that the Senate recedes from its amendments and that we further amend to reflect the new compensation package. We would further amend to change the performance auditor to a financial auditor and to increase funding to \$100,000.00 for lease costs.

**Becky Keller, Fiscal Analyst, ND Legislative Council:** We would also amend section 3 of the bill to provide a 4% the first year and a 3% the second year for the state auditor.

**Senator Wanzek:** Seconded the motion.

**Chairman Brandenburg:** What was the increase in lease costs?

**Senator Holmberg:** As I understand it, they have the smallest square footage ratio in the capitol to any other state agency. They are overcrowded and they're going to have to expand. You pay more off campus than you do here. So they felt that they could live with the \$100,000.00.

**Chairman Brandenburg:** I remember this discussion now.

Roll call vote 6 yeas 0 Nays 0 Absent



Chairman Brandenburg and Senator Holmberg carried the bill.

**Chairman Brandenburg:** Closed the conference committee.



VR  
 4/24/13  
 1082

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1004

That the Senate recede from its amendments as printed on pages 1505 and 1506 of the House Journal and pages 1352 and 1353 of the Senate Journal and that Engrossed House Bill No. 1004 be amended as follows:

Page 1, replace lines 12 through 14 with:

"Salaries and wages	\$8,626,758	\$1,486,379	\$10,113,137
Accrued leave payments	0	201,157	201,157
Operating expenses	794,572	111,541	906,113"

Page 1, replace lines 17 through 19 with:

"Total all funds	\$9,571,330	\$1,939,077	\$11,510,407
Less estimated income	<u>2,427,522</u>	<u>609,396</u>	<u>3,036,918</u>
Total general fund	\$7,143,808	\$1,329,681	\$8,473,489"

Page 2, line 11, replace "ninety-five" with "ninety-six"

Page 2, line 11, replace "eight" with "seven"

Page 2, line 12, replace "sixty-three" with "ninety-four"

Page 2, line 12, replace "ninety-eight" with "ninety-nine"

Page 2, line 13, replace "seven hundred thirty-nine" with "six hundred ninety-eight"

Re-number accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

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

	Executive Budget	House Version	Conference Committee Changes	Conference Committee Version	Senate Version	Comparison to Senate
Salaries and wages	\$10,263,792	\$9,905,566	\$207,571	\$10,113,137	\$10,464,146	(\$351,009)
Operating expenses	806,113	806,113	100,000	906,113	906,113	
Capital assets	40,000	40,000		40,000	40,000	
Information technology consultants	150,000	250,000		250,000	250,000	
Accrued leave payments		201,157		201,157		201,157
Total all funds	\$11,259,905	\$11,202,836	\$307,571	\$11,510,407	\$11,660,259	(\$149,852)
Less estimated income	<u>3,073,675</u>	<u>2,985,025</u>	<u>51,893</u>	<u>3,036,918</u>	<u>3,075,172</u>	<u>(38,254)</u>
General fund	\$8,186,230	\$8,217,811	\$255,678	\$8,473,489	\$8,585,087	(\$111,598)
FTE	52.80	53.80	0.00	53.80	53.80	0.00

**Department No. 117 - State Auditor - Detail of Conference Committee Changes**

	Removes House Changes to Executive Compensation Package <sup>1</sup>	Adjusts State Employee Compensation and Benefits Package <sup>2</sup>	Adds 1 FTE Financial Auditor <sup>3</sup>	Removes 1 FTE Performance Auditor <sup>4</sup>	Increases Funding for Lease Costs <sup>5</sup>	Total Conference Committee Changes
Salaries and wages	\$357,423	(\$149,852)	\$124,367	(\$124,367)		\$207,571

242

Operating expenses					100,000	100,000
Capital assets						
Information technology consultants						
Accrued leave payments						
Total all funds	\$357,423	(\$149,852)	\$124,367	(\$124,367)	\$100,000	\$307,571
Less estimated income	90,147	(38,254)	0	0	0	51,893
General fund	\$267,276	(\$111,598)	\$124,367	(\$124,367)	\$100,000	\$255,678
FTE	0.00	0.00	1.00	(1.00)	0.00	0.00

<sup>1</sup> Changes made by the House to the executive compensation package are removed.

<sup>2</sup> This amendment adjusts the state employee compensation and benefits package as follows:

- Reduces the performance component from 3 to 5 percent per year to 3 to 5 percent for the first year of the biennium and 2 to 4 percent for the second year of the biennium.
- Reduces the market component from 2 to 4 percent per year to 1 to 2 percent per year for employees below the midpoint of their salary range.
- Reduces funding for retirement contribution increases to provide for a 1 percent state and 1 percent employee increase beginning in January 2014 and no increase in January 2015.

<sup>3</sup> This amendment adds 1 FTE financial auditor position. The executive recommendation included 1 FTE information system auditor that was removed by the House and restored by the Senate.

<sup>4</sup> This amendment removes 1 FTE performance auditor position added by the House, but removed by the Senate. This position was not included in the executive recommendation.

<sup>5</sup> Additional funding is provided for increased lease costs, the same as the Senate. This funding was not included in the executive recommendation or the House version.

Section 3 of the bill is changed to provide a 4 percent first year and a 3 percent second year salary increase for the State Auditor. The Senate and the executive budget provided 4 percent annual increases. The House provided 3 percent annual increases.

# 2013 HOUSE CONFERENCE COMMITTEE ROLL CALL VOTES

Committee: House Appropriations- Government Operations

Bill/Resolution No. HB1004 as engrossed

Date: April 22, 2013

Roll Call Vote #: 1

- Action Taken**
- HOUSE accede to Senate amendments
  - HOUSE accede to Senate amendments and further amend
  - SENATE recede from Senate amendments
  - SENATE recede from Senate amendments and amend as follows

Senate Amendments on HJ page(s) 1505 -- 1506

- Unable to agree, recommends that the committee be discharged and a new committee be appointed

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

Motion Made by: Senator Holmberg Seconded by: Senator Wanzek

Representatives	4-20	4-22	Yes	No		Senators	4-20	4-22	Yes	No
Chairman Brandenburg	x	x	x			Senator Wanzek	x	x	x	
Representative Thoreson	x	x	x			Senator Holmberg	x	x	x	
Representative Guggisberg	x	x	x			Senator Robinson	x	x	x	

Vote Count      Yes: 6      No: 0      Absent: 0

House Carrier    Representative Brandenburg      Senate Carrier    Senator Holmberg

LC Number \_\_\_\_\_ of amendment

LC Number \_\_\_\_\_ of engrossment

Emergency clause added or deleted  
 Statement of purpose of amendment    To change performance auditor position to financial auditor and added \$100,000.00 for leasing expense

**REPORT OF CONFERENCE COMMITTEE**

**HB 1004, as engrossed:** Your conference committee (Sens. Wanzek, Holmberg, Robinson and Reps. Brandenburg, Thoreson, Guggisberg) recommends that the **SENATE RECEDE** from the Senate amendments as printed on HJ pages 1505-1506, adopt amendments as follows, and place HB 1004 on the Seventh order:

That the Senate recede from its amendments as printed on pages 1505 and 1506 of the House Journal and pages 1352 and 1353 of the Senate Journal and that Engrossed House Bill No. 1004 be amended as follows:

Page 1, replace lines 12 through 14 with:

"Salaries and wages	\$8,626,758	\$1,486,379	\$10,113,137
Accrued leave payments	0	201,157	201,157
Operating expenses	794,572	111,541	906,113"

Page 1, replace lines 17 through 19 with:

"Total all funds	\$9,571,330	\$1,939,077	\$11,510,407
Less estimated income	<u>2,427,522</u>	<u>609,396</u>	<u>3,036,918</u>
Total general fund	\$7,143,808	\$1,329,681	\$8,473,489"

Page 2, line 11, replace "ninety-five" with "ninety-six"

Page 2, line 11, replace "eight" with "seven"

Page 2, line 12, replace "sixty-three" with "ninety-four"

Page 2, line 12, replace "ninety-eight" with "ninety-nine"

Page 2, line 13, replace "seven hundred thirty-nine" with "six hundred ninety-eight"

Re-number accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

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

	Executive Budget	House Version	Conference Committee Changes	Conference Committee Version	Senate Version	Comparison to Senate
Salaries and wages	\$10,263,792	\$9,905,566	\$207,571	\$10,113,137	\$10,464,146	(\$351,009)
Operating expenses	806,113	806,113	100,000	906,113	906,113	
Capital assets	40,000	40,000		40,000	40,000	
Information technology consultants	150,000	250,000		250,000	250,000	
Accrued leave payments		201,157		201,157		201,157
Total all funds	\$11,259,905	\$11,202,836	\$307,571	\$11,510,407	\$11,660,259	(\$149,852)
Less estimated income	<u>3,073,675</u>	<u>2,985,025</u>	<u>51,893</u>	<u>3,036,918</u>	<u>3,075,172</u>	<u>(38,254)</u>
General fund	\$8,186,230	\$8,217,811	\$255,678	\$8,473,489	\$8,585,087	(\$111,598)
FTE	52.80	53.80	0.00	53.80	53.80	0.00

**Department No. 117 - State Auditor - Detail of Conference Committee Changes**

	Removes House Changes to Executive Compensation Package <sup>1</sup>	Adjusts State Employee Compensation and Benefits Package <sup>2</sup>	Adds 1 FTE Financial Auditor <sup>3</sup>	Removes 1 FTE Performance Auditor <sup>4</sup>	Increases Funding for Lease Costs <sup>5</sup>	Total Conference Committee Changes
Salaries and wages	\$357,423	(\$149,852)	\$124,367	(\$124,367)		\$207,571
Operating expenses					100,000	100,000
Capital assets						
Information technology consultants						

Accrued leave payments						
Total all funds	\$357,423	(\$149,852)	\$124,367	(\$124,367)	\$100,000	\$307,571
Less estimated income	90,147	(38,254)	0	0	0	51,893
General fund	\$267,276	(\$111,598)	\$124,367	(\$124,367)	\$100,000	\$255,678
FTE	0.00	0.00	1.00	(1.00)	0.00	0.00

<sup>1</sup> Changes made by the House to the executive compensation package are removed.

<sup>2</sup> This amendment adjusts the state employee compensation and benefits package as follows:

- Reduces the performance component from 3 to 5 percent per year to 3 to 5 percent for the first year of the biennium and 2 to 4 percent for the second year of the biennium.
- Reduces the market component from 2 to 4 percent per year to 1 to 2 percent per year for employees below the midpoint of their salary range.
- Reduces funding for retirement contribution increases to provide for a 1 percent state and 1 percent employee increase beginning in January 2014 and no increase in January 2015.

<sup>3</sup> This amendment adds 1 FTE financial auditor position. The executive recommendation included 1 FTE information system auditor that was removed by the House and restored by the Senate.

<sup>4</sup> This amendment removes 1 FTE performance auditor position added by the House, but removed by the Senate. This position was not included in the executive recommendation.

<sup>5</sup> Additional funding is provided for increased lease costs, the same as the Senate. This funding was not included in the executive recommendation or the House version.

Section 3 of the bill is changed to provide a 4 percent first year and a 3 percent second year salary increase for the State Auditor. The Senate and the executive budget provided 4 percent annual increases. The House provided 3 percent annual increases.

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

**2013 TESTIMONY**

**HB 1004**



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

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

January 14, 2013

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H.B. No. 1004

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

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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 statewide information technology security audit.



### **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.

### **Standards Overload**

Standards overload continues to strain our resources. The CAFR audit and the Single audit take more resources every audit.

Accounting standards have grown in complexity for many years. GASB statement #34 which went into effect in 2001 had the greatest impact (adding opinion units increased our work load). GASB is up to Statement Number 66, and each new statement increases the auditor's work load. Additionally, the Office of Management and Budget's decision to consolidate special revenue funds into one reporting unit for the CAFR created an additional major fund (which requires a separate opinion) and changed our materiality levels, both of which increased our work load.

Auditing standards have also continued to increase our work load for the CAFR. The most significant of which are referred to as the "Risk Suite." Upcoming AICPA changes (referred as the "Clarity Standards") will also increase our workload, as will the 2011 version of Government Auditing Standards.

Because of the increased demands on our resources for the CAFR and Single Audits, our biennial agency audits and college and university audits have been cut dramatically. This means we are not able to look into areas where we should be looking.

### **Mission and Purpose**

The mission of the State Auditor's Office is to provide efficient, quality audit services, with limited interruption to our clients' operations, and to use the information gained from our audits to help state and local governmental units operate more efficiently and effectively for the benefit of the citizens of North Dakota.

An independent audit function is of critical importance to accountability in both business and government. The purpose of the State Auditor's office is to provide this critical element of accountability.

Additional funding is needed to ensure our ability to retain and recruit highly qualified professionals. The economy in North Dakota is growing and competition for audit professionals has increased. Salaries paid by accounting firms are significantly higher than we can pay.

### **Major Agency Initiatives for the 2013-15 Biennium**

Our major initiatives include increasing our staff to keep up with the increase in state and federal programs, increasing the salary of our auditors to meet the recommendations of the Hay study and new payroll guidelines, and continuing to recruit and retain highly qualified professionals. Each of these is explained below where we discuss improving our efficiency and effectiveness.

We need to increase compensation to ensure we can attract and retain qualified professionals. Qualified professionals must be recruited and retained to meet our goals and objectives relating to both performance and financial audits. As government keeps growing we have more programs to audit, with fewer auditors than we had in 1992.

Various factors have combined to continually increase our workload. The first factor is the growth of state government (more programs and more money to audit) which has significantly increased the time necessary to audit. For example, the general fund in the 1991-1993 biennium had a total budget of approximately \$3.2 billion. The 2011-2013 biennium has a total budget for the state of approximately \$9.3 billion. Thus the state's budget has nearly tripled over the past 20 years and requires significantly more audit effort.

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 American Recovery and Reinvestment Act (ARRA) funds. 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

13,000 hours for the audit of 2011-2012 federal funds. Thus in the last 10 years the federal audit work required has almost doubled.

Despite the increased workload resulting from the conditions cited in the prior 2 paragraphs, the State Auditor's Office actually has fewer FTE's than it did in 1991 to complete this work. For the 1991-1993 biennium our office had a total of 65 FTE's (41 were funded by the state general fund). For the current biennium the State Auditor's Office has 50.8 FTE of which 37.8 are funded by the state general fund. The positions funded by state general funds are the ones that audit state government. Therefore, despite the total state budget, which we audit, almost tripling in the past 20 years, and the effort required to audit federal funds essentially doubling over the past 10 years, we have fulfilled our responsibilities with fewer FTE's.

We have serious doubts about whether we will be able to continue to fulfill our statutory responsibilities without additional resources. We are requesting additional FTEs and related funding to deal with our increased workload.

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### **Program Goals and Objectives**

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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.

House Bill No. 1004 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 -**

Performance auditing is an integral part of state government and has resulted in significant improvements to state entities. Stakeholders including the public, agency management, and legislators have found performance audits to be very useful as evidenced by requests for performance audits being received from the Board of Higher Education and a legislative committee during the current biennium. A large majority of the states have performance audit functions. Performance audits have contributed to improving processes, efficiency and effectiveness of operations, and compliance with laws, rules, and regulations.

Essentially, performance audits: a) determine if programs and/or entities are operating efficiently and effectively; b) and/or determine if the programs are accomplishing what the Legislature intended them to accomplish; c) and/or provide information to management, the Legislature, and other stakeholders to make appropriate changes for improvement. For example, during the current biennium we completed an audit of Dickinson State University at the request of the Chancellor. The audit revealed significant concerns relating to compliance with laws, rules, and regulations as well as issues relating to tuition waivers, Roughrider scholarships, and the admission standards relating to foreign students. This audit will be used to significantly improve processes, systems, and compliance with laws, rules, and regulations at Dickinson State University. Information provided was used by a number of stakeholders including the Board of Higher Education and legislators.

As discussed above, during the 2011-2013 biennium the performance audit team completed a performance audit of Dickinson State University at the request of the Board of Higher Education. The report contained 33 recommendations and was presented to the Legislative Audit and Fiscal Review Committee (LAFRC) on March 27, 2012. In addition the performance audit team also completed a performance audit of the Fees Charged at NDSU and UND. The report contained 19 recommendations and was presented to the LAFRC on July 26, 2012.

The performance audit division also conducted a performance audit of the Use of State Supplied Vaccines by a medical Provider and presented the report to the LAFRC on March, 27, 2012

Approximately 18-24 months after performance audits are presented to the LAFRC we conduct a performance audit follow-up to determine the status of the recommendations contained in the original performance audit report. We issue a follow-up report detailing our conclusions and present it to the LAFRC. During the 2011-2013 biennium the State Auditor's Office presented the following performance audit follow-up reports to the LAFRC:

- Wildlife Services Program;
- UND School of Medicine and Health Sciences; and
- Department of Commerce.

The performance audit team anticipates conducting follow-up audits of the University System Capital Projects, and the Medicaid Provider and Recipient Fraud and Abuse performance audits during fiscal year 2013.

The performance audit team is currently conducting a performance audit of the North Dakota University System Office at the request of the Legislative Audit and Fiscal Review Committee.

During the current biennium the LAFRC passed a motion and requested that we bid out a performance audit of aspects of the State Water Commission. Specifically, the committee was interested in policies, procedures, and processes surrounding industrial water usage. We prepared a request for proposal and issued it in July, 2012. This performance audit was awarded to KPMG LLP, an international CPA firm. The State Auditor's Office will help facilitate the performance audit which is expected to be completed and available during the current legislative session. The State Water Commission will pay for the performance audit.

Occasionally our work requires that we hire a consultant. This has proven to be an extremely valuable tool in conducting performance audits as it allows us to expand the scope of our work into specialized areas. Consultants also allow us to leverage expensive consultant hours with our own work and as a result our staff increases their knowledge of the state entity's operations.

The Legislative Audit and Fiscal Review Committee must approve (in advance) the hiring of a consultant for a performance audit. The state entity being audited pays for the consultant.

Every three years the State Auditor's Office is required to undergo a peer review process (also referred to as a Quality Control Review) by the National State Auditor's Association (NSAA). The NSAA organizes a team of management personnel from state audit organizations around the country and reviews the audit process, audit reports, and working papers from our office to ensure that our work meets nationally recognized standards. Our most recent QCR was completed in 2011. The performance audit division has not had a single finding in the past 4 NSAA peer review reports covering the past 12 years.

### **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; 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.

During the current biennium we hired the consultant for the statewide security audit, completed an information systems audit on the University System ConnectND Campus Solutions, Office of Management and Budget ConnectND Human Resource Management System and audited the Information Technology Department.

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.

Several important recommendations were made relating to our audits of the state's CAFR and the NDUS financial statement audit. For the 2012 State CAFR audit these findings included a material weakness and significant deficiencies in internal control. The NDUS audit also identified material weaknesses and significant deficiencies in internal control.

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 2011-2012 single audit budget is over 13,000 hours and will cover over \$3.5 billion of federal assistance. All colleges and universities, and 34 state agencies receive and expend federal financial assistance.

House Bill 1004 has added 1 new Information Technology Auditor to our office. We are requesting 2 additional financial auditors and 2 additional performance auditors. To provide working space for these new auditors we are requesting additional funds for new office space. A study done by Facilities Management and presented to the Government Services Committee on September 30, 2010, identified the square footage each state agency occupied in Bismarck and Mandan. The general standard used by Facilities Management was 230 square feet per person. The State Auditor's Office has approximately 144 square feet per employee. OMB has

informed us that there is no more space available for us in the Capitol building. Therefore we would lease space in Bismarck to accommodate the new auditors we are requesting.

### **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 10 state agencies. This service saves those agencies from having to review the reports themselves. We review about 300 audit reports for these 10 state agencies.

House Bill No. 1004 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 11 states and 7 Native American tribes participating in this program with the U.S. Department of Interior, Office of Natural Resources Revenue (ONRR). There are 4 auditors in this program.

The Executive budget added 1 new mineral royalty auditor. The increased oil activity in the state has greatly increased the auditing demands on this program. We are asking for 1 additional mineral royalty auditor (100% federally funded) to successfully carry out the duties of this program.

**HOUSE APPROPRIATIONS COMMITTEE**

**GOVERNMENT OPERATIONS DIVISION**

Representative Blair Thoreson, Chairman

January 14, 2013

Requested changes to House Bill 1004

1. Add 2 FTEs and related general funds for additional financial auditors - \$257,234.
2. Add 2 FTEs and related general funds for additional performance auditors - \$257,234.
3. Add 1 FTE and related federal funds for an additional mineral royalty auditor - \$164,321.
4. Add general funds of \$145,000 for rent and operating expenses.

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**PROPOSED AMENDMENTS TO HOUSE BILL NO. 1004**

- Page 1, line 12, replace "10,263,792" with "10,925,581"
- Page 1, line 13, replace "806,113" with "968,113"
- Page 1, line 16, replace "11,259,905" with "12,083,694"
- Page 1, line 17, replace "3,073,675" with "3,237,996"
- Page 1, line 18, replace "8,186,230" with "8,845,698"
- Page 1, line 19, replace "52.80" with "57.80"

EXAMPLE

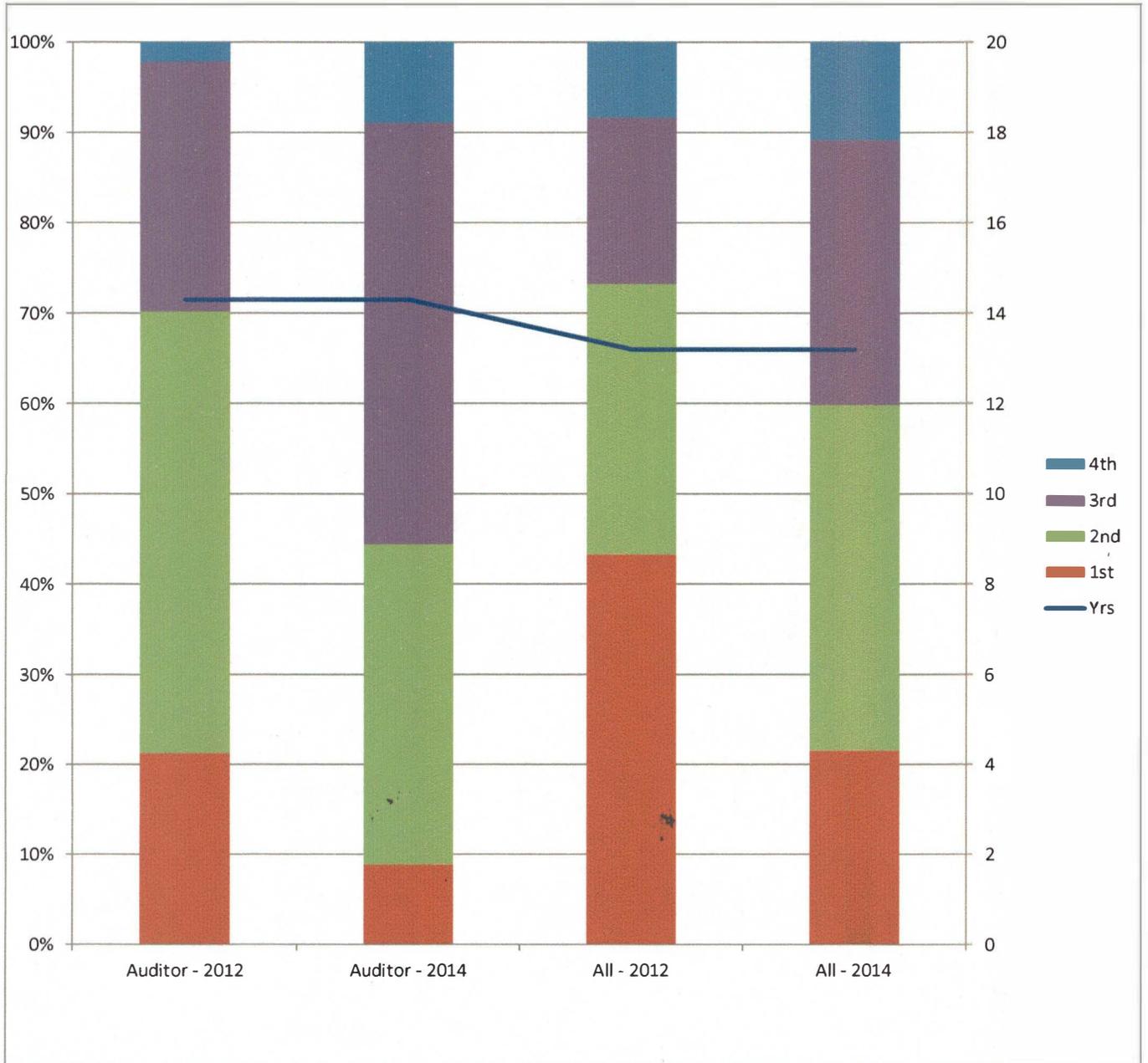
Relativity to Market Policy Position *								+ Meet Standards		+ Exceed Standards		Current C/R		Projected 2013 C/R		Projected 2014 C/R		EXAMPLE													
MPP + 0%								+		3.0%		5.0%		0.95		0.98		1.00													
2nd Qtl 1 - 2.0%																															
1st Qtl 2 - 4.0%																															
* ALL increases contingent upon Performance Meeting Standards																															
CURRENT								2013				2014																			
								Market Policy Position Increase		Performance Increase		Total Increase		After July 1, 2013				Market Policy Position Increase		Performance Increase		Total Increase		After July 1, 2014							
Yrs Svc	Job Title	FTE Ann Sal	Grade	Market Policy Point	FTE	C/R (Current)	2012 Qtl	%	\$\$	%	\$\$	%	\$\$	2013 New Salary	New MPP (3% range increment)	2013 New C/R	2013 Qtl	%	\$\$	%	\$\$	%	\$\$	2014 New Salary	New MPP (3% range increment)	2014 New C/R	2014 Qtl				
21.8	OFFICE ASSISTANT III	36,720	E	31,724	1.00	1.16	4	0.0%	-	3.0%	1,102	3.0%	1,102	37,822	32,676	1.16	4	0.0%	-	3.0%	1,115	3.0%	1,135	38,957	33,656	1.16	4				
19.6	ADMIN ASSISTANT II	40,440	H	41,612	1.00	0.97	2	2.0%	809	3.0%	1,213	5.0%	2,022	42,462	42,860	0.99	2	2.0%	849	3.0%	1,274	5.0%	2,123	44,585	44,146	1.01	3				
5.6	INFO SYSTEMS AUDITOR II	52,680	K	55,414	1.00	0.95	2	2.0%	1,054	3.0%	1,580	5.0%	2,634	55,314	57,076	0.97	2	2.0%	1,106	3.0%	1,659	5.0%	2,765	58,079	58,788	0.99	2				
5.6	INFO SYSTEMS AUDITOR II	50,760	K	55,414	1.00	0.92	2	2.0%	1,015	5.0%	2,538	7.0%	3,553	54,313	57,076	0.95	2	2.0%	1,086	5.0%	2,716	7.0%	3,802	58,115	58,788	0.99	2				
7.8	INFO SYSTEMS AUDITOR III	59,580	L	60,564	1.00	0.98	2	2.0%	1,192	3.0%	1,787	5.0%	2,979	62,559	62,381	1.00	3	0.0%	-	3.0%	1,877	3.0%	1,877	64,436	64,252	1.00	3				
22.9	INFO SYSTEMS AUDITOR IV	76,320	N	73,130	1.00	1.04	3	0.0%	-	5.0%	3,816	5.0%	3,816	80,136	75,324	1.06	3	0.0%	-	5.0%	4,007	5.0%	4,007	84,143	77,584	1.08	3				
1.6	AUDITOR I	44,280	J	50,985	1.00	0.87	1	4.0%	1,771	3.0%	1,328	7.0%	3,099	47,379	52,515	0.90	2	2.0%	948	3.0%	1,421	5.0%	2,369	49,748	54,090	0.92	2				
1.6	AUDITOR I	45,240	J	50,985	1.00	0.89	2	2.0%	905	5.0%	2,262	7.0%	3,167	48,407	52,515	0.92	2	2.0%	968	5.0%	2,420	7.0%	3,388	51,795	54,090	0.96	2				
1.8	AUDITOR I	45,780	J	50,985	1.00	0.90	2	2.0%	916	3.0%	1,373	5.0%	2,289	48,069	52,515	0.92	2	2.0%	961	3.0%	1,442	5.0%	2,403	50,472	54,090	0.93	2				
1.3	AUDITOR I	46,980	J	50,985	1.00	0.92	2	2.0%	940	5.0%	2,349	7.0%	3,289	50,269	52,515	0.96	2	2.0%	1,005	5.0%	2,513	7.0%	3,518	53,787	54,090	0.99	2				
2.3	AUDITOR II	53,280	K	55,414	1.00	0.96	2	2.0%	1,066	3.0%	1,598	5.0%	2,664	55,944	57,076	0.98	2	2.0%	1,119	3.0%	1,678	5.0%	2,797	58,741	58,788	1.00	3				
4.7	AUDITOR II	53,520	K	55,414	1.00	0.97	2	2.0%	1,070	5.0%	2,676	7.0%	3,746	57,266	57,076	1.00	3	0.0%	-	5.0%	2,863	5.0%	2,863	60,129	58,788	1.02	3				
3.6	AUDITOR II	49,800	K	55,414	1.00	0.90	2	2.0%	996	3.0%	1,494	5.0%	2,490	52,290	57,076	0.92	2	2.0%	1,046	3.0%	1,569	5.0%	2,615	54,905	58,788	0.93	2				
2.4	AUDITOR II	47,760	K	55,414	1.00	0.86	1	4.0%	1,910	5.0%	2,388	9.0%	4,298	52,058	57,076	0.91	2	2.0%	1,041	5.0%	2,603	7.0%	3,644	55,702	58,788	0.95	2				
4.3	AUDITOR II	52,260	K	55,414	1.00	0.94	2	2.0%	1,045	3.0%	1,568	5.0%	2,613	54,873	57,076	0.96	2	2.0%	1,097	3.0%	1,646	5.0%	2,743	57,616	58,788	0.98	2				
2.1	AUDITOR II	47,700	K	55,414	1.00	0.86	1	4.0%	1,908	5.0%	2,385	9.0%	4,293	51,993	57,076	0.91	2	2.0%	1,040	5.0%	2,600	7.0%	3,640	55,633	58,788	0.95	2				
9.8	AUDITOR III	47,940	L	60,564	1.00	0.79	1	4.0%	1,918	3.0%	1,438	7.0%	3,356	51,296	62,381	0.82	1	4.0%	2,052	3.0%	1,539	7.0%	3,591	54,887	64,252	0.85	1				
5.2	AUDITOR III	54,000	L	60,564	1.00	0.89	2	2.0%	1,080	5.0%	2,700	7.0%	3,780	57,780	62,381	0.93	2	2.0%	1,156	5.0%	2,889	7.0%	4,045	61,825	64,252	0.96	2				
5.2	AUDITOR III	64,800	L	60,564	1.00	1.07	3	0.0%	-	3.0%	1,944	3.0%	1,944	66,744	62,381	1.07	3	0.0%	-	3.0%	2,002	3.0%	2,002	68,746	64,252	1.07	3				
17.2	AUDITOR IV	66,600	N	73,130	1.00	0.91	2	2.0%	1,332	5.0%	3,330	7.0%	4,662	71,262	75,324	0.95	2	2.0%	1,425	5.0%	3,563	7.0%	4,988	76,250	77,584	0.98	2				
7.3	AUDITOR IV	55,620	N	73,130	1.00	0.76	1	4.0%	2,225	3.0%	1,669	7.0%	3,894	59,514	75,324	0.79	1	4.0%	2,381	3.0%	1,785	7.0%	4,166	63,680	77,584	0.82	1				
16.3	AUDITOR IV	69,180	N	73,130	1.00	0.95	2	2.0%	1,384	5.0%	3,459	7.0%	4,843	74,023	75,324	0.98	2	2.0%	1,480	5.0%	3,701	7.0%	5,181	79,204	77,584	1.02	3				
11.3	AUDITOR IV	61,980	N	73,130	1.00	0.85	1	4.0%	2,479	3.0%	1,859	7.0%	4,338	66,318	75,324	0.88	2	2.0%	1,326	3.0%	1,990	5.0%	3,316	69,634	77,584	0.90	2				
24.8	AUDITOR IV	72,240	N	73,130	1.00	0.99	2	2.0%	1,445	5.0%	3,612	7.0%	5,057	77,297	75,324	1.03	3	0.0%	-	5.0%	3,865	5.0%	3,865	81,162	77,584	1.05	3				
16.8	AUDITOR IV	73,980	N	73,130	1.00	1.01	3	0.0%	-	3.0%	2,219	3.0%	2,219	76,199	75,324	1.01	3	0.0%	-	3.0%	2,286	3.0%	2,286	78,485	77,584	1.01	3				
14.3	AUDITOR IV	68,040	N	73,130	1.00	0.93	2	2.0%	1,361	5.0%	3,402	7.0%	4,763	72,803	75,324	0.97	2	2.0%	1,456	5.0%	3,640	7.0%	5,096	77,899	77,584	1.00	3				
6.4	AUDITOR IV	55,260	N	73,130	1.00	0.76	1	4.0%	2,210	3.0%	1,658	7.0%	3,868	59,128	75,324	0.78	1	4.0%	2,365	3.0%	1,774	7.0%	4,139	63,267	77,584	0.82	1				
22.2	AUDITOR IV	71,700	N	73,130	1.00	0.98	2	2.0%	1,434	5.0%	3,585	7.0%	5,019	76,719	75,324	1.02	3	0.0%	-	5.0%	3,836	5.0%	3,836	80,555	77,584	1.04	3				
21.6	AUDITOR IV	67,200	N	73,130	1.00	0.92	2	2.0%	1,344	3.0%	2,016	5.0%	3,360	70,560	75,324	0.94	2	2.0%	1,411	3.0%	2,117	5.0%	3,528	74,088	77,584	0.95	2				
12.8	AUDITOR IV	65,340	N	73,130	1.00	0.89	2	2.0%	1,307	5.0%	3,267	7.0%	4,574	69,914	75,324	0.93	2	2.0%	1,398	5.0%	3,496	7.0%	4,894	74,808	77,584	0.96	2				
30.9	AUDITOR IV	81,420	N	73,130	1.00	1.11	3	0.0%	-	3.0%	2,443	3.0%	2,443	83,863	75,324	1.11	3	0.0%	-	3.0%	2,516	3.0%	2,516	86,379	77,584	1.11	3				
21.9	AUDITOR IV	74,400	N	73,130	1.00	1.02	3	0.0%	-	5.0%	3,720	5.0%	3,720	78,120	75,324	1.04	3	0.0%	-	5.0%	3,906	5.0%	3,906	82,026	77,584	1.06	3				
7.7	AUDITOR IV	57,780	N	73,130	1.00	0.79	1	4.0%	2,311	3.0%	1,733	7.0%	4,044	61,824	75,324	0.82	1	4.0%	2,473	3.0%	1,855	7.0%	4,328	66,152	77,584	0.85	1				
14.4	AUDITOR IV	65,220	N	73,130	1.00	0.89	2	2.0%	1,304	5.0%	3,261	7.0%	4,565	69,785	75,324	0.93	2	2.0%	1,396	5.0%	3,489	7.0%	4,885	74,670	77,584	0.96	2				
25.4	AUDITOR IV	72,000	N	73,130	1.00	0.98	2	2.0%	1,440	3.0%	2,160	5.0%	3,600	75,600	75,324	1.00	3	0.0%	-	3.0%	2,268	3.0%	2,268	77,868	77,584	1.00	3				
25.4	AUDITOR V	87,540	P	85,799	1.00	1.02	3	0.0%	-	5.0%	4,377	5.0%	4,377	91,917	88,373	1.04	3	0.0%	-	5.0%	4,596	5.0%	4,596	96,513	91,024	1.06	3				
21.6	AUDITOR V	80,820	P	85,799	1.00	0.94	2	2.0%	1,616	3.0%	2,425	5.0%	4,041	84,861	88,373	0.96	2	2.0%	1,697	3.0%	2,546	5.0%	4,243	89,104	91,024	0.98	2				
22.0	AUDITOR V	86,520	P	85,799	1.00	1.01	3	0.0%	-	5.0%	4,326	5.0%	4,326	90,846	88,373	1.03	3	0.0%	-	5.0%	4,542	5.0%	4,542	95,388	91,024	1.05	3				
20.6	AUDITOR V	94,500	P	85,799	1.00	1.10	3	0.0%	-	3.0%	2,835	3.0%	2,835	97,335	88,373	1.10	3	0.0%	-	3.0%	2,920	3.0%	2,920	100,255	91,024	1.10	3				

117 - State Auditor

* ALL increases contingent upon Performance Meeting Standards								2013										2014									
CURRENT								Market Policy Position Increase		Performance Increase		Total Increase		After July 1, 2013				Market Policy Position Increase		Performance Increase		Total Increase		After July 1, 2014			
Yrs Svc	Job Title	FTE Ann Sal	Grade	Market Policy Point	FTE	C/R (Current)	2012 Qtr	%%	\$\$	%%	\$\$	%%	\$\$	2013 New Salary	New MPP (3% range increment)	2013 New C/R	2013 Qtr	%%	\$\$	%%	\$\$	%%	\$\$	2014 New Salary	New MPP (3% range increment)	2014 New C/R	2014 Qtr
35.3	AUDITOR V	95,160	P	85,799	1.00	1.11	3	0.0%	-	5.0%	4,758	5.0%	4,758	99,918	88,373	1.13	4	0.0%	-	5.0%	4,996	5.0%	4,996	104,914	91,024	1.15	4
34.9	AUDITOR V	95,220	P	85,799	1.00	1.11	3	0.0%	-	3.0%	2,857	3.0%	2,857	98,077	88,373	1.11	3	0.0%	-	3.0%	2,942	3.0%	2,942	101,019	91,024	1.11	3
30.1	AUDITOR V	94,500	P	85,799	1.00	1.10	3	0.0%	-	5.0%	4,725	5.0%	4,725	99,225	88,373	1.12	3	0.0%	-	5.0%	4,961	5.0%	4,961	104,186	91,024	1.14	4
24.8	AUDITOR V	94,500	P	85,799	1.00	1.10	3	0.0%	-	3.0%	2,835	3.0%	2,835	97,335	88,373	1.10	3	0.0%	-	3.0%	2,920	3.0%	2,920	100,255	91,024	1.10	3
34.3	DIR - STATE AUDIT DIV	102,480	S	105,678	1.00	0.97	2	2.0%	2,050	5.0%	5,124	7.0%	7,174	109,654	108,848	1.01	3	0.0%	-	5.0%	5,483	5.0%	5,483	115,137	112,113	1.03	3
29.0	ADMIN OFR II	45,360	K	55,414	1.00	0.82	1	4.0%	1,814	3.0%	1,361	7.0%	3,175	48,535	57,076	0.85	1	4.0%	1,941	3.0%	1,456	7.0%	3,397	51,932	58,788	0.88	2
15.1		2,924,400				0.95		1.8%	46,651	3.9%	116,555	5.8%	163,206			0.98		1.4%	36,223	3.9%	123,302	5.3%	159,525			1.00	

117 - Auditor - 2012-14 Quartile Charts

HB1004  
 January 21, 2013  
 attachment 2



*AB 1004  
January 21, 2013  
Attachment 3*

Agency	2007					2008					2009					2010					2011					2012																
	# Classified Employees	# Separations	Rate **	Involuntary	Retirement	Resignation	Health/No Reason	# Classified Employees	# Separations	Rate **	Involuntary	Retirement	Resignation	Health/No Reason	# Classified Employees	# Separations	Rate **	Involuntary	Retirement	Resignation	Health/No Reason	# Classified Employees	# Separations	Rate **	Involuntary	Retirement	Resignation	Health/No Reason	# Classified Employees	# Separations	Rate **	Involuntary	Retirement	Resignation	Health/No Reason							
10800 Secy of St	24	1	4.2%		1			23	3	13.0%	1	1	1		24	1	4.2%					24	1	4.2%					26	7	26.9%	1	1	5								
11000 OMB	117	8	6.8%		5	3		121	3	2.5%	1	1	1		115	10	8.7%	3	2	5		123	6	4.9%		3	3	5	122	11	9.0%	3	3	5	7	4						
11200 ITD	267	22	8.2%	2	7	12	1	262	19	7.3%	3	2	12	2	306	20	6.5%	4	5	11		306	17	5.6%	5	4	7	1	310	20	6.5%	2	9	8	1	324	21	6.5%	3	4	13	1
11700 Auditor	48	9	18.8%		1	7	1	46	9	19.6%	2	1	6		47	3	6.4%	1	1	1		47	4	8.5%	1	0	3	48	3	6.3%	2	1		47	2	4.3%	1	1				
12000 Treasurer	4							7	0	0.0%					3	2	66.7%					4	0	0.0%				4	1	25.0%	1			4	1	25.0%		1				
12500 Atty Gen	143	10	7.0%			9	1	144	7	4.9%			6	1	158	4	2.5%	1		3		164	13	7.9%		3	10	165	14	8.5%	1	2	11	169	12	7.1%	2	3	7			
12700 Tax Dept	118	4	3.4%		3	1		122	4	3.3%	2	1	1		126	5	4.0%	1	2	2		126	8	6.3%	1	2	4	1	122	4	3.3%	2	2		116	12	10.3%	1	7	3	1	
14000 OAH	7	1	14.3%			1		4	2	50.0%		2			4	0	0.0%					4	0	0.0%				4	0	0.0%				4	0	0.0%						
18800 Ind Defense	17		0.0%					18	1	5.6%			1		28	1	3.6%			1		26	3	11.5%	1		2	28	2	7.1%	1		1	29	5	17.2%			5			
19000 RIO	14		0.0%					17	0	0.0%					15	0	0.0%					14	0	0.0%				15	0	0.0%				15	0	0.0%						
19200 NDPERS	29	3	10.3%			2	1	32	3	9.4%			3		33	1	3.0%			1		32	1	3.1%			1	31	4	12.9%	3	1		31	3	9.7%		1	2			
20100 DPI	92	3	3.3%	1		2		86	11	12.8%	1	7	3		95	7	7.4%			1	6	97	5	5.2%	1	2	2	97	8	8.2%	1	2	5	92	13	14.1%	1	5	7			
22600 Land Dept	18	1	5.6%			1		17	1	5.9%			1		18	0	0.0%					18	2	11.1%	1		1	22	1	4.5%		1		22	2	9.1%			2			
25000 St Library	29	5	17.2%			5		30	4	13.3%			4		30	2	6.7%			2		29	1	3.4%			1	30	2	6.7%			2	30	0	0.0%						
25200 Sch Deaf	31	6	19.4%	1	3	1	1	30	6	20.0%			6		33	3	9.1%			1	2	32	4	12.5%		1	3	33	2	6.1%	1	1	34	5	14.7%	1	1	3				
25300 Blind Svcs	17		0.0%					18	3	16.7%	1	1	1		20	3	15.0%			2	1	19	1	5.3%			1	20	5	25.0%	1	1	3	19	1	5.3%		1				
27000 CTE	24	3	12.5%			2	1	24	3	12.5%			2	1	27	1	3.7%			1		25	4	16.0%		1	3	24	1	4.2%		1		24	2	8.3%			2			
30100 Health Dept	302	31	10.3%	2	4	25		320	24	7.5%	2	3	19		333	16	4.8%	4	4	7	1	329	22	6.7%	2	4	15	1	325	24	7.4%	1	8	15	332	35	10.5%		16	19		
30500 Tobacco Prev	n/a							n/a		0.0%					1	0	0.0%					3	0	0.0%				3	0	0.0%				4	0	0.0%						
31300 Vets Home	96	12	12.5%	2	4	6		95	18	18.9%	6	2	9	1	108	16	14.8%	7		8	1	107	15	14.0%	2	2	11	128	27	21.1%	9	3	14	1	128	21	16.4%	4		16	1	
31600 Indian Affairs	2							4	0	0.0%					3	1	33.3%			1		3	2	66.7%			2	3	0	0.0%			3	2	66.7%			2				
32100 Vets Affairs	5							7	0	0.0%					5	0	0.0%					6	0	0.0%				5	1	20.0%			1	6	0	0.0%						
32500 DHS	2,113	252	11.9%	36	47	166	3	2,155	236	11.0%	24	37	170	5	2,200	253	11.5%	38	51	157	7	2,198	226	10.3%	31	61	126	8	2,170	221	10.2%	33	66	115	7	2,142	254	11.9%	31	70	152	1
36000 P & A	25	2	8.0%		1	1		27	0	0.0%					26	1	3.8%			1		28	1	3.6%		1		27	3	11.1%		1	2	26	5	19.2%	1		4			
38000 Job Svc	284	26	9.2%	3	11	12		256	33	12.9%	9	15	9		256	26	10.2%	3	14	9		261	20	7.7%		15	5	246	26	10.6%		17	9	239	19	7.9%	2	9	8			
40100 Insurance	36	2	5.6%		2			34	5	14.7%	1	2	2		35	2	5.7%			1	1	36	2	5.6%		1	1	35	4	11.4%	3	1	36	6	16.7%		3	3				
40500 Mineral Rscs	48	5	10.4%		1	4		50	5	10.0%			5		26	2	7.7%			1	1	27	2	7.4%			32	4	12.5%	2	2	34	3	8.8%		1	2					
40600 Labor Dept	11		0.0%					10	3	30.0%			3		11	1	9.1%			1		11	1	9.1%			11	0	0.0%				11	0	0.0%							
40800 PSC	34	3	8.8%	1		2		36	2	5.6%		1	1		36	2	5.6%			2		38	6	15.8%		2	4	36	3	8.3%		2	1	37	8	21.6%	2		6			
41200 Aeronautics	3	1	33.3%		1			3	0	0.0%					4	0	0.0%					4	1	25.0%		1		3	0	0.0%				4	0	0.0%						
41300 Fin Inst	25	2	8.0%			2		23	6	26.1%	1	1	3	1	23	4	17.4%			1	3	26	3	11.5%		2	1	27	2	7.4%			2	25	4	16.0%			4			
41400 Securities	8	1	12.5%			1		8	0	0.0%					8	0	0.0%					7	1	14.3%	1			8	0	0.0%				8	0	0.0%						
47100 BND	145	6	4.1%		3	3		144	8	5.6%	1	2	5		145	6	4.1%			2	4	141	12	8.5%	1	5	5	1	142	12	8.5%	1	6	5	147	11	7.5%	2	2	7		
48500 WSI								232	20	8.6%	7	2	11		227	5	2.2%	2		2	1	231	4	1.7%	1		3	242	11	4.5%	1	1	9	237	24	10.1%	1	4	18	1		
50400 Hwy Patrol	180	12	6.7%			12		180	10	5.6%		3	6	1	180	14	7.8%	1	7	4	2	185	8	4.3%	2	3	2	1	189	12	6.3%		5	7	188	16	8.5%	1	10	5		
53000 DOCR	642	55	8.6%	8	8	37	2	643	58	9.0%	12	8	36	2	678	41	6.0%	6	9	26		675	52	7.7%	8	13	29	2	681	77	11.3%	7	20	50	724	94	13.0%	11	18	63	2	
54000 Adj Gen	142	16	11.3%		4	11	1	153	12	7.8%		3	9		160	20	12.5%			10	9	170	9	5.3%	1	4	4	173	16	9.2%		9	7	175	15	8.6%	2	5	5	3		
60200 Agric Dept	56	5	8.9%		2	3		61	6	9.8%	1	1	4		58	10	17.2%	1		1	7	64	9	14.1%		2	7	64	4	6.3%		4		66	9	13.6%	1	3	5			
61600 Seed Dept	21	2	9.5%		1	1		23	1	4.3%			1		23	2	8.7%			2		21	3	14.3%		1	2	22	1	4.5%		1		23	2	8.7%		2				
66500 St Fair	16	1	6.3%			1		19	3	15.8%			3		21	3	14.3%			3																						



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

4121007  
January 21, 2013  
Attachment 1

PHONE  
(701) 328-2241  
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**Information requested by Rep. Blair Thoreson, at Jan. 14, 2013 appropriation hearing.**

**1. Cost of our last NSAA peer review?**

Cost was \$13,912. Review was done June 2011. Six people made up the review team.

**2. How much do we pay our part-time people for reviewing CPA audits, and for reviewing small government reports?**

We pay both individuals \$38. per hour. Both individuals had 30 years experience with our office.

**3. How much time do our part-time people spend reviewing CPA audits and small government reports?**

40 hours per month are spent reviewing CPA audit reports.

80 hours per month are spent reviewing small government annual reports.

**4. What will the new positions be doing?**

- the new financial auditors will work on the CAFR audit, agency audits, and on the state-wide single audit.

The 2 biggest individual projects the financial auditor's tackle are the Comprehensive Annual Financial Report (CAFR) and the statewide federal Single Audit (SA)

The CAFR is essentially an audit of the State of North Dakota's financial statements which requires approximately 5,100 hours and is conducted annually. There is a December 31 deadline for completing this project in order for OMB to receive the Certificate of Achievement for Excellence in Financial Reporting issued by the Government Financial Officers Association. Failure to submit the audited CAFR would negatively impact the state's bond rating and hurt the state's image with the financial community. This past year we were unsure we would be able to complete the CAFR audit by the established deadline. OMB hired a CPA firm to provide staff (supervised by Auditors Office) to assist us in getting the audit completed by the established deadline.

The Single Audit is the audit of financial federal assistance received by the State of North Dakota. It requires approximately 13,000 hours to complete and it is conducted once every 2 years. We are 1 of only 2 states that the federal government allows to conduct this audit once every 2 years. The audit deadline is 9 months following the final fiscal year audited. Thus our current audit covering fiscal years 2011 and 2012 is due on March 31, 2013. The federal government has consistently increased the requirements associated with the auditing of federal funds. A good example of this are the audit requirements for the American Recovery and Reinvestment Act (ARRA) moneys received by the state. In many ways this increase in audit requirements is an unfunded mandate as the federal government increases the work associated with the SA but does not supply audit organizations with additional funding. Our staff is working extremely hard currently to meet the March 31 federal audit deadline for the current SA. Should the federal government continue to increase the federal audit requirements, we have serious concerns about being able to meet the March 31 deadline in future years.

In addition, we should note that the federal government is considering shortening the deadline from March 31 to December 31. Some federal agencies are also pursuing a change to require the SA to be done annually. Should either of these changes be successful, we will not have enough staff to meet the federal deadlines for the SA.

Under the current federal auditing requirements, the additional 2 financial auditors will enable us to complete the Single Audit by the current deadline.

The Governor's budget sets aside \$600,000 in OMB's budget in case we are unable to complete either the CAFR or the OMB agency audit. The 2 financial auditors we are requesting would require \$257,000 plus space costs and would enable us to complete the CAFR and the OMB agency audit.

- the new performance auditors will:
  - a. allow us to respond quicker to performance audit requests.
  - b. enable us to have the option of conducting 2 performance audits at a time.
  - c. allow us to conduct more audits to provide more useful information to improve state entity operations.
  - d. allow us to conduct audit followups in a more timely manner.
- the new royalty auditor will be working on royalties paid to the federal government and to the state by oil companies drilling within the state.

**LISTING OF PROPOSED CHANGES TO HOUSE BILL NO. 1004**

**Department - State Auditor**

**Proposed funding changes:**

Description	FTE	General Fund	Special Funds	Total
1 Removes 1 FTE information systems auditor position and 1 FTE minerals royalty auditor position	(2.00)	(\$124,367)	(\$164,321)	(\$288,688)
2 Replaces 1 FTE information systems auditor position included in the executive recommendation with 1 FTE financial auditor position				\$0
3 Increases temporary salaries related to the comprehensive annual financial report (CAFR)		\$70,000		\$70,000
4 Adjusts for executive compensation package correction		\$4,490	\$1,497	\$5,987
5 Adjusts state employee compensation and benefits package		(\$267,276)	(\$90,147)	(\$357,423)
6 Provides a separate line item for accrued annual leave payments totaling \$201,157, of which \$147,106 is from the general fund				\$0
7				\$0
Total proposed funding changes	<u>(2.00)</u>	<u>(\$317,153)</u>	<u>(\$252,971)</u>	<u>(\$570,124)</u>

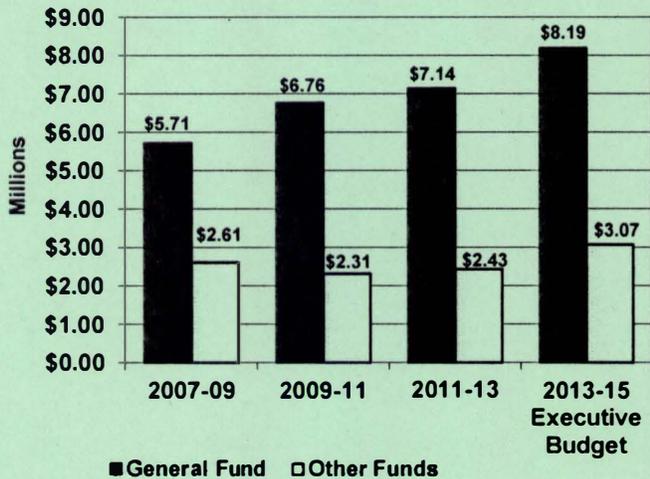
**Other proposed changes:**

- 1
- 2
- 3
- 4

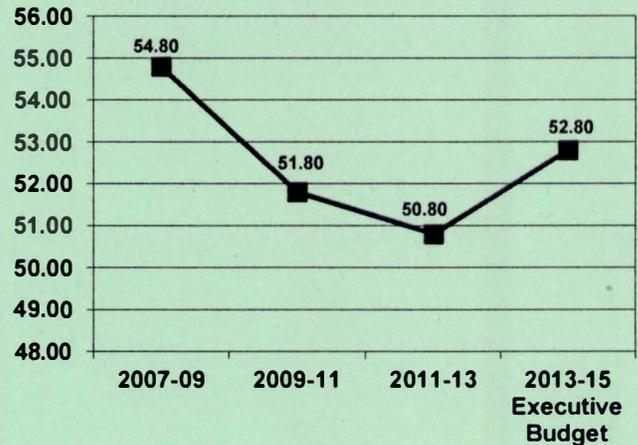
**Department 117 - State Auditor  
House Bill No. 1004**

	FTE Positions	General Fund	Other Funds	Total
2013-15 Executive Budget	52.80	\$8,186,230	\$3,073,675	\$11,259,905
2011-13 Legislative Appropriations	50.80	7,143,808	2,427,522	9,571,330
Increase (Decrease)	2.00	\$1,042,422	\$646,153	\$1,688,575

**Agency Funding**



**FTE Positions**



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

	Ongoing General Fund Appropriation	One-Time General Fund Appropriation	Total General Fund Appropriation
2013-15 Executive Budget	\$8,141,230	\$45,000	\$8,186,230
2011-13 Legislative Appropriations	7,143,808	0	7,143,808
Increase (Decrease)	\$997,422	\$45,000	\$1,042,422

**Executive Budget Highlights**

	General Fund	Other Funds	Total
1. Adds funding to continue salary adjustments made during the 2011-13 biennium	\$90,414		\$90,414
2. Adds funding for 1 FTE information systems auditor position	\$124,367		\$124,367
3. Adds funding for 1 FTE minerals royalty auditor position		\$164,321	\$164,321
4. Adds <b>one-time</b> funding for renovation of the agency's vault area in the State Capitol	\$45,000		\$45,000
5. Provides funding for state employee salary increases, of which \$501,707 relates to performance increases and \$179,118 is for market equity adjustments	\$510,619	\$170,206	\$680,825

**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 \$93,071 to \$96,794, effective July 1, 2013, and to \$100,666, effective July 1, 2014, 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**

At this time, no major legislation has been introduced affecting this agency.



#1

STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE – DEPT 117  
BISMARCK, NORTH DAKOTA 58505

**TESTIMONY BEFORE THE  
SENATE APPROPRIATIONS COMMITTEE  
Representative Ray Holmberg, Chairman**

March 14, 2013

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Engrossed H.B. No. 1004

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

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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 statewide information technology security audit.

## **Standards Overload**

Standards overload continues to strain our resources. The CAFR Audit and the Single Audit take more resources every audit. For example, the budget for the audit of federal funds received by the state (Statewide Single Audit) has increased from 6,700 hours in 2003-2004 to over 13,000 in 2011-2013.

Accounting standards have grown in complexity for many years. GASB Statement #34, which went into effect in 2001, had the greatest impact (adding opinion units increased our work load). GASB is up to Statement #69, and each new statement increases the auditor's work load. Additionally, the Office of Management and Budget's decision to consolidate special revenue funds into one reporting unit for the CAFR Audit created an additional major fund (which requires a separate opinion) and changed our materiality levels, both of which increased our work load.

Auditing standards have also continued to increase our work load for the CAFR Audit. The most significant of which are referred to as the "Risk Suite." Upcoming AICPA changes (referred to as the "Clarity Standards") will also increase our workload, as will the 2011 version of Government Auditing Standards.

Because of the increased demands on our resources for the CAFR and Single Audits, our biennial agency audits and college and university audits have been cut dramatically. This means we are not able to look into areas where we should be looking.

## **Mission and Purpose**

The mission of the State Auditor's Office is to provide efficient, quality audit services, with limited interruption to our clients' operations, and to use the information gained from our audits to help state and local governmental units operate more efficiently and effectively for the benefit of the citizens of North Dakota.

An independent audit function is of critical importance to accountability in both business and government. The purpose of the State Auditor's Office is to provide this critical element of accountability.

Additional funding is needed to ensure our ability to retain and recruit highly qualified professionals. The economy in North Dakota is growing and competition for audit professionals has increased. Salaries paid by accounting firms are significantly higher than we can pay.

The version of HB 1004 passed by the House leaves us woefully short on salary funds. The House removed salary monies included in the Governor's budget and also segregated other salary monies into an "accrued leave" line item.

Our office has experienced relatively high turnover for several years and we cannot afford to continually lose highly qualified, excellent staff and expect to fulfill our responsibilities. The salaries earned by our staff are less than what CPA firms pay and certainly less than equivalent private sector jobs pay as a result of the current North Dakota economy. Reinstatement of the Governor's budget salary funds is our highest priority. If we cannot provide reasonable salary increases to staff at a time when the state has more money than it has ever had in its history, we are merely encouraging a highly qualified staff to seek employment elsewhere. We will not be able to attract and retain qualified professional staff to fulfill our responsibilities.

### **Major Agency Initiatives for the 2013-15 Biennium**

Our major initiatives include increasing our staff to keep up with the increase in state and federal programs, increasing the salary of our auditors to meet the recommendations of the Hay Study and new payroll guidelines, and continuing to recruit and retain highly qualified professionals. Each of these is explained below where we discuss improving our efficiency and effectiveness.

We need to increase compensation to ensure we can attract and retain qualified professionals. Qualified professionals must be recruited and retained to meet our goals and objectives relating to both performance and financial audits. As government keeps growing we have more programs to audit, with fewer auditors than we had in 1992.

Various factors have combined to continually increase our workload. The first factor is the growth of state government (more programs and more money to audit) which has significantly increased the time necessary to audit. For example, the state's total budget in the 1991-1993 biennium was approximately \$3.2 billion. The 2011-2013 biennium has a total budget for the state of approximately \$10.6 billion. Thus, the state's budget has more than tripled over the past

20 years and requires significantly more audit effort. The increasing demands for the CAFR and Single Audit have significantly reduced the time we can spend on the biennial agency audits.

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 American Recovery and Reinvestment Act (ARRA) funds. 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 13,000 hours for the audit of 2011-2012 federal funds. Thus, in the last 10 years the federal audit work required has almost doubled.

Despite the increased workload resulting from the conditions cited in the prior 2 paragraphs, the State Auditor's Office actually has fewer FTE's than it did in 1991 to complete this work. For the 1991-1993 biennium our office had a total of 65 FTE's (41 were funded by the state general fund). For the current biennium the State Auditor's Office has 50.8 FTE of which 37.8 are funded by the state general fund. The positions funded by state general funds are the ones that audit state government. Therefore, despite the total state budget more than tripling in the past 20 years, and the effort required to audit federal funds essentially doubling over the past 10 years, we have fulfilled our responsibilities with fewer FTE's.

We would not have completed the state's CAFR audit and the Single Audit by the required deadlines this past year without additional staff from a CPA firm hired by OMB. We have serious concerns whether we will be able to continue to fulfill these and other statutory responsibilities without additional resources. We are requesting additional FTE's and related funding to deal with our significantly increased workload.

The budget for our office passed by the House provided for 1 additional financial auditor, 1 performance auditor, and 1 federally funded Mineral Royalty auditor. We are requesting an additional financial auditor as well as another performance auditor and an additional federally funded Mineral Royalty auditor.

However, the bill passed by the House did not include funds for additional space. We are critically short of space in our office. A study conducted by Facilities Management and issued in September 2010 identified that our office had one of the lowest square footage per FTE ratios in state government. In addition, the House version of HB 1004 removed significant amounts of salary monies included in the Governor's budget. These monies are critically important to hiring and maintaining qualified professional staff.

We have serious doubts about whether we will be able to continue to fulfill our statutory responsibilities without additional resources. We are requesting additional FTEs and related funding to deal with our increased workload.

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### **Program Goals and Objectives**

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The activities of the Office of the State Auditor are carried out through 4 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.

Engrossed House Bill No. 1004 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 -**

Performance auditing is an integral part of state government and has resulted in significant improvements to state entities. Stakeholders including the public, agency management, and legislators have found performance audits to be very useful as evidenced by requests for performance audits being received from the Chancellor of Higher Education and a legislative committee during the current biennium. A large majority of states have performance audit functions. Performance audits have contributed to improving processes, efficiency, and effectiveness of operations, and compliance with laws, rules, and regulations.

Essentially, performance audits: a) determine if programs and/or entities are operating efficiently and effectively; b) and/or determine if the programs are accomplishing what the Legislature intended them to accomplish; and c) and/or provide information to management, the Legislature, and other stakeholders to make appropriate changes for improvement. For example, during the current biennium we completed an audit of Dickinson State University at the request of the Chancellor. The audit revealed significant concerns relating to compliance with laws, rules, and regulations as well as issues relating to tuition waivers, Roughrider scholarships, and the admission standards relating to foreign students. This audit will be used to significantly improve processes, systems, and compliance with laws, rules, and regulations at Dickinson State University. Information provided was used by a number of stakeholders including the Board of Higher Education and legislators.

As discussed above, during the 2011-2013 biennium the performance audit team completed a performance audit of Dickinson State University at the request of the Chancellor of Higher Education. The report contained 33 recommendations and was presented to the Legislative Audit and Fiscal Review Committee (LAFRC) on March 27, 2012. In addition, the performance audit team also completed a performance audit of the "Fees Charged at NDSU and UND." The report contained 19 recommendations and was presented to the LAFRC on July 26, 2012. The performance audit division also conducted a performance audit of the "Use of State Supplied Vaccines by a Medical Provider" and presented the report to the LAFRC on March, 27, 2012.

Approximately 18-24 months after performance audits are presented to the LAFRC we conduct a performance audit follow-up to determine the status of the recommendations contained in the original performance audit report. We issue a follow-up report detailing our conclusions and

present it to the LAFRC. During the 2011-2013 biennium the State Auditor's Office presented the following performance audit follow-up reports to the LAFRC:

- Wildlife Services Program;
- UND School of Medicine and Health Sciences; and
- Department of Commerce.

The performance audit team anticipates conducting follow-up audits of the ND University System Capital Projects, and the Medicaid Provider and Recipient Fraud and Abuse performance audits during fiscal year 2013.

The performance audit team recently completed a performance audit of the North Dakota University System Office at the request of the Legislative Audit and Fiscal Review Committee.

During the current biennium the LAFRC passed a motion and requested that we bid out a performance audit of aspects of the State Water Commission. Specifically, the committee was interested in policies, procedures, and processes surrounding industrial water usage. We prepared a request for proposal and issued it in July, 2012. This performance audit was awarded to KPMG LLP, an international CPA firm. The State Auditor's Office helped facilitate the performance audit which was completed and presented to the LARFC in January 2013. The State Water Commission will pay for the performance audit.

Occasionally our work requires that we hire a consultant. This has proven to be an extremely valuable tool in conducting performance audits as it allows us to expand the scope of our work into specialized areas. Consultants also allow us to leverage expensive consultant hours with our own work and as a result our staff increases their knowledge of the state entity's operations. The Legislative Audit and Fiscal Review Committee must approve (in advance) the hiring of a consultant for a performance audit. The state entity being audited pays for the consultant.

Every 3 years the State Auditor's Office is required to undergo a peer review process (also referred to as a Quality Control Review) by the National State Auditor's Association (NSAA). The NSAA organizes a team of management personnel from state audit organizations around the country and reviews the audit process, audit reports, and working papers from our office to

ensure that our work meets nationally recognized standards. Our most recent QCR was completed in 2011. The performance audit division has not had a single finding in the past 4 NSAA peer review reports covering the past 12 years.

The version of HB 1004 passed by the House includes 1 new performance auditor. We are requesting an additional performance auditor. Various third parties have asked for additional performance audits which have proven very useful to stakeholders like a legislative committee, the public, and the Board of Higher Education.

During the past biennium we received requests for 3 performance audits from the Legislative Audit and Fiscal Review Committee (LAFRC). These included performance audits of aspects of the University System Office, Higher Education tuition waivers, and the State Water Commission. We have recently completed the performance audit of aspects of the University System Office and at the direction of the LAFRC we bid out the performance audit of the State Water Commission to a CPA firm. In addition, we received requests for performance audits from the former Chancellor of Higher Education (Dickinson State University) and the Board of Higher Education (University System Capitol Projects).

Another performance auditor would allow us the flexibility to either complete performance audits in a timely manner or to conduct 2 performance audits at a time.

### **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. It is these operational improvement audits which have been negatively impacted by the increase in our workload.

### **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.

During the current biennium we hired the consultant for the statewide security audit, completed an information systems audit on the University System ConnectND Campus Solutions, Office of Management and Budget ConnectND Human Resource Management System, and audited the Information Technology Department.

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 3 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 CAFR, State Mill and Elevator, and the ND Lottery.

Several important recommendations were made relating to our audits of the state's CAFR and the NDUS financial statement audit. For the 2012 State CAFR audit these findings included a material weakness and significant deficiencies in internal control. The NDUS audit also identified material weaknesses and significant deficiencies in internal control.

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 2 years.

The 2011-2012 single audit budget is over 13,000 hours and will cover over \$3.5 billion of federal assistance. All colleges and universities and 34 state agencies receive and expend federal financial assistance.

The version of HB 1004 passed by the House includes 1 new financial auditor for our office. We are requesting 1 additional financial auditor. We believe the addition of the second financial auditor will enable us to complete our statutory responsibilities and will remove the necessity of hiring additional staff from a CPA firm. As we indicated previously, our workload in the financial audit area has significantly increased over the past 20 years. We have been able to fulfill our statutory responsibilities despite the fact we have fewer FTEs conducting the financial audits than we did 20 years ago. We do not believe we will be able to continue fulfilling those responsibilities without additional staff. In addition, we have almost completely eliminated our work relating to operational improvements as a result of our increased workload.

We are critically short of space for our staff and are requesting funding for additional space. A study done by Facilities Management and issued in September 2010 identified that our office had one of the lowest square footage per FTE ratio in state government. The general standard used by Facilities Management was 230 square feet per FTE. Our office has approximately 144 square feet per FTE or close to 60% of the standard used. OMB has informed us there is no more space available for us in the Capitol building. Therefore we would lease space in Bismarck.

Engrossed House Bill No. 1004 does not provide the necessary funds to successfully carry out the objectives of this program. See the amendments on page 14 which will enable us to successfully carry out the duties of this program.

### **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 2 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 2-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 10 state agencies. This service saves those agencies from having to review the reports themselves. We review about 300 audit reports for these 10 state agencies.

Engrossed House Bill No. 1004 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. The federal government pays 100% of the costs related to this program and the state receives 50% of additional royalty payments generated by the auditors. For the period July 2011 through December 2012, the state's share of these collections amounted to \$30,387,929.

There are currently 11 states and 7 Native American tribes participating in this program with the U.S. Department of Interior, Office of Natural Resources Revenue (ONRR). There are 4 auditors in this program.

The executive budget and engrossed House Bill No. 1004 included 1 new mineral royalty auditor. The increased oil activity in the state has greatly increased the auditing demands on this program. The federal government has already approved the addition of a second mineral royalty auditor. Therefore we are asking for 1 additional mineral royalty auditor (100% federally funded) to successfully carry out the duties of this program. As previously stated, the state incurs no cost for this program but shares in the royalty payments generated by the auditors.

See the amendments on page 14 which will increase the success of this program.

**SENATE APPROPRIATIONS COMMITTEE**

Senator Ray Holmberg, Chairman

March 14, 2013

Requested changes to Engrossed House Bill 1004

- 1. Restore Governor's compensation package - \$357,423.
- 2. Restore accrued leave of \$201,157.
- 3. Add 1 FTE and related general funds for additional financial auditor - \$124,367.
- 4. Add 1 FTE and related general funds for an additional performance auditor - \$124,367.
- 5. Add general funds of \$145,000 for rent and operating expenses.
- 6. Add 1 FTE and related federal funds for an additional mineral royalty auditor - \$164,321.

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**PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1004**

Page 1, line 12, replace "9,905,566" with "10,877,201"

Page 1, line 13, replace "201,157" with "0"

Page 1, line 14, replace "806,113" with "951,113"

Page 1, line 17, replace "11,202,836" with "12,118,314"

Page 1, line 18, replace "2,985,025" with "3,239,493"

Page 1, line 19, replace "8,217,811" with "8,878,821"

Page 1, line 20, replace "53.80" with "56.80"

# House Bill No. 1004 - State Auditor

## INFORMATION REQUESTED BY SENATOR RALPH KILZER, SENATE APPROP, 3/14/2013

1. Money spent on ManTech contracts for security testing; 2009, 2011, 2013 bienniums.  
SAO pays for ManTech contracts.

2007-09	\$99,892
2009-11	\$134,555
2011-13	<u>\$89,674</u>
Total	<u>\$324,121</u>

2. Performance audits paid for out of agencies' budgets

2007-09	\$0
2009-11	\$0
2011-13	<u>\$149,700</u> State Water Commission
Total	<u>\$149,700</u>

3. IPA audits of agencies that State Auditor's Office contracts for - Agencies audited pay for the audit

Please contact Ron Tolstad with any questions. [rtolstad@nd.gov](mailto:rtolstad@nd.gov) or 328-2243

<u>State Agency</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Ag PACE Fund	3,750	3,500	3,300	3,100	2,950	2,850
Bank of ND	88,725	84,500	90,500	86,500	82,500	78,250
Beginning Farmer	5,250	5,000	4,700	4,500	4,200	4,000
Building Authority	10,300	10,175	9,975	9,700	10,975	10,550
Community Water	3,950	3,750	3,400	3,200	3,000	2,950
Land Board	25,430	24,430	23,500	22,475	21,525	20,725
Develop. Disabled		4,700	4,500	4,200	4,000	3,800
GSL Program	35,095	33,895	30,900	29,200	27,500	20,500
HFA	41,325	44,925	44,200	42,725	41,325	39,600
Housing Incentive F	4,235	6,200				
Job Service ND	67,700	65,100	61,025	58,525	56,450	54,000
PACE Fund	3,750	4,000	3,800	3,600	3,450	3,250
PERS	51,250	49,750	47,000	45,000	43,500	41,350
Public Fin Auth	17,400	17,075	16,775	16,300	17,025	16,400
Rebuilders Loan	3,750	6,200				
RIO	71,675	68,975	70,650	67,700	65,375	51,000
SLT	32,795	30,900	29,200	27,500	25,700	27,000
Wheat Commission	n/a	n/a	n/a	n/a	n/a	n/a
WSI	50,050	52,125	50,450	49,675	45,600	43,700
	<u>\$516,430</u>	<u>\$515,200</u>	<u>\$493,875</u>	<u>\$473,900</u>	<u>\$455,075</u>	<u>\$419,925</u>

n/a - Not applicable  
- Not in existence