

NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Biennial Report

July 1, 2017 – June 30, 2019



Office of the
State Auditor

TABLE OF CONTENTS

AGENCY FUNCTIONS AND OVERVIEW

Introduction 2

History 3

Organizational chart 4

Mission, vision, values 5

Responsibilities 6

Philosophy on government auditing 7

Major programs and activities 8

2019-21 biennium legislation 9

2017-19 results 10

Trends in government accounting 11

Strategic plan 12

Biennium by the numbers 13

Resources and publications available 14

CONTACT US

**NORTH DAKOTA STATE
AUDITOR'S OFFICE**

600 E. Boulevard Ave. Dept. 117
Bismarck, North Dakota 58505

- 701-328-2241
- NDSAO@nd.gov
- ND.gov/Auditor
- Facebook.com/NDStateAuditor

Introduction



Biennial Report

July 1, 2017 – June 30, 2019

We are pleased to submit the biennial report for the Office of the State Auditor for the biennium ended June 30, 2019. This biennial report was prepared in accordance with North Dakota Century Code, section 54-06-03.

As applicable, the guidelines offered by the Biennial Report Committee were followed for the preparation of this report.

I would be happy to respond to any questions related to the operations of our team.

Respectfully submitted,

/S/

JOSHUA C. GALLION

NORTH DAKOTA STATE AUDITOR

HISTORY

- 1889** | North Dakota's first State Auditor took office. Much as county and city auditor's function to this day, for the first 72 years of the state's existence, the State Auditor functioned as a bookkeeper or accountant rather than a true "auditor."
- 1961** | The State Auditor's responsibilities were changed to performing the post-audit of all financial transactions of state government. At the time this meant auditing 100 separate departments.
- 1969** | The State Auditor began performing audits of political subdivisions.
- 1971** | The Legislature gave counties the option to contract for their own audits and soon after that, other political subdivisions were given the same power.
- 1973** | The State Auditor modernized operations by adopting generally accepted auditing standards.
- 1975** | The State Auditor started to conduct performance audits to help improve the effectiveness and efficiency of state government.
- 1982** | The State Auditor was given the responsibility of performing royalty audits to ensure royalties are properly paid on federal oil, gas and coal leases.
- 1984** | The Single Audit Act was passed. This act combined the responsibilities for auditing government financial statements with auditing compliance with requirements relating to federal financial assistance. The State Auditor was given this responsibility, significantly increasing the auditors' workload.
- 1986** | Because of the demands of the Single Audit Act, performance audits were discontinued.
- 1991** | The Legislature funded positions for the State Auditor to establish a performance audit function.
- 1991** | The Legislature required the State Auditor to audit the statewide financial statements also known as the comprehensive annual financial review (CAFR). At this time, biennial agency audit reports went from including financial statements prepared in accordance with generally accepted accounting principles to only including reports on internal control and compliance with laws and regulations.
- 1991** | The State Auditor's Division of Local Government Audits became self-sufficient by the establishment of an operating fund for its revenues and expenditures.
- 1997** | Biennial agency audits started to include a statement of revenues and expenditures and an appropriations statement.
- 2000** | Biennial agency audits switched to following the performance audit standards rather than the financial statement audit standards. This change was done in consultation with the Legislative Audit and Fiscal Review Committee. The objectives for biennial agency performance audits are to: provide reliable financial statements; identify and test controls for the most important areas of internal control; identify and test compliance for the most significant and high-risk areas of legislative intent; and determine if there are areas of agency operations where we can help to improve efficiency or effectiveness.
- 2005** | The State Auditor received funding and authority to conduct the first information technology security audit of the state.
- 2013** | The first information technology security audit of the North Dakota University System was completed.
- 2015** | The Higher Education Audit Division established by N.D.C.C. section 54-10-30. Desktop support of computers was taken over by the Information Technology Department, which provided more time to perform information technology systems.

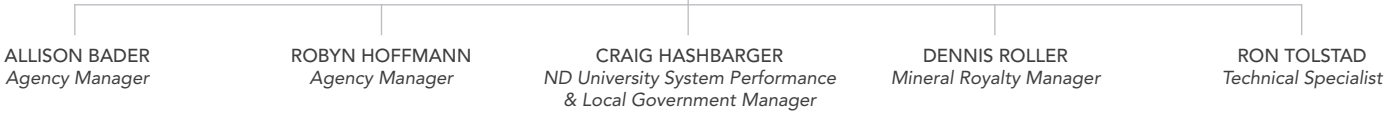


ORGANIZATIONAL CHART



JOSHUA C. GALLION
State Auditor

DON LAFLEUR
Director



MISSION, VISION, VALUES

Mission

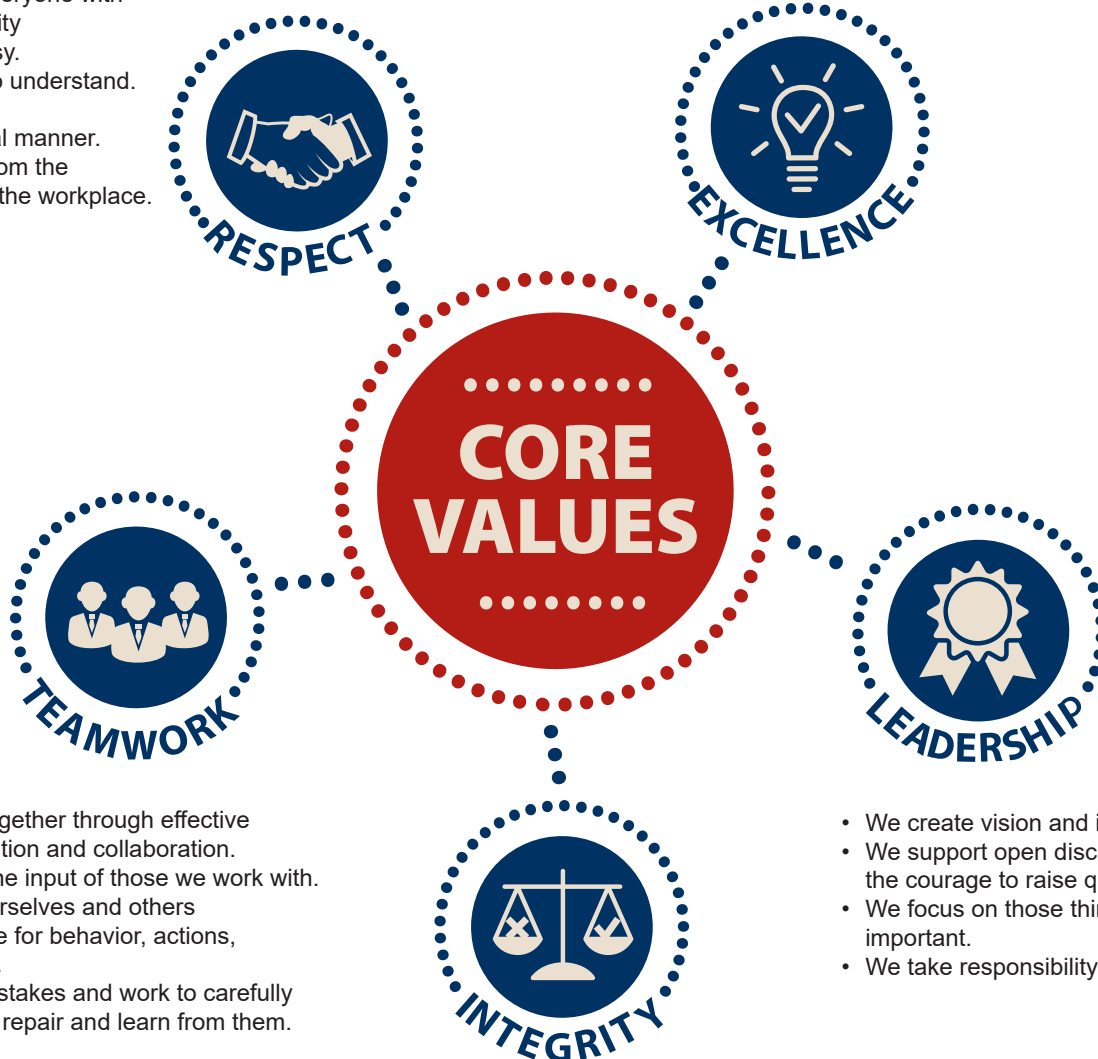
We produce informative audits to improve government.

Vision

A diverse team committed to generating greater value for the taxpayers.

- We enthusiastically strive to exceed expectations.
- We deliver quality work products that are accurate and on time or ahead of schedule.
- We develop practical and innovative solutions to improve our processes, products, and services.
- We seek and embrace feedback.

- We treat everyone with honor, dignity and courtesy.
- We listen to understand.
- We act in a professional manner.
- We learn from the diversity in the workplace.



RESPONSIBILITIES

Article V, Section 2 of the North Dakota Constitution established an independently elected State Auditor. That section states that the powers and duties of the State Auditor shall be prescribed by law. Chapter 54-10 of the North Dakota Century Code prescribes the powers, duties, and responsibilities of the State Auditor, including:

- Perform the post-audit of all financial transactions of the state government, detecting and reporting any defaults, and determining that expenditures have been made in accordance with law and appropriation acts.
- Perform or provide the audit of the state's financial statements and a review of the material included in the comprehensive annual financial report of the state.
- Determine the scope and report contents of agency audits.
- Perform or provide the audits and reviews of state agencies once every two years.
- Conduct audit work required by the federal government.
- Perform or provide performance audits of state agencies as determined necessary by the State Auditor or the Legislative Audit and Fiscal Review Committee.
- Perform audit-related functions of the state board of higher education.
- Perform or review audits of local governments.
- Being a member of the State Board of Equalization.

PHILOSOPHY ON GOVERNMENT AUDITING

Our mission is to produce informative audits to improve government. We are a team that is committed to generating greater value for citizens of North Dakota. By opening the window into our government, citizens are more aware of everything done using their tax dollars. We leverage technology to provide better transparency and accountability in our work. As an office, we provide information to the public and provide that material in a way that is easy for people to understand.

In the audit process, everything we do is looked at objectively and independently. Our team works closely with our clients, and if there are any recommendations, they are substantiated with evidence. We provide accessible, objective, and honest reports to serve the citizens of North Dakota.

MAJOR PROGRAMS AND ACTIVITIES

The Office of the State Auditor has organized into five different divisions to meet its statutory responsibilities. The divisions include:



AGENCY DIVISION

The Agency Division is the largest division and is responsible for auditing state government – including the North Dakota University System – and conducts financial, compliance, performance, and information system audits.



LOCAL GOVERNMENT DIVISION

The Local Government Division performs audits of counties, cities, school districts, and other political subdivisions. This division also conducts petition audits and provides non-auditing services such as review of annual financial statements, and audit reports completed by independent accounting firms.



NORTH DAKOTA UNIVERSITY SYSTEM PERFORMANCE DIVISION

The North Dakota University System Performance Division reviews the adequacy of selected activities at the 11 different colleges and universities in the state of North Dakota.



MINERAL ROYALTY DIVISION

The Mineral Royalty Division conducts compliance reviews and audits of federal royalty payments from oil, gas, and coal leases located within the state of North Dakota. This division is fully funded by the federal government.



OPERATIONS DIVISION

The Operations Division works to ensure the efficient performance of all the divisions within the agency. The division consists of information technology, accountants, administrative assistants, communications, and other specialists.

2019-21 BIENNIUM LEGISLATION

SB. 2004

PERFORMANCE AUDITS

Senate Bill 2004 requires the State Auditor to obtain permission from the Legislative Audit and Fiscal Review Committee before starting performance audits.

On June 28, 2019, Attorney General Wayne Stenehjem issued the formal opinion that Senate Bill 2004 is likely unconstitutional. This formal letter governs the actions of public officials until such time as the question presented is decided by the courts.

HB. 1077

MINERAL ROYALTIES

House Bill 1077 explicitly authorizes the State Auditor to perform work on mineral royalties for the federal government. This work has been done by the State Auditor since 1982.

HB. 1501

SCHOOL BOARD MEMBERSHIP - SUSPENSION

House Bill 1501 allows the governor in consultation with the superintendent of public instruction to suspend a member of a school board pending the results of an audit.

SB. 2150

REGIONAL EDUCATION ASSOCIATION

Senate Bill 2150 adds the State Auditor onto the list of approved audit entities for regional education associations. To maintain state funding, all regional education associations are required to be audited once every two years. The list of approved audit entities is now: certified public accountants, licensed public accountants, or the North Dakota State Auditor's Office.

2017-19 RESULTS

Agency Biennial Performance Audits

Agency audits happen once every two years for each state agency. These audits check that public funds are accounted for and that government agencies are effective, efficient, economical, and ethical.

42
audits
54
findings

Higher Education Biennial Performance Audits

Each of the 11 public colleges and universities – along with the North Dakota University System office – are subject to an audit once every two years.

1
audit
46
findings

Federal Single Audit

The Federal Single Audit looks into programs spending federal money in the state. Our auditors ensure federal money is spent according to the rules and laws governing each federal program.

Mineral Royalty Audits

Mineral Royalty audits verify that the federal government and state of North Dakota are receiving money from oil companies for the operation of oil wells on federal land.

7
audits
225
compliance reviews

Financial Audits

Financial audits examine the financial reporting of specific government groups for inconsistencies and errors. Financial audits help ensure state government agencies report their finances properly.

22
audits
14
findings

Agency Performance Audits

Performance audits typically examine the effectiveness, economy or efficiency of a specific aspect of government. They provide objective analysis so agencies can improve program performance and policymakers can make more informed decisions.

5
audits
15
findings

Fraud Investigations

Fraud investigations are only reported if there are findings of misuse or theft of public money.

5
investigations

Higher Education Performance Audits

Higher education performance audits typically examine the effectiveness, economy or efficiency of a specific program area within our 11 public colleges and universities.

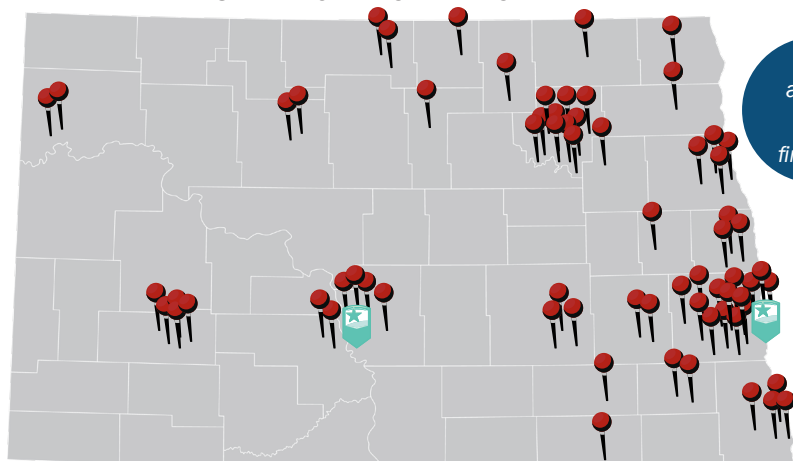
11
audits
98
findings

Local Government Audits

These are traditional financial audits that examine the financial reporting of local governments across the state for inconsistencies and errors. This helps ensure local governments report their finances correctly. There has been an increase in demand for our government auditing services since the number of private CPA firms doing government auditing has decreased by 67% since 2008.

84
audits

AUDIT IMPACT IN NORTH DAKOTA



■ Higher Education Biennial Performance Audits

■ Comprehensive Annual Financial Reports

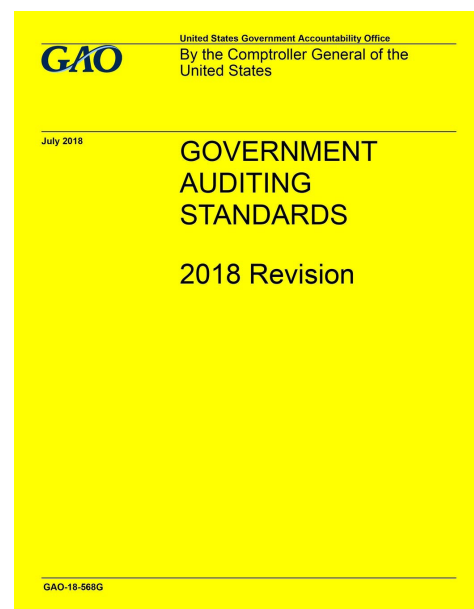
TRENDS IN GOVERNMENT ACCOUNTING

CHANGES IN THE INDUSTRY

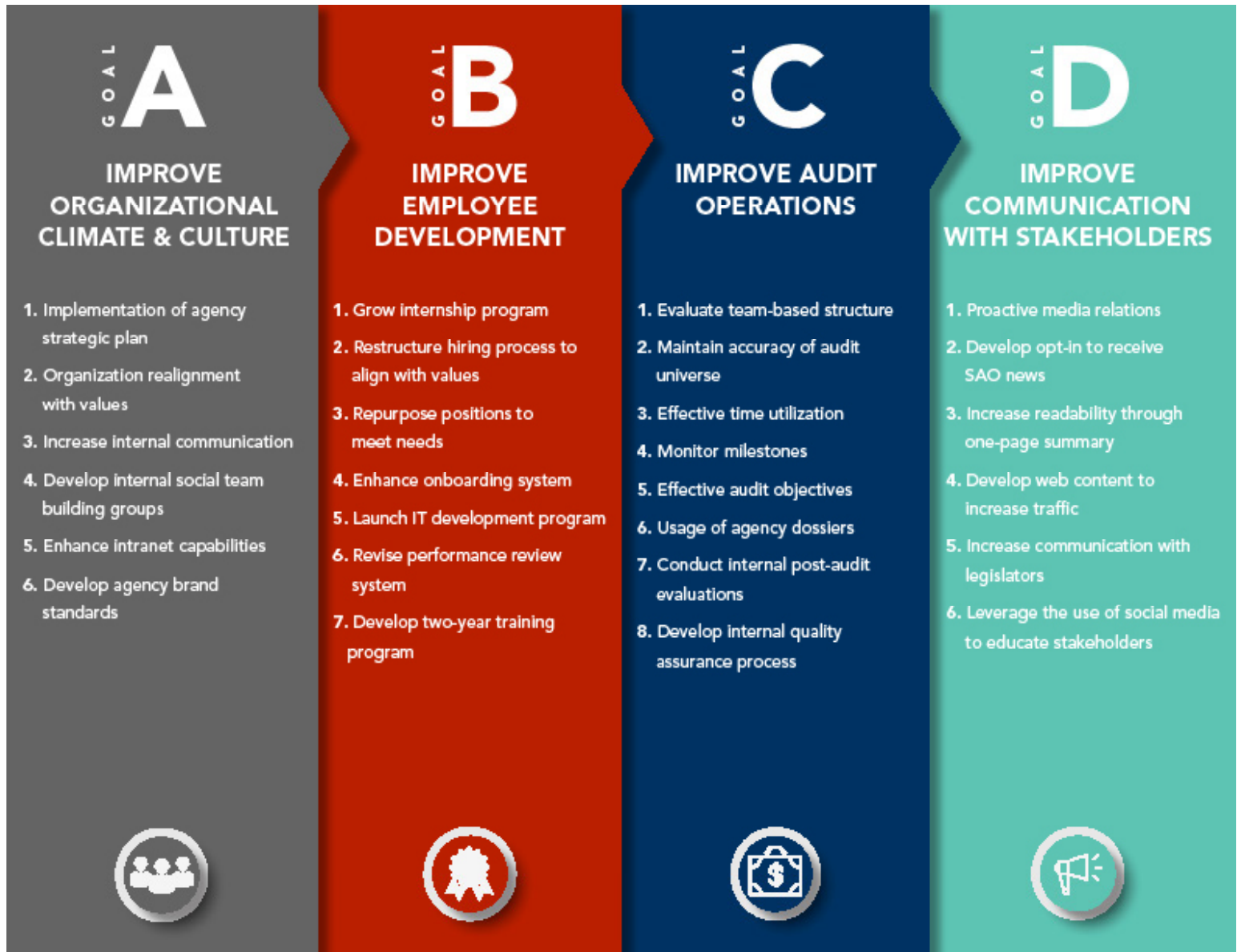
Since 2008, there has been an increase in demand for government auditing services since the number of private CPA firms doing government auditing has decreased by 67 percent*. Private accounting firms are getting out of the business of government auditing due to the standards set by the Government Accounting Standards Board becoming more complex which requires training and an investment of time. This has resulted in a waitlist of entities requesting audits from the North Dakota State Auditor's Office.

In 2018 an updated version of the Generally Accepted Government Auditing Standard (also known as the Yellow Book) was rolled out as updated guidelines from the 2011 edition. Every Yellow Book revision is getting stricter regarding independence. With this revision, the preparation of accounting records or financial statements for an audit client is now considered a "significant threat" to independence. This means the auditor must implement and document appropriate safeguards to reduce the independence threat to an acceptable level.

**According to numbers obtained by the North Dakota State Board of Accountancy.*



STRATEGIC PLAN



BIENNIUM BY THE NUMBERS

REVENUES

Intergovernmental	\$1,147,134
Charges for Services	\$3,137,995
Interest Income	\$200
Conference Registration Fees	\$6,500
Total Revenues	\$4,291,829

EXPENDITURES

Administration	\$1,667,916
State Audits	\$6,710,336
NDUS Performance Audits	\$875,906
Mineral Royalty Audits	\$1,147,134
Local Government Audits	\$1,615,346
Conference Expenses	\$6,500
Lease - Copier	\$5,626
Lease Interest - Copier	\$666
Total Expenditures	\$12,029,430

RESOURCES AND PUBLICATIONS AVAILABLE

NEWSLETTERS

Sign up for quarterly newsletters at: ND.Gov/Auditor/Media-Center



NEWS & NOTES

Welcome to News & Notes - a quarterly newsletter from the North Dakota State Auditor's Office.

FROM THE STATE AUDITOR

It's a busy time for the State Auditor's Office as we are wrapping up agency audits and moving into the Comprehensive Annual Financial Report (CAFR) season. For the next nine weeks, our team will be auditing the financial statements that the Office of Management and Budget prepares on behalf of the state. The Comprehensive Annual Financial Report is a thorough and detailed presentation of the state's financial condition. It reports on the state's activities and balances for each fiscal year, which directly impacts the state's bond rating. We will return to agency audits in January 2020.

Joshua C. Gallion



Audit Finds Unsupported Spending at North Dakota University System Office

March 27, 2019

State Auditor Joshua Gallion released an audit of the North Dakota University System Office which shows from July 2016 through June 2018, the information technology division of the NDUS, known as Core Technology Services (CTS), did not properly procure 5 of the 14 tested transactions totaling \$3.2 million. [See more...](#)

Audit Highlights Need for Improved Asset Tracking

July 8, 2019

State Auditor Joshua Gallion released an audit of the North Dakota Information Technology Division which shows from July 2016 through June 2018, the agency was responsible for tracking 6,500 assets totaling more than 25 million dollars and failed to find 217 of those assets. [See more...](#)

Audit Highlights Need for Consistent Evaluations at Dakota College at Bottineau

August 6, 2019

State Auditor Joshua Gallion released an audit of the Dakota College at Bottineau which shows from July 2017 through June 2018, the college was not consistent in performing annual and student evaluations for faculty. [See more...](#)



NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

NORTH DAKOTA STATE AUDITOR'S OFFICE

600 E. Boulevard Ave. Dept. 117 | Bismarck, North Dakota 58505