

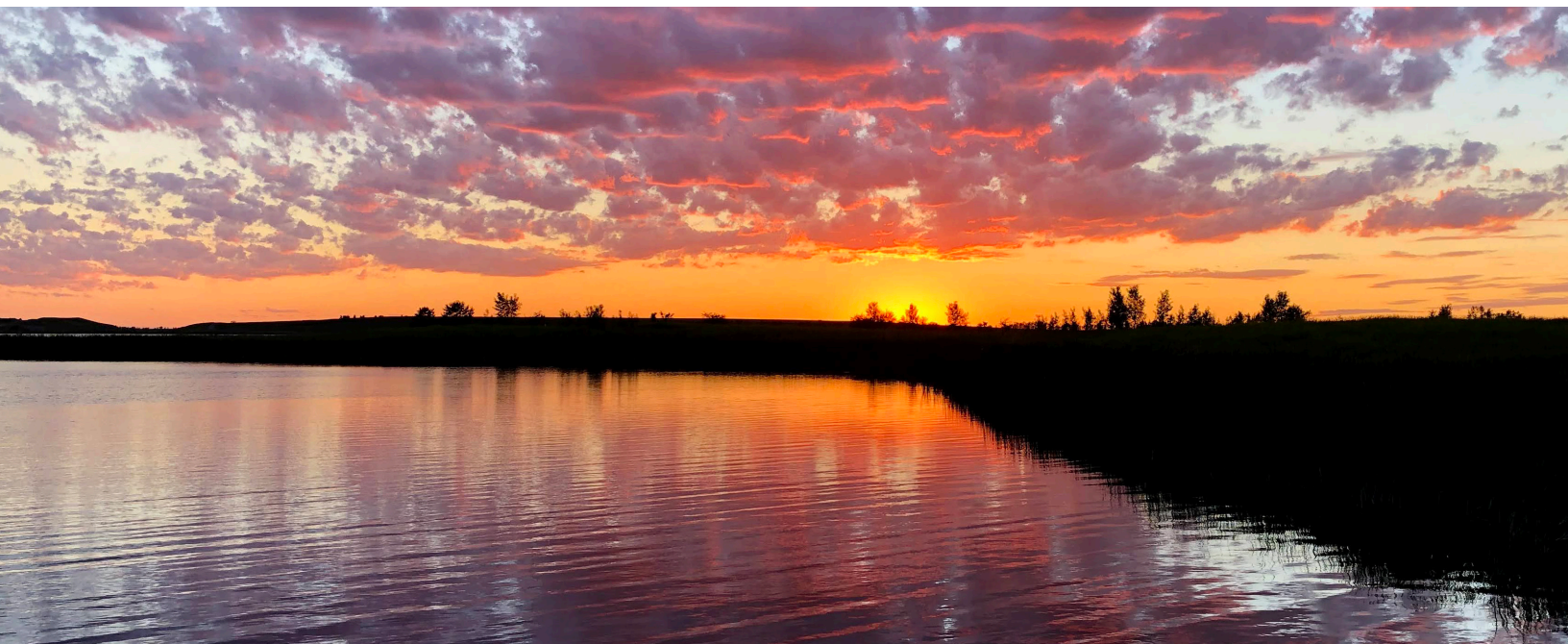


NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Biennial Report

July 1, 2019 – June 30, 2021



Office of the
State Auditor

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Introduction

Biennial Report *July 1, 2019 – June 30, 2021*

We are pleased to submit the biennial report for the Office of the State Auditor for the biennium ended June 30, 2021. 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 annual comprehensive financial review (ACFR). 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.
- 2021** | House Bill 1453 modernized the duties, powers, and responsibilities of the State Auditor under North Dakota Century Code section 54-10-01.

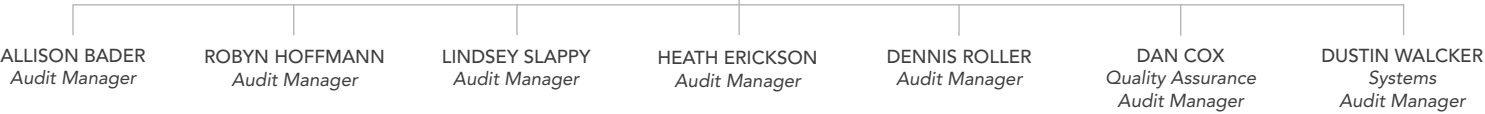


ORGANIZATIONAL CHART



JOSHUA C. GALLION
State Auditor

BRIANNA LUDWIG
Deputy State Auditor



MISSION, VISION, VALUES

Mission

We produce informative audits to improve government.

Vision

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

- 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.



- 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 work together through effective communication and collaboration.
- We value the input of those we work with.
- We hold ourselves and others accountable for behavior, actions, and results.
- We own mistakes and work to carefully and rapidly repair and learn from them.



- We create vision and inspire others.
- We support open discussion and have the courage to raise questions.
- We focus on those things that are important.
- We take responsibility for our actions.

- We earn and demonstrate trust through transparent and ethical actions.
- We demonstrate personal commitment to organizational transparency.
- We role model initiative, responsiveness, and skill in crucial conversations.
- We actively maintain appropriate boundaries and professional relationships.

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 North Dakota Century Code outlines the powers, duties, and responsibilities of the State Auditor. These include:

- Perform the post-audit of all financial transactions of 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 annual comprehensive 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 Legislative Assembly 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 (N.D.C.C. 57-13-01).

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 the 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 is 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, 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, quality assurance, human resources and accounting, communications, and other specialties.

2021-23 BIENNIUM LEGISLATION

HB. 1004

APPROPRIATION

House Bill 1004 appropriated money from the general fund to the State Auditor for the purpose of defraying the expenses of the State Auditor. It also:

- Changed the local government audit thresholds from criteria to revenue-based, or increased it to \$750,000.
- Added eight specially funded positions.

HB. 1093

BONDING COVERAGE

House Bill 1093 changed bonding coverage from required to optional.

HB. 1127

DIVULGING OF INFORMATION

House Bill 1127 amends North Dakota Century Code section 54-10-25. This requires the State Auditor to not divulge information relating to a matter forwarded to the Attorney General until there is determination of probable violation of law.

HB. 1276

SPECIAL STATE AUDITOR

House Bill 1276 removes 54-10-20 requiring a special state auditor.

HB. 1453

POWERS AND DUTIES OF THE STATE AUDITOR

House Bill 1453 modernized the duties, powers, and responsibilities of the State Auditor under North Dakota Century Code section 54-10-01.

- Employees are protected for reporting potential misuse of public resources.

2019-21 RESULTS



AGENCY BIENNIAL PERFORMANCE AUDITS

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



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.



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 the State of North Dakota are receiving money from oil companies for the operation of oil wells on federal land.



AGENCY 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.



SPECIAL INVESTIGATIONS

Special investigations on behalf of the State Bonding Fund are only reported if there are findings of misuse or theft of public money.



LOCAL GOVERNMENT AUDITS

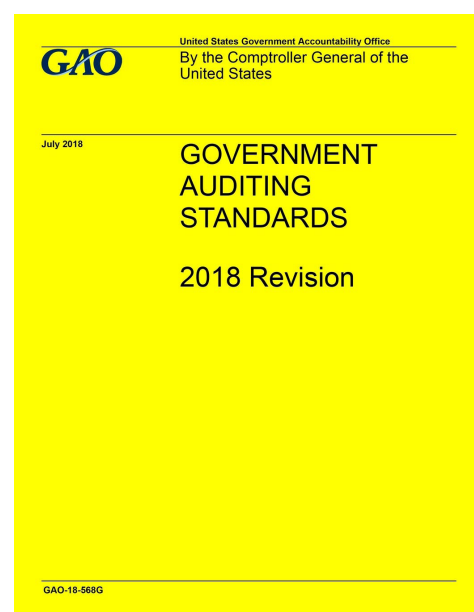
These audits examine the financial reporting of local governments across the state. This helps ensure local governments report their finances correctly.

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 facilitating government auditing has decreased. Private accounting firms are getting out of the business of government auditing because of 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.



STRATEGIC PLAN

OBJECTIVE

01

COMMUNICATIONS

- Implement new methods to educate local governments.
- Increase communication with city and county auditors.
- Communicate internal and external changes.
- Enhance organization goals.

OBJECTIVE

02

TRAINING AND DEVELOPMENT

- Develop a comprehensive training plan for the office.
- Pair skillsets with team members and managers.
- Network on ideas for recruitment.
- Enhance onboarding training.

OBJECTIVE

03

OPERATIONS

- Simplify agency billing.
- Improve website organization for ease of use.
- Increase staff satisfaction year to year.
- Recognize internal and external successes.

OBJECTIVE

04

AUDITS

- Increase staff knowledge of basic information technology.
- Create a system that exceeds standards.
- Develop high-caliber audit objectives.
- Simplify the collection of financial data.

BIENNIUM BY THE NUMBERS

REVENUES

Intergovernmental	\$ 1,304,699
Charges for Services	4,924,491
Interest Income	666
Insurance Recovery	767
Total Revenues	\$ 6,230,623

EXPENDITURES

Administration	\$ 1,820,336
State Agency Audits	6,689,122
NDUS Performance Audits*	394,289
Mineral Royalty Audits	1,293,834
Local Government Audits	2,390,090
COVID-19 Expenditures	10,865
Total Expenditures	\$ 12,598,536

**Function is a component of higher education agency audits*

RESOURCES AND PUBLICATIONS AVAILABLE

SOCIAL MEDIA

Keep up to date on all of the latest happenings in our office, follow us on Facebook, LinkedIn, or our website.



Facebook.com/NDStateAuditor



Linkedin.com/company/NDStateAuditor



ND.gov/Auditor

NEWSLETTER

Sign up for quarterly newsletters at:
nd.gov/auditor.



NEWS & NOTES

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

FROM THE STATE AUDITOR



Here at the Auditor's Office, our mission is to produce informative audits to improve government. What are the steps behind that? Our team has the opportunity to audit state and local government. We then report on the opportunities for improvement, which are called findings. After we present the report to the client and release the results to the public — our work ends. We can't fix it, but we can report it. As citizens, we all play an integral role in creating accountability within this state.

One of the efforts our team has been focusing on over the past year is communication and breaking down complex audit topics in a way that is easy for anyone to understand. We've moved to proactive communication and have removed convoluted verbiage and government-speak from both our audit reports and our outreach messaging. We've also been focusing on ways to use graphic design to help increase accessibility and proactive communication to better serve our communities across the state.

On behalf of our team, thank you for your commitment to bettering our state as we work together to advance transparency within our government. By following state law, we are able to foster open communication between citizens and those who are in positions of leadership.

Serving the citizens,
Joshua C. Gallion

AWARDS AND RECOGNITION





Office of the
State Auditor

NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

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