

NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Biennial Report

July 1, 2021 – June 30, 2023



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**HAVE
QUESTIONS?
ASK US.**

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AUDITOR’S OFFICE**

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Introduction

Biennial Report *July 1, 2021 – June 30, 2023*

We are pleased to submit the biennial report for the Office of the State Auditor for the biennium ended June 30, 2023. This biennial report was prepared in accordance with North Dakota Century Code sections 54-06-03 and 54-06-04(7).

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.
- 2023** | Senate Bill 2180 increased the audit threshold for North Dakota's local governments, saving local governments \$1.5 million biennially by allowing them to receive an extended review instead of an audit.

ORGANIZATIONAL CHART



JOSHUA C. GALLION
State Auditor

BRIANNA LUDWIG
Deputy State Auditor



MISSION, VISION, VALUES



RESPECT

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



EXCELLENCE

- 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.



LEADERSHIP

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



INTEGRITY

- 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.



TEAMWORK

- 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.

MISSION

We provide independent information to the citizens of North Dakota to inspire action.

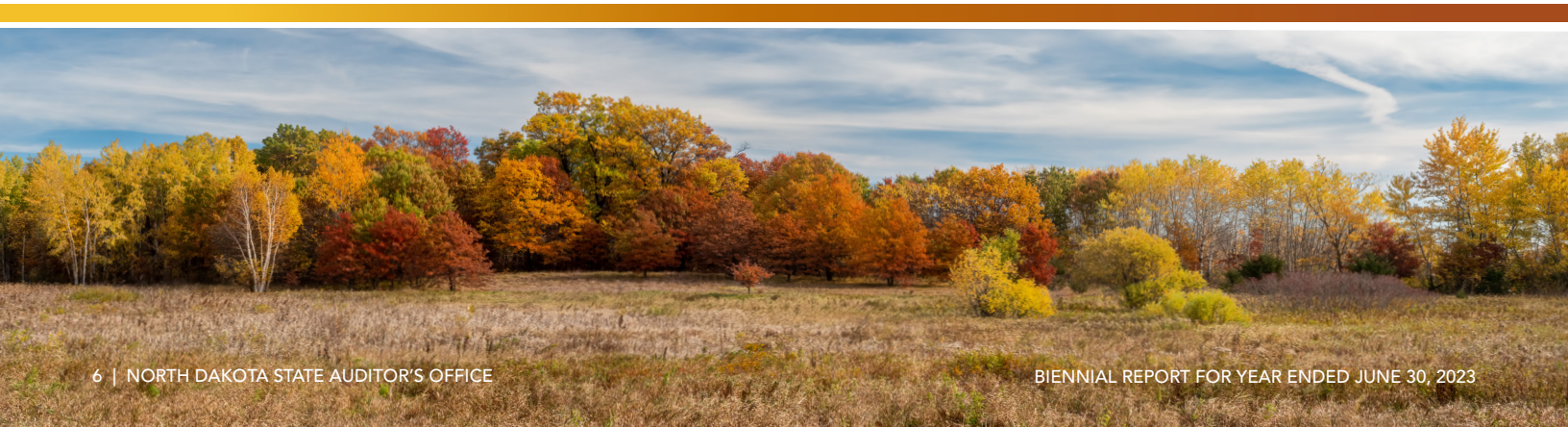
VISION

To empower North Dakota citizens through outreach and education.

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 to four 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 (LAFRC).
- 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).
- Perform audits ordered by LAFRC, the governor, the state court administrator, or a citizen-led petition.
- Review annual financial reports of local governments.



PHILOSOPHY ON GOVERNMENT AUDITING

Our mission is to provide independent information to the citizens of North Dakota to inspire action. We are a team that strives to empower our state's citizens through outreach and education. 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 teams to meet its statutory responsibilities.

The teams include:



STATE GOVERNMENT

This team is the largest and is responsible for auditing state government. They conduct financial, compliance, performance, and information system audits.



LOCAL GOVERNMENT

This team performs audits of local governments, conducts petition audits, and provides non-auditing services such as preparation of financial statements.

They also certify audit reports completed by independent accounting firms and review annual financial reports. They are fully funded by the audit fees they collect.



NORTH DAKOTA UNIVERSITY SYSTEM DIVISION

This team conducts performance audits of the 11 different public colleges and universities in North Dakota and the University System Office.



MINERAL ROYALTY DIVISION

This team conducts compliance reviews and audits of federal royalty payments from oil, gas, and coal leases located within our state. They are fully funded by the federal government.



OPERATIONS DIVISION

This team works to support all of the divisions. The group includes specialists in information technology, accounting, administration, quality assurance, communications, and other specialists.

2023-25 BIENNIUM LEGISLATION

SB. 2004

APPROPRIATIONS

Senate Bill 2004 appropriated money from the general fund to the State Auditor for the purposes of defraying the expenses of the State Auditor. It also:

- Eliminated fees for University System audits.
- Removed the Department of Financial Institutions as an agency audited by the State Auditor's Office.

SB. 2180

NORTH DAKOTA CENTURY CODE CLEAN-UP

Senate Bill 2180 clarified, fixed and revised several sections of code relating to the operations of the State Auditor's Office.

- Expanded state agencies' audit cycle to every two to four years.
- Increased the local government audit threshold from \$750,000 to \$2,000,000.
- Granted State Auditor discretion on conducting petition audits.

SB. 2259

COMMODITY GROUP AUDIT FEES

Senate Bill 2259 capped the fee for the annual audit of an agricultural commodity group at \$6,000 and the fee for the biennial audit of an agricultural commodity group at \$4,000. This cap may be increased by 5% every odd-numbered year.

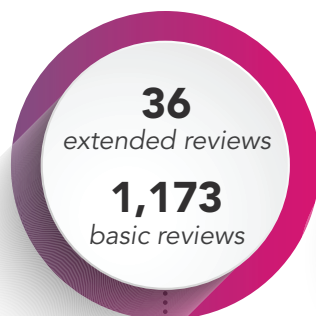
HB. 1508

LAFRC REPORTING REQUIREMENTS

House Bill 1508 implemented a reporting requirement to the quarterly meeting of LAFRC that includes the following information:

- Communications processes with audited entities.
- Billing practices for audits to include cost proposals and change orders.
- Information on completed audits.
- Audit schedules.

2021-23 RESULTS



REVIEWS

Any local government that prepares an annual financial report because they are below the threshold set by North Dakota Century Code receives a basic or extended review to verify their statements.



AGENCY BIENNIAL PERFORMANCE AUDITS

These happen once every two to four years for most state agencies. 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 energy companies for federal royalty payments from oil, gas, and coal leases in our state.



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

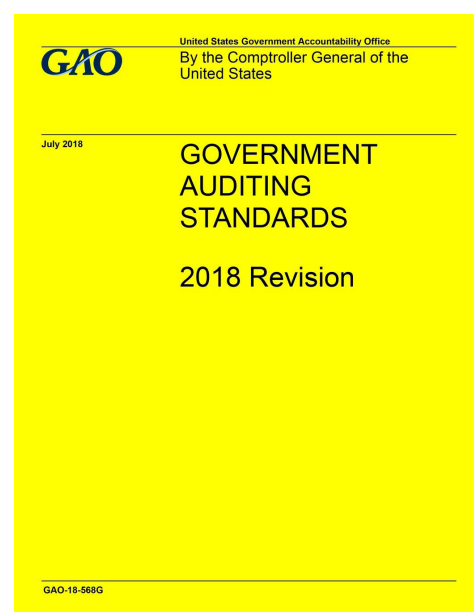
These audits examine the financial reporting of local governments across the state. This helps ensure local governments report their finances correctly.

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 Standards (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

- Unique outreach initiatives to help capture audience attention.
- Building relationships for stakeholder knowledge.
- Website improvements that clearly define and represents our work.
- Foster partnerships and collaboration to provide support.

OBJECTIVE

02

TRAINING AND DEVELOPMENT

- Hire a trainer and develop a training program for local government clients.
- Increase internal staff training in specific processes and procedures.
- Improve our training video library.
- Training for state agency clients.

OBJECTIVE

03

OPERATIONS

- Implement new EWP software to provide automated processes.
- Revise communication with clients to clarify audit expectations.
- Enhance talent acquisition process.
- Refine quality assurance process.

OBJECTIVE

04

AUDITS

- Improve performance objective development.
- Streamline planning process to help reduce audit hours.
- Streamline audit process.
- Modernize database to be more fluid in our analyses and explore variance testing.

BIENNIUM BY THE NUMBERS

REVENUES

Intergovernmental	\$ 985,134
Charges for Services	5,703,287
Interest Income	580
Miscellaneous	294,411
Total Revenues	\$ 6,983,412

EXPENDITURES

Administration	\$ 2,444,931
State Agency Audits	6,471,644
Mineral Royalty Audits	995,064
Local Government Audits	3,798,316
Total Expenditures	\$ 13,709,955

WHAT WE'RE PROUD OF



Audit Summit

Our free virtual conference that covers a diverse range of topics – all geared towards local governments.



International Award

Our team received an international award from the National Association of Government Communicators for a report conducted in 2022.



Petition Audits

Our office may be requested to audit political subdivisions in the state. We conducted nine citizen-led petition audits in the last biennium.



Outreach and Engagement

In an effort to educate and share what our team does, we presented at 22 conferences, meetings, local universities, and events around the country throughout the biennium.

CONNECT WITH THE NDSAO



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