

September 2009

STUDY OF THE STRUCTURE AND REQUIREMENTS OF THE STATE AUDITOR'S OFFICE NECESSARY FOR AUDITING POLITICAL SUBDIVISIONS - BACKGROUND MEMORANDUM

Section 4 of 2009 House Bill No. 1129 (attached as [Appendix A](#)) provides for a study of the structure and requirements of the State Auditor's office necessary to carry out its auditing of political subdivisions, as required by law, including how such audits should be adequately self-funded. The Legislative Management has assigned this responsibility to the Legislative Audit and Fiscal Review Committee.

BACKGROUND INFORMATION

Statutory Requirements

North Dakota Century Code Sections 54-10-13 and 54-10-14 (attached as [Appendix B](#)) require the State Auditor to perform audits of political subdivisions. The State Auditor's office has identified the following 1,173 political subdivisions subject to audit:

- Counties (53).
- Cities (354).
- Park districts (186).
- School districts (193).
- Firefighters relief associations (4).
- Airport authorities (10).
- Public libraries (8).
- Water resource districts (20).
- Garrison Diversion Conservancy District (1).
- Rural fire protection districts (226).
- Special education districts (22).
- Area career and technology centers (5).
- Correction centers (4).
- Recreation service districts (1).
- Weed boards (2).
- Irrigation districts (6).
- Rural ambulance service districts (12).
- Southwest Water Authority (1).
- Regional planning councils (8).
- Soil conservation districts (57).

North Dakota Century Code Section 54-10-14 further provides that the State Auditor shall charge the political subdivision an amount equal to the fair value of the audit and any other services rendered. In lieu of audit reports every two years, this section allows the State Auditor to receive annual reports from school districts with less than 100 enrolled students; cities with a population of less than 500; park districts and soil conservation districts with less than \$200,000 of annual receipts; and other political subdivisions with less than \$100,000 of annual receipts, excluding any federal funds passed through the political subdivision to another entity. The State Auditor may charge up to \$80 an hour for the costs of reviewing the annual reports.

The section also allows political subdivisions to choose to be audited by a certified public accountant or licensed public accountant rather than by the State Auditor. The public accountant must comply with generally accepted government auditing standards and submit copies of the audit report to the State Auditor's office when the report is delivered to the political subdivision. The State Auditor must review the audit report and may review the public accountant's workpapers to determine if the report and workpapers meet generally accepted government auditing standards. The State Auditor may charge the political subdivision a fee of up to \$80 per hour, not to exceed \$500, for costs related to reviewing the audit report and workpapers.

State Auditor's Office

The State Auditor's office's Division of Local Government Audits is primarily responsible for auditing political subdivisions, reviewing audits submitted by public accounting firms, and reviewing annual reports submitted in lieu of audit reports. The State Auditor's office, in its 2009 budget request, removed three full-time equivalent positions due to the closing of the local government audit office in Bismarck. The Division of Local Government Audits is now located in the Fargo office and currently has six full-time equivalent auditor positions and two part-time temporary auditor positions. The 2009 Legislative Assembly provided approximately \$1.34 million of special funds for the division for the 2009-11 biennium.

During the 2007-09 biennium, the Division of Local Government Audits completed 111 audits of political subdivisions, reviewed approximately 440 reports prepared by certified public accountants or licensed public accountants, and reviewed approximately 1,000 annual reports submitted in lieu of audits.

Audit Standards

Political subdivision audits are conducted in accordance with generally accepted government auditing standards. Government auditing standards include general standards relating to independence, professional judgment, competence, quality control, and assurance. Audit standards are published in the United States Government Accountability Office's *Government Auditing Standards*, commonly referred to as the "Yellow Book."

2009 RELATED LEGISLATION

As previously stated, Section 4 of 2009 House Bill No. 1129 provides for a study of the structure and

requirements of the State Auditor's office necessary to carry out its auditing of political subdivisions, as required by law, including how such audits should be adequately self-funded. In addition, the bill provides for an increase in fees from \$50 to \$80 per hour for reviewing annual reports and audit reports submitted by public accounting firms. The bill also changes the population criteria from "less than three hundred" to "less than five hundred" for cities that may submit an annual report in lieu of an audit.

PROPOSED STUDY PLAN

The following is a proposed study plan for the committee's consideration in its study of the structure and requirements of the State Auditor's office necessary to carry out its auditing of political subdivisions:

1. Receive and review information regarding a history of the State Auditor's office's Division

of Local Government Audits, including funding and staffing levels.

2. Receive and review information regarding the State Auditor's office staffing needs, revenues, and costs relating to conducting political subdivision audits.
3. Receive testimony from other interested persons regarding the study of the structure and requirements of the State Auditor's office necessary to carry out its auditing of political subdivisions.
4. Develop recommendations and any bill drafts necessary to implement the recommendations.
5. Prepare a final report for submission to the Legislative Management.

ATTACH:2