

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 434 (First Edition)

SHORT TITLE: Audits for Local Governments-AB

SPONSOR(S): Sen. Rand

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>
REVENUES					
EXPENDITURES					
Local Gov't Comm.	\$57,053 R \$6,120NR	\$59,595R	\$62,431R	\$65,469R	\$68,665R
POSITIONS:	1	1	1	1	1
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:	Office of the State Auditor (minimal fiscal impact) Department of the State Treasurer (Local Government Commission)				
EFFECTIVE DATE:	When it becomes law.				

BILL SUMMARY:

This bill transfers from the Office of the State Auditor to the Local Government Commission within the Department of the State Treasurer the responsibility for approving compliance supplements prepared by State agencies for use by independent CPA firms that audit local governments receiving federal or state grants from the State agencies.

ASSUMPTIONS AND METHODOLOGY:

State agencies that provide funds to local governments must prepare compliance supplements to be submitted to the Local Government Commission (LGC) that describe the standards of compliance and suggested audit procedures for the independent auditors that will conduct the compliance audits of the local governments. Since 1987, the Office of the State Auditor (OSA) has had the statutorily mandated responsibility for reviewing and approving the compliance supplements prior their submission to the LGC.

Office of the State Auditor

In the past OSA has devoted approximately 380 hours to this function, which is equivalent to approximately 20% of a full-time position (380 hours for the function as a percentage of 2,080 hours/year for a full-time position). This function has usually been assigned to an auditor at the Assistant State Auditor III level. The salary and benefits for an ASA III is approximately \$53,785, using the minimum salary for a grade 78 position. Thus, the personnel cost of the time and effort devoted to the compliance supplement review and approval process has been approximately \$10,757 ($\$53,785 * 20\%$). The Fiscal Research Division believes that removing the function from the Office of the State Auditor would free up time and effort to be devoted to other auditing functions within the office. However, we believe this savings impact is minimal.

Department of the State Treasurer

Currently, the Local Government Commission is responsible for updating the Audit Manual for Government Auditors in North Carolina using the information contained in the compliance supplements as prepared by the agencies and approved by OSA. The LGC already has other local government audit oversight responsibilities, such as the certification of auditors qualified to audit local government accounts, approval of the audit contracts, the authority to issue rules concerning the quality of auditing and the quality and comparability of reporting, and the review of audit reports issued by the independent auditors.

The responsibility for approving the compliance supplements prior to issuance would be an additional responsibility. The LGC believes that to perform this function would require the time and effort of one full-time Accountant III position. They estimate the cost to be approximately \$80,929 recurring and \$6,000 nonrecurring. This includes salaries and benefits of \$64,929; operating costs of \$16,000 for supplies (\$1,000), phone (\$500), travel (\$500), data processing equipment (\$1,000), office equipment (\$1,000) and information technology expenses (\$12,000); and nonrecurring cost of \$6,000 for start-up computer equipment and furniture.

The Fiscal Research Division believes that LGC's estimate that it will need one full-time position to perform this function is not unreasonable. Currently, there are over 200 active compliance supplements that must be reviewed to ensure that they encompass all applicable current federal and state requirements and the suggested audit procedures are reasonable. In addition the LGC plans to annual conduct training sessions with the State agencies on compilation of the supplements; these training sessions will include reviews of revisions to applicable federal and state regulations. Because the training, review and approval process will occur during a concentrated period of time between November and May, the LGC expects that it will devote the time and effort of 2 positions during this 6-month period of time.

Though we believe their estimate for one-full time position is not unreasonable, we believe the cost for that position to be \$51,520 for salaries and benefits based on the minimum salary for a grade 77 position, \$3,000 for operating expense (i.e., supplies, telephone, travel, employee education, etc.), and \$6,000 for nonrecurring start-up cost for computer equipment, office furniture and office equipment for a total of \$54,520 recurring and \$6,000 nonrecurring. *These amounts are based on current cost. Adjusting for inflation based on forecasts by Data Resources, Inc., the cost for fiscal year 2001-02 would be \$53,993 [\$51,520 + 4.8% inflationary increase] recurring for salaries and benefits, \$3,060 [\$3K + 2% inflationary increase] recurring for operating and \$6,120 [\$6K + 2% inflationary increase] for nonrecurring start-up.* We have not included the \$2,000 recurring cost for office equipment and data processing equipment or the \$12,000 recurring cost for information technology expense. We believe these estimates are unreasonably high and that any such can be absorbed within the department's existing budget.

This fiscal note will reflect a positive fiscal impact though a \$0 net fiscal impact would be expected since the bill does not add additional responsibility, but merely shifts existing responsibility from one agency to another. However, the potential savings in time and effort for OSA, which we believe is minimal, is based on the actual time and effort devoted to this function. When this responsibility was given to them in 1987, no additional resources were provided. In prioritizing all of the agency's responsibilities and allocating the agency's total time and effort accordingly, OSA allocated approximately 380 hours for this function and planned the scope of its review and approval accordingly. The LGC's estimate that it will take the time and effort of one-full time position appears to be based on a broader scope that would allow for more on-going training and consultation with the agencies and a more comprehensive review of the compliance supplements. We do not believe LGC's estimate based on what they would like to do is unreasonable or is inconsistent with the actual time and effort devoted by OSA.

FISCAL RESEARCH DIVISION 733-4910

PREPARED BY: Marilyn Chism

APPROVED BY: James D. Johnson

DATE: March 28, 2001



Signed Copy Located in the NCGA Principal Clerk's Offices