STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SAINT PAUL 55155

ARNE H. CARLSON
STATE AUDITOR

296-2551

February 25, 1980

Dear Members of the Minnesota Legislature:

During 1979 the Office of the State Auditor suffered a staff turn-over rate in excess of 25 percent. This situation places the very functions of this office in a serious state of jeopardy and I very much need your assistance in helping us solve this problem. Attached is a copy of a bill introduced by Representative Wayne Simoneau and Senator Tim Penny that allows our department to work directly with the Department of Personnel relative to salaries. This bill incorporates some of the reforms made by the Legislature in the Attorney General's Office in 1974. This bill does not remove us from civil service, nor does it have any financial impact on the General Fund. It simply would allow our office to compete with other units of Government.

This past summer Mr. Peter Heegaard of Northwestern National Bank chaired a citizen's task force which reviewed the operations of the State Auditor's Office. A letter written by Mr. Heegaard to the Legislature and to Governor Quie describes the task force and some of its conclusions and recommendations. The bill now before the Senate and the House is in response to the task force recommendations. A copy of Mr. Heegaard's letter is attached.

The State Auditor's Office has audit and related responsibilities which will be difficult if not impossible to meet with the current level of staffing. Less than 70% of the authorized positions are currently filled because of the high rate of turnover. Seventeen (17) people have left since January 1979. The bulk of these people that have resigned left for salary, or salary related reasons. For example, on February 1, 1980 a young woman who had been recruited by this office resigned to take a position with Hennepin County. She is only a recent college graduate, but now has some valuable experience gained in the State Auditor's Office. She was paid $15,263. Her starting pay with the County will be $17,600 with the probability of $25,000 in four or five years with additional cost of living adjustments. This is more than her current supervisor, a young veteran CPA with responsibility and accountability of a much more significant nature earns. Loss of middle management staff, burdened with low salaries and the need to continually retrain new people is inevitable. The additional cost for constant training of new personnel and uncontrollable turnover is another problem.

Middle management salaries paid by the State Auditor's Office, in the mid-twenties are not competitive with metro government or even close to the private sector.

Top level salaries again are a major problem and will be catastrophic as most of the senior people in the office will retire during the next five years. The office simply will not have a core of quality experienced people to promote. Because of turnover, and with a top salary of $32,300 it will be impossible to attract quality people from outside the office.

Salary is the major impediment to a stable department. It is especially important considering the unique nature of the positions in the auditor's office. People work in space provided by clients, and are often perceived as adversaries. The work is scrutinized time and time again. Travel and uncertainty regarding the workplace is a continual concern.

The new management team in the State Auditor's Office has actively participated with the Department of Personnel in dealing with the personnel concerns. The State Auditor's Office is committed to affirmative action. Over 50% of new recruits have been from protected classes. The State Auditor's Office can develop strong career paths and rewarding positions.

The State Auditor's Office cannot, however, affect salaries directly. The State Auditor's Office must have the assistance of others who will help correct this problem and enable the office to continue to be a positive influence on local government financial operations.

The bill would also allow the State Auditor's Office to retain up to $350,000 which would be $35,000 more than the revolving fund balance. Any funds in excess of $350,000 would be canceled into the general fund of the state, as is done presently. If the fund balance exceeded $315,000, the State Auditor's Office could carry forward some monies for cash flow purposes, provide for staff training sessions, and obtain additional technical manuals and equipment.

I very much appreciate your help and hope that you will feel free to call me if I can answer any questions or assist in any way.

Respectfully submitted,

Arne H. Carlson

ARNE H. CARLSON
State Auditor

AHC:dm

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STATE AUDITOR'S OFFICE

NARRATIVE SUMMARY

OFFICE DESCRIPTION:

The State Auditor's Office is essentially a post-audit agency empowered to make examinations of governmental subdivisions within the state, attesting to the fairness of their financial statements as well as compliance with applicable laws and regulations. In addition, the Office compiles fiscal data on governmental subdivisions, making these reports available to the legislature and the public.

OFFICE OBJECTIVES:

1. Conduct financial and legal compliance audits of Minnesota counties and other local units pursuant to statutory mandate, requests by governing bodies, or petitioners; make recommendations for improvement in local accounting practice.

2. Review and issue audit reports for political subdivisions within the state.

3. Compile fiscal data on governmental units including the activities of counties, municipalities, school districts and others, and disseminate this information to other state agencies, the legislature and the public.

ACCOMPLISHMENTS AND PERFORMANCE INDICATORS:

Objective No.		F.Y. 1977	F.Y. 1978	F.Y. 1979	Obj./Est. F.Y. 1980	Obj./Est. F.Y. 1981
1.	Reports reviewed and issued	288	258	232	310	299
2.	Completed audits	173	136	203	171	173
3.	Units providing fiscal data	4,169	4,278	4,286	4,286	4,286

ALTERNATIVES/MAJOR ISSUES:

Since a major portion (91% in F.Y. 1979) of Office revenue is provided by the fee-for-service income generated by client billings, the State Auditor's Office is dedicated to providing these clients (governmental subdivisions) with a level of service equal to that currently available from the private sector. In addition, the public interest as defined by statute and regulation and which the State Auditor's Office is required to represent, must not be compromised.

Yet, these two objectives grow more difficult to reach because of the volatile staffing pattern in the Office. In short, the Office must significantly reduce staff turnover if it is to continue its proper role and function. Specifically, major gaps/problems in Office effectiveness because of staff turnover have been observed; including:

1. Minnesota Laws 1978, Chapter 787 mandates a complete review of city financial statements for conformity with generally accepted accounting principles. Personnel are not available to accomplish this mandate.

2. Presently, Minnesota school districts are required to file audited financial statements with the State Auditor's Office. No personnel are available to review these statements for UFARS, GAAP or compliance with Minnesota law.

3. The proliferation of computer based management information systems has begun to raise the potential for computer theft in the public sector. At present, the Office has begun to develop capabilities to assess the level of risk which currently exists for its clientele. However, understandably, there is a high demand for the personnel to prevent and detect such fraud.

4. Minnesota Laws 1979, Chapter 201, Section 20, mandates the Office to prepare a report to the Legislature on the general financial condition of volunteer firefighters' relief associations. The personnel needed are not presently available to accomplish this mandate.

5. The Office is currently highly involved in the development of County Financial Accounting and Reporting Standards (COFARS). Upon completion of the development, the Office will be engaged in the implementation of COFARS which will involve the investment of considerable personnel and resources. Complex conversion procedures and much training of local government staff will be required for COFARS to succeed.

6. A variety of internal Office needs for training and staff development and other support have been neglected for too long and must now be addressed, if the Office is to function as the needed professional service organization.

The Office presently cannot compete in the marketplace for the needed personnel to perform its functions. When this law is enacted, it will enable the Office to retain sufficient numbers of staff with the necessary skills and abilities so the Office can fulfill its responsibilities.

Legislative History of Present
Attorney General's Personnel System

The Legislature in 1974 passed two laws which significantly affected the personnel system in the Attorney General's Office.

H.F. No. 2785 gave the Attorney General the power to set salaries for the personnel in that office.

The final vote in the House was: 112 to 14
The final vote in the Senate was: 46 to 0

H.F. No. 2728 took the Attorney General's Office out of the Civil Service System and permitted that office to institute its own personnel recruitment, hiring and promotional system.

The final vote in the House was: 106 to 2
The final vote in the Senate was: 53 to 0

In the subsequent years, the Attorney General's Office has made positive use of the power granted to it. The Attorney General's Office has had no difficulty in obtaining personnel with a high degree of skills and abilities.

The State Auditor's Office now has a comparable problem. The professional staff are all either CPAs or public accountants. In the past year alone out of a professional staff of 65 auditors, the State Auditor's Office has lost 17 auditors. This is a turnover rate in excess of 25 percent.

Most of this turnover has been due to a lack of compensation commensurate with that available in the local government units which the State Auditor's Office audits. The personnel problem has become significant and indeed will leave the Office in a precarious position unless resolved immediately. The stable core of employees is constantly drawn upon to train the new personnel in the office procedures and the sophisticated aspects of local government auditing. The entire office suffers because it is constantly in a position of playing catch-up.

Professionals, whether they are attorneys or accountants, should receive equal treatment within state employment. Until the State Auditor's Office is able to compete for and retain its professional staff the problems noted will continue.

Introduced by Simoneau, Laidig, Patton,
Byrne, Rose
February 18th, 1980
Ref. to Com. on Governmental Operations

A bill for an act

relating to state government; raising the limit on the balance allowed to remain in the state auditor's revolving fund; empowering the state auditor to establish a personnel recruitment, hiring, promotional, and salary plan in consultation with the commissioner of the department of personnel; amending Minnesota Statutes 1978, Section 6.58; and Chapter 6, by adding a section.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 1978, Section 6.58, is amended to read:

6.58 [REVOLVING FUND.] The revolving fund established by Laws 1947, Chapter 634, Section 24, shall be used to provide personnel, pay other expenses, and for the acquisition of equipment used in connection with reimbursable examinations and other duties pursuant to law. When full time personnel are not available to carry out his duties, the state auditor may contract with private persons, firms, or corporations for accounting and other technical services. Notwithstanding any law to the contrary, the acquisition of equipment may include duplicating equipment to be used in producing the reports issued by the department. All receipts from such reimbursable examinations shall be deposited in the fund and are hereby reappropriated to that purpose. The state auditor is directed to adjust his schedule of charges for such examinations to provide that such charges shall be sufficient to cover all costs of such examinations and that the aggregate charges collected shall be sufficient to pay all salaries and other expenses including charges for the use of the equipment used in connection with such reimbursable examinations and including the cost of contracting for accounting and other technical services. The schedule of charges shall be based upon an estimate of the cost of performing reimbursable examinations including, but not limited to, salaries, office overhead, equipment, authorized contracts, and other expenses. The state auditor may allocate a proportionate part of the total costs to an hourly or daily charge for each person or class of persons engaged in the performance of an examination. The schedule of charges shall reflect an equitable charge for the expenses incurred in the performance of any given examination. The state auditor shall review and adjust the schedule of charges for such examinations at least annually and have all schedules of charges approved by the commissioner of finance before they are adopted so as to insure that the amount collected shall be sufficient to pay all the costs connected with such examinations during the fiscal year and that the unobligated balance, including accounts receivable, in the revolving fund at the end of each fiscal year shall not be less than $315,000. The unobligated balance in the revolving fund in excess of ~~said~~ ~~$315,000~~ $350,000, as of June 30 of each fiscal year, shall be canceled into the general fund.

Sec. 2. Minnesota Statutes 1978, Chapter 6, is amended by adding a section to read:

[16.582] [PERSONNEL PLAN.] Notwithstanding any law to the contrary, the state auditor shall develop and implement a personnel recruitment, hiring, promotional, and salary plan in consultation with the commissioner of personnel.

Sec. 3. [EFFECTIVE DATE.] This act is effective the day following its final enactment.

Bill Analysis

This law authorizes the State Auditor's Office to establish a personnel recruitment, hiring, promotional and salary plan in consultation with the Commissioner of Personnel. The staff of the State Auditor's Office would in all other respects remain within the present state civil service system.

The law provides for equality of treatment between professionals in the State Auditor's Office and the Attorney General's Office by allowing the State Auditor's Office to pay salaries commensurate with the comparable positions in local government.

The comparability of salaries and the establishment of the personnel recruitment, hiring and promotional plan will be developed in conjunction with the Commissioner of Personnel which will provide for a smooth transition from the present system to the new system.

The recommendations of the State Auditor's Task Force on Operations resulted in this law. The task force recognized the need for the financial and legal compliance audits by the State Auditor's Office and the Office's need to be able to reduce its rate of turnover if the Office is to function. The law is designed to address the turnover problem directly.

The law would have no impact whatsoever on the legislative general fund. The necessary funds will be generated by the Office's Revolving Fund in which fees are charged to local government for the services performed. The ability to retain a staff already familiar with the Office procedures and the sophisticated aspects of local government auditing will increase the efficiency of the office markedly and have a lowering effect on the rate structure.

EXCERPTS FROM

THE STUDY OF THE STATE OF

MINNESOTA'S EXTERNAL FINANCIAL

REPORTING PRACTICES

Office of the Legislative Auditor

ENTERPRISE FUNDS

1. State Auditor Fund
2. Correctional Industries Fund
3. Publications Fund
4. Federal Surplus Property Fund
5. Higher Education Student Loan Fund
6. School District Loan Fund
7. Higher Education Facilities Loan Fund
8. Housing Finance Loan Fund

State Auditor Fund

The State Auditor is a constitutional office of the State of Minnesota, with a staff of approximately 80 professional, clerical, and secretarial employees. The Office is administered by the State Auditor who is elected to a four-year term. The Deputy and Assistant State Auditor positions, are also a part of the administrative team. The audit staff operates out of three divisions: County; Municipal; and Cities of the First Class.

The function of the Office is to make full financial statement and legal compliance audits of governmental subdivisions within the State. The statutes mandate the Office to perform annual audit service as time and funds permit for all county governments; cities of the first class; Regional Development Commissions; Housing and Redevelopment Authorities; and certain other Municipal functions. It will, by request or petition, perform these services for other municipalities, school districts, and government units.

The State Auditor's office bills local governments for the audit services which they provide. In our opinion, this activity is of sufficient size to be established as a separate enterprise fund. Their receipts in fiscal year 1978 totaled two million dollars.

We feel that quality reporting exists and will continue based upon the adequacy of their manual records used to prepare their statements and the expertise of the State Auditor's personnel. The auditor's office has been involved in educating local governments about the requirements for quality reporting as a result of 1978 Laws, Chapter 787 which mandates financial reporting for cities.

Revolving Fund (app.)	$2,533,800
All other funds	245,567
Total Budget	$2,779,367

The Revolving Fund constitutes over 91% of Total Budget.

Correctional Industries Fund

This consolidated fund would consist of Industries at the State Prison (MSP), the Metropolitan Training Center (MTC), and the St. Cloud Reformatory for Men (SCRM). These industries generate sufficient revenue to justify accounting for them in a separate fund and they are intended to be self-sustaining. These are in contrast to other smaller correctional industries whose primary purpose is vocational rehabilitation and where receipts are small and incidental to the overall operation. Consolidation of Correctional Industries statements should logically be done by the Department of Corrections where accounting information such as transfers among the activities is available. Detailed information on the individual component activities would be available from the respective institution.

The Department of Finance's financial statements do not include any enterprise statements and Correctional Industries is therefore not reported on. However, MSP and MTC have prepared individual statements in the past utilizing manual records and some information from Statewide Accounting (SWA). SCRM has not prepared financial statements to date despite our office's recommendation. Currently, Corrections is in the process of obtaining a grant to computerize their accounting system which may facilitate preparation of quality financial statements. Other necessary steps to attain quality reporting are: (1) to provide education and guidance to accounting personnel, (2) to change the reporting period from a calendar year to a fiscal year, (3) to have a quality review at Corrections to insure uniformity, compliance with GAAP, and proper eliminating entries, and (4) to disclose MSP's losses and general fund loans separately as they may be obscured through consolidation.

Revolving Funds	$ 5,883,526
All other funds	66,501,293
Total Agency Budget	$72,384,819

The Revolving Fund constitutes 8.13% of total budget.

Publications Fund

The Publications Fund will include the state activities that produce and/or sell books, manuscripts, or other published reports to various groups or individuals throughout the state. The four activities to be combined are the State Register, Minnesota Code of Agency Rules (MCAR), Documents Section of General Services, and the Revisor of Statutes. These activities deal primarily with parties outside state government.

Curently, only the income statements of the State Register, MCAR, and Documents Section are being prepared. The Office of the State Register (OSR) prepared the statements for the State Register and MCAR. Fiscal Services Division of Administration prepared them for Documents. None of the statements are prepared on an accrual basis as required by GAAP. No statements are prepared for the Revisor of Statutes.

The Revisor of Statutes and Documents Section will both need a system to record financial data that is not easily obtained through statewide accounting. OSR has a system to record financial data, but they must improve internal controls and record keeping procedures.

In the future each activity should be able to prepare their own financial statements, which the Department of Finance could then consolidate into one set of statements for Publications Fund. The greatest need at this time is to educate the personnel in each activity of the importance of accurate financial statements and the correct procedures to produce them.

Revolving Funds	$ 1,280,100
All other funds	49,524,465
Total Funds	$50,804,565

The Revolving Funds constitute 7.73% of Total Funds.

Federal Surplus Property

We feel that Federal Surplus Property (FSP) should be established as a separate fund due to their recurring losses and their unique characteristics. The Department of Finance does not include enterprise funds in their financial statements. FSP does, however, prepare a balance sheet and an income statement, although they contain some departures from GAAP. The information necessary to prepare the required statements is available from FSP's manual records from FSP's manual records and from statewide accounting.

To attain quality reporting, a statement of changes in retained earnings and a statement of changes in financial position will have to be prepared. In addition, a systematic method for preparing all statements to ensure proper accruals is a prerequisite to quality reporting. Accrual is necessary to properly match revenue and expense. This is significant for this activity because of continuing cash flow problems that result in material accounts payable. In short, education and guidance regarding financial statement preparation will be necessary at FSP to attain and maintain quality reporting.

No figures available on this fund.

<u>Higher Education Student Loan Fund</u>

This fund sells revenue bonds to provide school loans to students attending higher educational institutions. The program is administered by the Higher Education Coordinating Board (HECB). The Department of Fiannce has this classified as a trust and agency fund. We believe it should more properly be classified as an enterprise fund, since the operating and bond costs are to be paid from the proceeds of repaid school loans.

HECB prepares all required statements for the fund, except for a statement of changes in financial position. The financial statements are audited by the CPA firm of Coopers and Lybrand, subject to review by the Legislative Auditor. Accordingly, proper financial reporting should be no problem for the fund in the future.

Revolving Fund	$ 86,292,600
All other funds	47,011,054
Total Funds	$133,303,654

The Revolving Fund constitutes 63.5% of the Total Funds.

School Loan Fund

Minnesota Statutes Chapter 124 establishes the Maximum Effort School Loan Fund. The fund is authorized to sell general obligation bonds to finance capital and/or debt service loans to school districts. The bond principal and interest, plus up to $10,000 of administration costs, are to be paid with the proceeds of the school loan repayments. If the loan repayment proceeds are insufficient to pay the bond principal and interest, then a statewide property tax is to be imposed to make up the deficit. The statutory accounting treatment for the fund includes accounts in the state bond fund and debt service fund. In our opinion, this should most appropriately be classified as an enterprise fund. Even though these are general obligation bonds, the program is still intended to be self-sustaining.

The Department of Education administers this program but has not prepared financial statements. Note: The Department of Finance reports on the program as an indeterminable part of the debt service and bond funds. A coordinated effort between the Departments of Education and Finance will be needed to properly report on this program as an enterprise fund.

No figures available for this fund.

Higher Education Facilities Loan Fund

This fund sells revenue bonds to finance capital loans to private institutions of higher education. It is administered by the Higher

Education Facilities Authority (HEFA). Note: The Department of Finance does not report on this fund. We believe this should be classified as an enterprise fund, since it is intended to be self-sustaining.

HEFA prepared the required financial statements. These are audited by the CPA firm of Coopers and Lybrand.

No figures available on this fund.

Housing Finance Loan Fund

This fund sells revenue bonds to finance loans for housing the low to moderate income families of the state. The program is administered by the Minnesota Housing Finance Agency (MHFA). The Department of Finance classified this as a trust fund. We believe it should more properly be classified as an enterprise fund, since the bond principal, interest, and operating costs are to be paid from the proceeds of repaid housing loans.

MHFA prepared the required statements for the fund. These are audited by the CPA firm of Coopers and Lybrand, subject to cooperation with the State Auditor's Office. Accordingly, proper financial reporting should be no problem for the fund in the future.

No figures available on this fund.

Sources: Office of the Legislative Auditor
The Study of the State of Minnesota's External Financial Reporting Practices
Department of Finance
Department of Corrections
State Auditor's Office.

COMPARATIVE SALARY ANALYSIS

State Auditor		Hennepin County		Ramsey County	
Position	Salary	Position	Salary	Position	Salary
Intermediate Auditor	$14,720-$19,728	Senior Accountant	$17,640-$24,816	B & A Analyst II	$18,312-$25,488
Senior Auditor	$16,392-$22,092	Principal Accountant	$18,024-$26,664	B & A Analyst III	$20,580-$28,716
Audit Director	$18,996-$25,680	Chief Accountant	$22,512-$33,264	Budget or Account Manager	$25,020-$34,908
Dir. of Govt. Audits	$24,504-$32,300	Dir. of Internal Audit	$27,996-$41,352	Director, Budgeting & Accounting	$30,456-$42,516

RANDOM SAMPLE OF

OFFICE OF THE STATE AUDITOR

SALARIES

Position Title	Entry Date State Service	Annual Salary	Educational Background
Director of Governmental Audits & Investigations	1-5-48	$29,160	B.S.
Principal Auditor	6-12-61	23,824	B.S.
Intermediate Auditor	2-26-79	15,263	B.S.
Senior Auditor	5-16-77	16,391	B.A.
Attorney III	4-24-74	26,643	J.D.
Senior Auditor	10-28-63	22,091	B.A.
Principal Auditor	12-9-74	22,091	CPA
Principal Auditor	6-2-69	23,824	CPA
Principal Auditor	3-31-71	22,759	CPA & J.D.
Audit Director	2-7-66	24,722	CPA
Intermediate Auditor	9-4-79	14,720	CPA
Senior Auditor	3-20-78	17,644	CPA
Audit Director	6-17-57	25,682	CPA
Senior Auditor	3-18-68	20,504	CPA

Mr. Peter Heegaard
Northwestern National Bank
7th and Marquette
Minneapolis, Minnesota 55480

February 12, 1980

Dear Members of the Minnesota Legislature:

This past summer I was chairman of a citizens' task force which reviewed the operations of the State Auditor. The task force consisted of members from the Legislature and individuals from both the public and private sector. A list of the members is attached.

The task force was divided into an Internal and External Committee. The External Committee reviewed the State Auditor's Office from the perspective of those dealing with the Office such as taxpayers, counties, cities, school districts, other units of local government, state agencies and departments and private sector auditors and auditing firms. The Internal Committee reviewed the internal operations of the Office and methods of improving operations to provide better service.

Working from these perspectives, the Committees agreed that thorough post-audits of local government are necessary and desirable. Both Committees agreed that the staff of the State Auditor does a thorough and competent post-audit and that the entities audited were satisfied with the results. The Committees agreed that in the financial aspects of the audit, private sector auditors were as capable as the staff of the State Auditor. However, in the legal compliance aspect of the audit, which determines whether or not local governmental units are operating in accordance with state laws, the Committees noted that the staff of the State Auditor does a more thorough and complete audit than the private sector.

The Committees arrived at different conclusions, however, as to the future of continuing a post-audit function in the State Auditor's Office. The Internal Committee felt that there were too many constraints on the Office to continue to operate effectively and efficiently. The External Committee, while recognizing these same constraints, thought the problems could be surmounted through the efforts of the State Auditor with the help of the Legislature.

What are these constraints?

They consist of a number of factors, too complex to be dealt with within the scope of one letter, but the most significant is the inability of the State Auditor to effectively recruit and retain staff.

The State Auditor is an elected constitutional officer. The State Auditor prescribes the accounting methods and is the auditor for all local government, specifically responsible for all counties, cities of the first class, regional development commissions, and other units of local government.

To fulfill these responsibilities, the State Auditor must have a staff possessing a high degree of skills and abilities. The audit staff are all either CPAs or public accountants. In addition, the staff must be thoroughly and completely trained in legal compliance. These people are professionals and they should be recruited, hired, promoted and paid as such, as are other professionals in the state, e.g. the Attorney General's staff.

Presently, the State Auditor's Office has a high and accelerating rate of employee turnover. The foremost reason for this is the Office's inability to pay salaries commensurate with the skills and abilities demanded from the staff.

The Committees found that the salaries offered by the State Auditor were, at the entry level, often competitive with other governmental units and even the private sector. Once an individual has gained experience, however, in some cases as little as eight months, the salary differences between the Office and the private sector and even the local governmental units which the State Auditor's staff audits, become readily apparent. From that point, to the top levels in the State Auditor's Office, these salary differences become dramatic.

There are other effects of staff turnover which must be recognized. Some turnover is good. It allows for new perspective and energy to enter the organization. An excessive rate of turnover is paralyzing. For example, senior and middle management become bogged down in training of new personnel. This training ranges from teaching the Office's system of time and expense recording to the sophisticated aspects of local government accounting and auditing. As a result, staff is simply not as productive as it could be with less turnover.

Presently, the State Auditor's Office has a relatively small staff of approximately 65 auditors which is less than 70% of the authorized positions. Since January 1979 the Office has lost 17 auditors. It is interesting to note that none of the 17 went elsewhere in state government. They all took jobs either in the private sector or with local government. The 17 have been replaced, but the taxpayer pays a cost, and even with these replacements, the Office is constantly and critically understaffed due to the high rate of turnover.

To alleviate the condition and insure a continued high level of performance by the State Auditor's staff, the State Auditor's Office must be able to pay the staff competitive salaries. Unless competitive salaries are paid, and quickly, the State Auditor's staff will be depleted to such an extent that the Office will be unable to perform its needed function. If the Office cannot function, the state loses the thorough and complete legal compliance audits which both Committees felt were necessary.

It is important to realize that the State Auditor's Office is funded by a Revolving Fund. The Office is financed and operated in a manner similar to private business enterprises. The costs of providing services on a continuing basis are financed or recovered primarily through user charges. Ninety-two percent of the State Auditor's budget comes from the fees charged for the services performed. Only eight positions, the State Auditor, his deputy, his assistant, his secretary and the four positions in the Municipal Reporting Unit, are funded by appropriation. The State Auditor's Office is self-sustaining, but the cost of constantly training new personnel is a drain on the resources of the Office. To remain self-sustaining the presently accelerating rate of turnover must be curbed. To allow the Office the flexibility to recruit, hire, promote and pay individuals commensurate with those jobs in the private sector, which staff members are leaving to fill, would not require an appropriation; merely the ability to set salaries and hire personnel. Additional funding for this would be recovered through the Revolving Fund.

Once the State Auditor has the ability to retain experienced staff, the other constraints can be overcome through actions of the State Auditor, in conjunction with the Legislature, and state agencies and departments. Until the loss of staff to better paying jobs can be slowed and the State Auditor's Office has the ability to recruit, hire and promote, the response to other constraints must be deferred.

Sincerely,

Peter Heegaard
Chairman of the Citizen's Task Force

PH:dm

July 11, 1979

STATE AUDITOR'S TASK FORCE ON OPERATIONS

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Sr. Vice President
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July 11, 1979

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