

# Office of the State Auditor

*Division of State Audit*

Secretary of State  
Bismarck, North Dakota

Audit Report for the  
Two-Year Period Ended June 30, 2008  
Client Code 108

*Robert R. Peterson*  
*State Auditor*





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## *Transmittal Letter*

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May 13, 2009

The Honorable John Hoeven, Governor  
Members of the North Dakota Legislative Assembly  
The Honorable Al Jaeger, Secretary of State

We are pleased to submit this audit of the Secretary of State for the two-year period ended June 30, 2008. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Delan Hellman. Al Stroklund and Aaron Petrowitz were the staff auditors. Fred Ehrhardt, CPA was the audit supervisor. Inquiries or comments relating to this audit may be directed to the audit supervisor by calling (701) 328-3647. We wish to express our appreciation to Mr. Jaeger and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Bob Peterson".

Robert R. Peterson  
State Auditor

# *Executive Summary*

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## **INTRODUCTION**

The North Dakota Secretary of State receives and preserves the original bills and resolutions from each Legislative Assembly, attests and maintains a record of the official acts of the Governor, and is the custodian of the Great Seal and other official state documents.

The Secretary of State is a member and secretary of the Emergency Commission and a member of the Board of University and School Lands and the State Historical Society Board. He is the state's Chief Election Officer and the State Athletic Commissioner overseeing boxing and mixed fighting style events.

The office registers and files reports for over forty different administrative functions related to businesses and is the central depository for lien filings related to the Uniform Commercial Code, agriculture, and other miscellaneous items. Among other duties, the Secretary of State registers lobbyists and charitable organizations, licenses contractors, and the commissioning of notaries public.

Additional information is available at the Secretary of State's website at [www.nd.gov/sos](http://www.nd.gov/sos).

## **RESPONSES TO LAFRC AUDIT QUESTIONS**

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The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

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### *1. What type of opinion was issued on the financial statements?*

Financial statements were not prepared by the Secretary of State in accordance with generally accepted accounting principles so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unqualified opinion was issued.

### *2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Yes.

### *3. Was internal control adequate and functioning effectively?*

Other than our finding addressing the "Fraud Risk Assessment/Control Activities" (page 15), we determined internal control was adequate.

4. *Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

5. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

Yes, a management letter was issued and is included on page 20 of this report, along with management's response.

### **LAFRC AUDIT COMMUNICATIONS**

1. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The Secretary of State's financial statements do not include any significant accounting estimates.

3. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

5. *Identify any serious difficulties encountered in performing the audit.*

None.

6. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

7. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance, Human Resource Management System (HRMS), and the AS400 (Secretary of State's accounting system) are high-risk information technology systems critical to the Secretary of State.

# *Audit Objectives, Scope, and Methodology*

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## *Audit Objectives*

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The objectives of this audit of the Secretary of State for the two-year period ended June 30, 2008 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the Secretary of State's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the Secretary of State and are they in compliance with these laws?
3. Are there areas of the Secretary of State's operations where we can help to improve efficiency or effectiveness?

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## *Audit Scope*

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This audit of the Secretary of State is for the two-year period ended June 30, 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Secretary of State's sole location is its central office which will be included in the audit scope.

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## *Audit Methodology*

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To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and reviewed management's discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer assisted auditing techniques. These procedures were used to identify high risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Nonstatistical sampling was used and the results were projected to the population. Further where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the

sample, and to improve efficiency by gaining greater control on the composition of the sample.

- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) ERP system.
- Observed Secretary of State's processes and procedures.

In aggregate there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

## ***Management's Discussion and Analysis***

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The accompanying financial statements have been prepared to present the Secretary of State's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

The following management discussion and analysis was prepared by Secretary of State's management. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of this supplementary information to ensure it does not conflict with the knowledge we gained as part of our audit.

For the two-year period June 30, 2008, operations of the Secretary of State were primarily supported by appropriations from the state's general fund. Additional revenue was received from the federal government related to elections and fees credited to the agency's general services operating fund.

### ***FINANCIAL SUMMARY***

For the state's general fund, the agency produces revenue related to its responsibilities associated with licensing, registration and annual reporting, and filing of various lien documents. The agency issues licenses to contractors, registers charitable organizations and lobbyists, and commissions notaries public. Using a statewide central database connected to the state's County Recorders, lien documents may be filed in any one of 54 locations. These documents are associated with the Uniform Commercial Code (UCC), agricultural products, livestock, and certain miscellaneous liens. Revenue is generated from annual subscribers who access the system to file or search for these documents. The agency processes documents pertaining to over 40 business related categories including trademarks, trade names, investment trusts, corporations, various partnerships, and limited liability companies. Other revenue for the general fund was received from the sale of public information filed with the agency. The revenue generated for the general fund was approximately 10% higher for the fiscal year ending June 30, 2008, compared to fiscal year 2007.

As allowed by the provisions of N.D.C.C. § 54-09-08, the revenue received for the sale of public information related to businesses is placed in a special fund titled the General Services Operating Fund. It allows the agency to retain revenue for covering the expenses for providing the information in direct response to the demand for it, which is difficult to predict. The revenue for the

special fund for the year ending June 30, 2008 was approximately 20% higher than the previous year.

The combined revenue generated in the 2005-2007 biennium for the general and the special funds exceeded expenditures by approximately 2.7 million dollars.

Under the provisions of the Help America Vote Act of 2002 (HAVA), the state received three funding installments of the \$20,000,000 allocated to North Dakota. The first installment of \$5,000,000 did not require a state match. The second and third installments of \$4,150,000 and \$7,446,803, respectively, appear as revenue for the period ending June 30, 2005. As of June 30, 2008, the state had not yet received additional HAVA funding that Congress had appropriated. On that date, the balance of HAVA funds still due to the state under the HAVA legislation was \$3,403,197. The federal revenue for the period ending June 30, 2008, were reimbursements from United States Department of Health and Human Services related to polling place accessibility.

As required by HAVA, the 2003 Legislative Assembly created an election fund in which funds received under the Act and the state's match are deposited. The funds remain there until the need exists to expend them. Any interest earned on the unexpended funds is, as required by HAVA, also deposited back into the election fund. The addition of the interest provides additional financial resources to fund election administration and voter education. In addition, it will extend the life of the election fund much longer by leveraging and earning interest off of the federal/state funds deposited into it.

According to the North Dakota HAVA State Plan adopted in 2004, after all of the requirements in HAVA are fulfilled, the remaining funds, plus interest earned, will be used to pay "on-going" election expenses. These expenses are identified in the state plan as "To assist counties with programming expenses, maintenance, equipment replacement and/or other election related projects or technology upgrades."

The combined "grant to counties" amounts for the years ending 2007 and 2008 represents the transfer of election equipment to counties for the new statewide voting system implemented under HAVA. The election reform appropriation for 2005-2007 was requested based on the possibility that many of the state's counties would enter into an agreement with the state related to the purchase of electronic poll books. However, only a few counties opted to purchase them, which resulted in a significant amount of the authorization not being used, which results in the appearance of a large unexpended appropriation in the election reform line.

On June 30, 2008, the balance in the election fund was \$8,076,169.79. This amount included federal funds, interest earned, state matching funds, and other monies received from the state's counties.

### **AGENCY INITIATIVES**

To provide timely services to the public, the effective use of technology is important for the agency's productivity and the fair administration of state laws, which are clear in their processes and purposes. Therefore, by building on significant advances reported during previous audit periods, the agency continues to place a priority on developing and improving services for its customers, taxpayers, and citizens through a variety of ways.

Through the legislative process, the agency supports and promotes the passage of legislation that clarifies, updates, or repeals obsolete sections of state law as they relate to each of the agency's administrative functions.

A significant accomplishment is the successful implementation, which is ongoing, of the provisions of the Help America Vote Act of 2002 (HAVA). By collaborating with the North Dakota Association of Counties, the state achieved a positive working relationship unlike any in the country. It has resulted in elections held without incident.

The agency's web-based Election Management System (EMS), utilized for the first time for the June 2004 statewide election, was improved and proved highly valuable to voters in the 2006 election year. In addition, the agency completed development and continued to refine its Election Administration System used in conjunction with the new statewide voting system. Both applications provide more voter and candidate information, timely election results, campaign finance reports, and county poll books, among other features to support the election process.

To improve its services, productivity, efficiency, and provide electronic on-line filing of registrations and reports, the agency is acquiring and implementing a new software application to replace existing technology systems on the state's mainframe (which is being phased out) on which the agency's Central Indexing System is housed, and to replace software currently hosted on a AS/400 (with obsolete programming language) that is used for processing of documents and hosts the database related to the agency's business, licensing, and administrative services.

In a previous audit, reference was made to the New Business Registration website, which is a cooperative effort on the part of several state agencies. Through the support of several members of the State Information Technology Advisory Committee (SITAC), a study was completed shortly before the 2007 legislative session for implementing a Business Development Engine, which is an enterprise level project involving many state agencies and which will include several of the observations made in the audit. The legislature approved the project subject to the availability of funding. As of June 30, 2008, the source of the funding had not yet materialized.

# Financial Statements

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## STATEMENT OF REVENUES AND EXPENDITURES

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
<b><u>Revenues and Other Sources:</u></b>		
Licenses, Permits, and Fees	\$3,670,326	\$3,345,377
Miscellaneous Refunds	309,920	72,458
Interest Earnings	288,001	333,450
Sale of Information	282,108	234,654
Revenue from Federal Government	36,060	15,611
Revenue from Counties		76,100
<b>Total Revenues and Other Sources</b>	<b><u>\$4,586,415</u></b>	<b><u>\$4,077,650</u></b>
<b><u>Expenditures and Other Uses:</u></b>		
Salaries and Benefits	\$1,369,848	\$1,207,436
IT- Data Processing/Services/Equipment	1,197,898	1,226,263
Books	197,805	52,214
Election System Coordination	188,262	399,448
Grants to Counties	178,745	992,576
Postage	82,875	71,342
Printing	79,496	53,995
Travel	44,258	44,657
Office Equipment and Furniture	33,652	30,605
Office Supplies	33,106	23,255
Miscellaneous Expenses	60,100	67,915
<b>Total Expenditures and Other Uses</b>	<b><u>\$3,466,045</u></b>	<b><u>\$4,169,706</u></b>

**STATEMENT OF APPROPRIATIONS**

**For The Fiscal Year Ended June 30, 2008**

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 2,634,493	\$ 13,829	\$ 2,648,322	\$ 1,326,442	\$ 1,321,880
Operating Expenses	3,186,834		3,186,834	1,632,718	1,554,116
Petition Review	8,000		8,000	1,125	6,875
Election Reform	5,489,230	30,770	5,520,000	524,834	4,995,166
Bank of North Dakota Loan	2,920,000		2,920,000		2,920,000
<b>Totals</b>	<u>\$ 14,238,557</u>	<u>\$ 44,599</u>	<u>\$ 14,283,156</u>	<u>\$ 3,485,119</u>	<u>\$ 10,798,037</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 5,364,692	\$ 43,984	\$ 5,408,676	\$ 2,854,918	\$ 2,553,758
Other Funds	8,873,865	615	8,874,480	630,201	8,244,279
<b>Totals</b>	<u>\$ 14,238,557</u>	<u>\$ 44,599</u>	<u>\$ 14,283,156</u>	<u>\$ 3,485,119</u>	<u>\$ 10,798,037</u>

**Appropriation Adjustments:**

The increase in the Salaries and Wages (\$13,829) and Election Reform (\$507) lines includes increased appropriation allocated by the Office of Management and Budget from the statewide salary equity pool appropriated pursuant to Senate Bill 2189 of the 60<sup>th</sup> Legislative Assembly for market equity compensation adjustments for classified state employees.

The increase in the Election Reform (\$30,263) line includes the 5% state match to obtain federal funds from the Election Assistance Commission for paying election related expenditures. The adjustment was properly approved by the Emergency Commission.

**Expenditures Without Appropriations Of Specific Amounts:**

The Athletic Advisory Board Fund has a continuing appropriation authorized by NDCC section 53-01-09 (\$11,188 of expenditures for this fiscal year).

**For The Biennium Ended June 30, 2007**

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 2,302,602	\$ 51,512	\$ 2,354,114	\$ 2,343,512	\$ 10,602
Operating Expenses	2,528,061	(26,500)	2,501,561	2,418,049	83,512
Capital Assets	15,000		15,000	14,044	956
Petition Review	8,000		8,000	4,411	3,589
Election Reform	9,579,728	105,000	9,684,728	5,716,341	3,968,387
<b>Totals</b>	<u>\$ 14,433,391</u>	<u>\$ 130,012</u>	<u>\$ 14,563,403</u>	<u>\$ 10,496,357</u>	<u>\$ 4,067,046</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 4,489,363	\$ 105,000	\$ 4,594,363	\$ 4,510,752	\$ 83,611
Other Funds	9,944,028	25,012	9,969,040	5,985,605	3,983,435
<b>Totals</b>	<u>\$ 14,433,391</u>	<u>\$ 130,012</u>	<u>\$ 14,563,403</u>	<u>\$ 10,496,357</u>	<u>\$ 4,067,046</u>

**Appropriation Adjustments:**

The \$105,000 increase in the election reform line is a result of an emergency measure pursuant to House Bill 1002, section 5 of the 2005 Legislature. An amount up to \$105,000 was authorized to be used as state match funds. The funds were used for the purchase of new voting equipment.

The \$25,012 increase in the Salaries and Benefits line item and the \$18,500 transfer from the Operating line item to the Salaries and Benefits line item were properly approved by the Emergency Commission. The increase and the transfer were made to cover overtime costs, which were greater than anticipated because of the increased demand for agency services.

The \$8,000 transfer from the Operating line item to the Salaries and Benefits line item was properly approved by the Emergency Commission. The transfer was made to provide funding for a temporary employee to assist with the migration of the agency's central indexing system from the state's mainframe to a new operating platform.

**Expenditures Without Appropriations Of Specific Amounts:**

The Athletic Advisory Board Fund has a continuing appropriation authorized by NDCC section 53-01-09 (\$13,638 of expenditures for this biennium).

The Insurance Recoveries Property Fund has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (\$1,230 of expenditures for this biennium).

## *Internal Control*

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In our audit for the two-year period ended June 30, 2008, we identified the following areas of the Secretary of State's internal control as being the highest risk:

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Internal Controls Subjected  
To Testing

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- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

The criteria used to evaluate internal control is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded that internal control was not adequate noting a certain matter involving internal control and its operation that we consider to be a significant deficiency.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect (1) misstatements in financial or performance information, (2) violations of laws and regulations, or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we identified the following significant deficiency in internal control. We also noted other matters involving internal control that we have reported to management of Secretary of State in a management letter dated May 13, 2009.

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Finding 08-1

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### **FRAUD RISK ASSESSMENT/CONTROL ACTIVITIES**

The Secretary of State does not have a system in place to identify possible instances of fraud or fraudulent activities in the agency's financial and operational areas.

The most important guidance relating to internal control is contained in *Internal Control – Integrated Framework* published by

the Committee of Sponsoring Organizations of Treadway Commission (COSO). This guidance dictates that a Fraud Risk Assessment program be established and practiced to identify risks of fraudulent type activities including when special circumstances arise, when changing operating environments, and for restructuring. In addition, the Secretary of State does not have the necessary control activities designed/documentated to ensure significant fraud exposures are identified and mitigated.

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Audit Recommendation  
and Agency Response

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**Recommendation:**

We recommend the Secretary of State:

- Establish and perform a fraud risk assessment on a recurring basis.
- Design and document the necessary control activities to ensure that each significant fraud exposure identified during the risk assessment process has been adequately mitigated.

**Secretary of State Response:**

*This recommendation has not appeared in previous audits conducted of this administration. The Secretary of State will implement the recommendation.*

## *Compliance With Legislative Intent*

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In our audit for the two-year period ended June 30, 2008, we identified and tested Secretary of State's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

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### Legislative Intent Included In Our Audit Scope

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- Sale of Session Laws to provide for maximum recovery of costs with a minimum number destroyed (NDCC section 46-04-18).
- Fees to pay for expenses of members of the athletic advisory board for applicable athletic events do not exceed 1% (3% after March 6, 2007) of gross revenue of the exhibition (NDCC section 53-01-07).
- Lobbyist expenditure reporting to the public (NDCC section 54-05.1-04).
- Submission of biennial report (NDCC section 54-09-02).
- The use of the following legally restricted funds:
  - Election fund.
  - Athletic Commission fund.
- Any unobligated balance in the General Services Operating fund, in excess of \$75,000 at the close of the biennium, must be transferred to the state's General fund (NDCC section 54-09-08).
- Process for deleting or obscuring confidential information before documents are released to the public (NDCC section 10-15-62).
- Proper franchise fee with annual report collection for publicly traded corporations (NDCC section 10-35-28).
- Proper fee collection for home inspector registration (2005 North Dakota Session Laws chapter 376, section 1).
- Proper license fee collection for professional employer organization licensing (2007 North Dakota Session Laws chapter 384, section 1).
- Application of proper statutory rates relating to revenue.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2007 North Dakota Session Laws chapter 29 and 2005 North Dakota Session Laws chapter 2).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.

- Compliance with payroll related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

*Government Auditing Standards* requires auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that have occurred or are likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

## *Operations*

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This audit did not identify areas of Secretary of State's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

## ***Management Letter (Informal Recommendations)***

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May 13, 2009

The Honorable Al Jaeger  
Secretary of State  
North Dakota Secretary of State  
600 E. Boulevard Avenue  
Bismarck, ND 58505

Dear Mr. Jaeger:

We have performed an audit of the Secretary of State for the two-year period ended June 30, 2008, and have issued a report thereon. As part of our audit, we gained an understanding of the Secretary of State's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

### **CASH**

Informal Recommendation 08-1: We recommend that the Secretary of State have an appropriate individual that is independent from the preparation of ONLs review and approve the transactions after they have been posted to PeopleSoft. This should be done until workflow is implemented in the PeopleSoft general ledger.

Informal Recommendation 08-2: We recommend the Secretary of State:

1. Ensure a control is in place that would prevent the backdating of revenue received in the AS400 system.
2. Have the individual reconciling the remittance list from the AS400 to deposits on PeopleSoft complete the reconciliation after the deposit has been posted to the General Ledger on PeopleSoft.

### GENERAL

Informal Recommendation 08-3: We recommend the Secretary of State:

1. Ensure the following key elements are addressed in its code of ethics or code of business conduct policy:
  - Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
  - Full, fair, accurate, timely and understandable disclosure in reports and documents;
  - Compliance with applicable governmental laws, rules and regulations;
  - The prompt internal reporting of violations of the code to appropriate person or persons identified in the code;
  - Description of what constitutes fraudulent behavior; and
  - Accountability for adherence to the code and the sanctions to be imposed on those who breach it.
2. Ensure employees have acknowledged their receipt and reading of the code (all persons in an accounting or financial reporting oversight role should annually confirm their receipt and reading of the code).

Management of Secretary of State agreed with these recommendations.

I encourage you to call myself or Paul Welk, audit manager, at 328-2320 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,



Delan Hellman  
Auditor in-charge