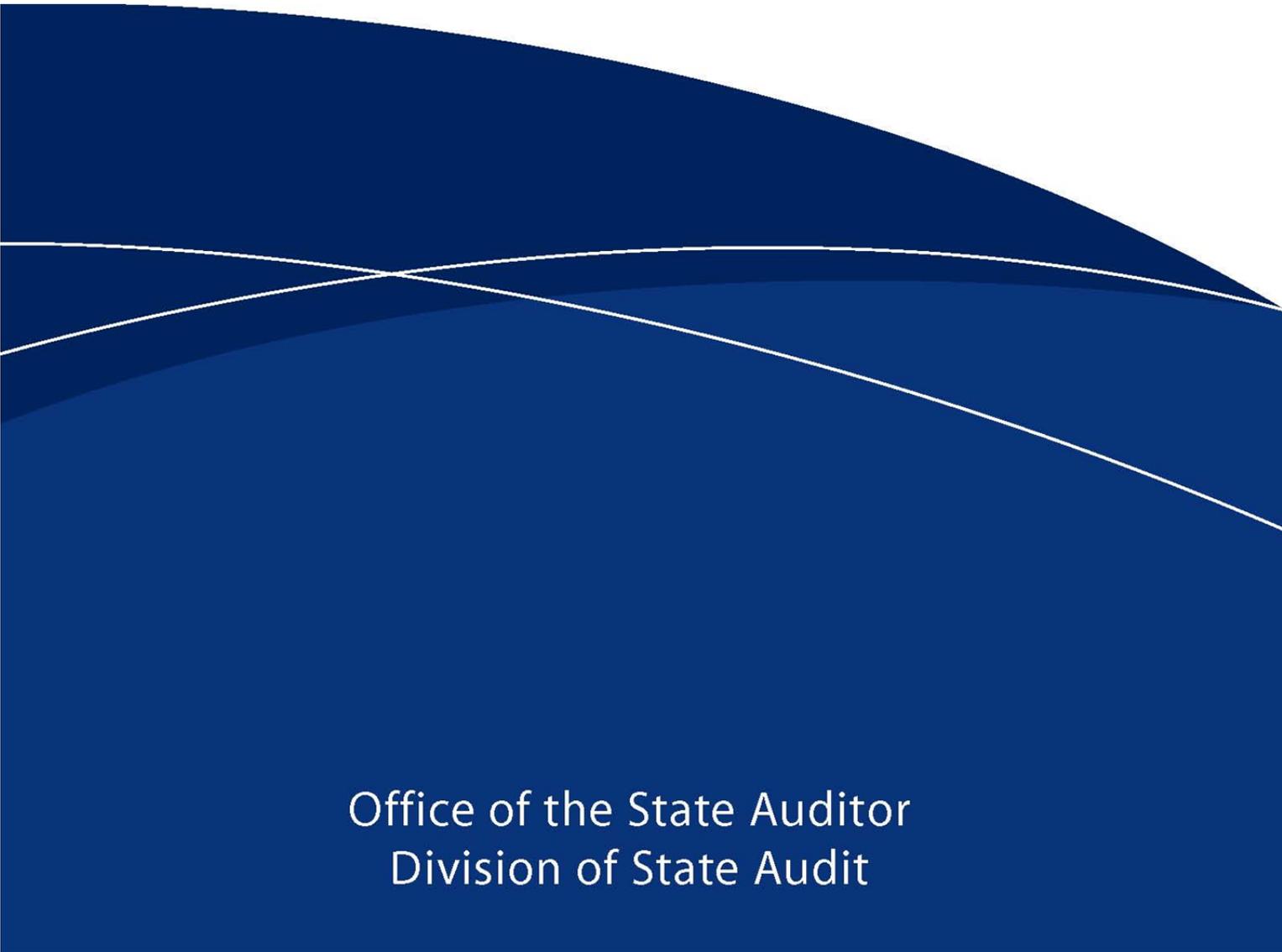


Secretary of State
BISMARCK, NORTH DAKOTA

Audit Report

For the Two-Year Period Ended
June 30, 2010

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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Contents

<i>Transmittal Letter</i>	<i>1</i>
<i>Executive Summary</i>	<i>2</i>
<i>Introduction</i>	<i>2</i>
<i>Responses to LAFRC Audit Questions</i>	<i>2</i>
<i>LAFRC Audit Communications</i>	<i>3</i>
<i>Audit Objectives, Scope, and Methodology</i>	<i>5</i>
<i>Management’s Discussion and Analysis</i>	<i>7</i>
<i>Financial Summary</i>	<i>7</i>
<i>Agency Initiatives</i>	<i>8</i>
<i>Analysis of Significant Variances</i>	<i>9</i>
<i>Financial Statements</i>	<i>10</i>
<i>Statement of Revenues and Expenditures</i>	<i>10</i>
<i>Statement of Appropriations</i>	<i>11</i>
<i>Internal Control</i>	<i>15</i>
<i>Compliance With Legislative Intent</i>	<i>16</i>
<i>Operations</i>	<i>17</i>
<i>Management Letter (Informal Recommendations)</i>	<i>18</i>

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Transmittal Letter

April 19, 2011

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
The Honorable Alvin A. Jaeger, Secretary of State

We are pleased to submit this audit of the Secretary of State for the two-year period ended June 30, 2010. 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 Richard Fuhrer, CPA. Fred Ehrhardt, CPA was the audit supervisor. Inquiries or comments relating to this audit may be directed to the audit supervisor by calling (701) 328-2241. 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

Introduction

The North Dakota Secretary of State receives, records, and files original bills and resolutions from each Legislative Assembly; keeps a register of and attests the official acts of the Governor; and is the custodian of the Great Seal and other official state documents.

The Secretary of State serves as a member and secretary of the Emergency Commission, is a member of the Board for the State Historical Society, is a member of the Theodore Roosevelt Rough Rider Awards Committee, and is the secretary of the State Canvassing Board. The Secretary of State is also the state's chief election officer and is the State Athletic (Boxing and Mixed Martial Arts) Commissioner.

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.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's response are noted below.

Responses to LAFRC Audit Questions

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?

Yes.

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

No.

5. *Has action been taken on findings and recommendations included in prior audit reports?*

The Secretary of State has implemented all recommendations included in the prior audit report.

6. *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 18 of this report, along with management's response.

LAFRC Audit Communications

7. *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.

8. *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.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *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.

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

None.

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

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

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

None.

14. 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 (Business Registration and Accounting System) are high-risk information technology systems critical to the Secretary of State.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the Secretary of State for the two-year period ended June 30, 2010 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?

Audit Scope

This audit of the Secretary of State is for the two-year period ended June 30, 2010. 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 Bismarck office which was included in the audit scope.

Audit Methodology

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. Non-statistical sampling was used and the results were projected to the population. 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) system. Significant evidence was obtained from ConnectND.
- 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

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 the 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 ending June 30, 2010, 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 election administration 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 by various registered business entities; and the filing of an assortment of lien documents. In addition, 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 lien 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 for-profit corporations, non-profit corporations, limited liability companies, various partnerships, trademarks, trade names, etc.

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 General Fund and General Services Operating Fund revenue generated from the Secretary of State's operations was approximately 6.5% higher for the fiscal year ending June 30, 2010, compared to the fiscal year ending June 30, 2009. The combined revenue generated in the 2007-2009 biennium for the General Fund and General Services Operating Fund exceeded expenditures by approximately 2.3 million dollars.

Under the provisions of the Help America Vote Act of 2002 (HAVA), the state of North Dakota is designated to receive up to \$20,000,000. 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, appeared as revenue for the period ending June 30, 2005. For the period ending June 30, 2009 and June 30, 2010, the state received three additional HAVA allocations of \$575,000, \$500,000 and \$350,000 respectively. The balance of HAVA funds still due to the state under the federal HAVA legislation is \$1,978,197.

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. As required by HAVA, any interest earned on the unexpended funds is deposited back into the election fund. The Secretary of State office has a portion of the federal funds in investment bonds at the Bank of North Dakota to earn additional interest. The accumulated 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."

On June 30, 2010, the balance in the election fund was \$7,396,737.45. 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 many 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 and county election officials, the state achieved a positive working relationship unlike any in the country. It has resulted in elections held without incident.

The agency continues to enhance the agency's Election Administration System, along with the Central Voter File, to present information on the Secretary of State's website. In addition, the agency developed, implemented, and launched ND VOICES, which is an election administration tool allowing a single point of entry for all pertinent election data for election officials across the state and to provide election results to the public through one portal for every contest listed on any ballot in the state. By providing house number and zip code, a voter is able to access information specific to his or her residential address such as the voter's polling location and ballot. Absentee and vote by mail voters are able to track the status of their ballot.

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.

Analysis of Significant Variances

Because of the requirements of state law and before they may obtain licenses, permits, etc. from other state agencies, almost all businesses have some type of registration or filing requirement with the Secretary of State's office. Some have a licensing requirement. Since North Dakota's economy has been growing, the agency has experienced a significant increase in the number of document transactions and in the overall higher demand for services. Therefore, the agency's annual licenses, permits, and fees revenue grew by \$240,762 from \$3,728,086 for the year ending June 30, 2009, to \$3,968,848 for the year ending June 30, 2010.

Although the Help America Vote Act (HAVA) was passed in 2002, Congress has not yet appropriated the full amount designated in the bill, as mentioned earlier. Since it is unknown when funds are allocated, the revenue is unpredictable as to when and how much is received. As a result, for the year ended June 30, 2009, the state received \$587,089. The following year, the state received \$850,000.

The legislative assembly appropriated funds to the agency for a 5% salary increase, equity increases, and authorized the addition of an Accounting/Budget Specialist III position. Consequently, the annual expenditures, in the salaries and benefits line, increased by \$236,265 from \$1,411,141 for the year ending June 30, 2009 to \$1,647,406 for the year ending June 30, 2010.

Although, the legislature appropriates funding to the Secretary of State for public printing (e.g. Century Code, Session Laws, Administrative Code), all of the purchasing decisions are made by Legislative Council. Since the release of these publications is shortly after the beginning of the new biennium, the majority of the budget is expended within the first several months. Accordingly, the expenditures for the year ending June 30, 2009 were only \$56,404 compared to \$234,251, for the year ending June 30, 2010, which is the first year after the legislative session and when the publications are released.

At the request of the Secretary of State and for the 2007/2009 biennium, the legislature appropriated \$5,520,000 for the budget's election line. It was based on the possibility that the state's counties would enter into individual agreements with the Secretary of State to purchase electronic poll books. Only a few counties chose to do so, which resulted in an unexpended appropriation authority of \$3,497,641.

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 technology project involving many state agencies. The legislature approved the project subject to the availability of funding generated from outside sources. As of June 30, 2010, the funding had not yet materialized and the authorization for the Bank of North Dakota loan of \$2,920,000 was not utilized.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
<u>Revenues and Other Sources:</u>		
Licenses, Permits, and Fees	\$ 3,968,848	\$ 3,728,086
Revenue from Federal Government	850,000	587,089
Sale of Information	271,210	260,031
Miscellaneous Refunds	95,305	211,173
Interest on Investments	96,657	189,629
Program Income	15,330	13,160
Total Revenues and Other Sources	<u>\$ 5,297,350</u>	<u>\$ 4,989,168</u>
<u>Expenditures:</u>		
Salaries and Benefits	\$ 1,647,406	\$ 1,411,141
Grants to Counties	1,048,724	1,185,033
IT – Data Processing	792,780	735,942
IT – Consultant/Development	879,950	476,996
Fees – Professional Services	187,494	191,743
Books	234,251	56,404
Postage	88,813	87,303
Printing	73,295	57,547
Travel	47,195	43,279
Supplies	44,393	33,399
Operating Fees and Services	33,530	32,833
IT - Communications	34,737	29,285
Office Equipment and Furniture	56,561	1,658
Miscellaneous Expenses	28,437	10,630
Professional Development	13,933	5,036
Total Expenditures	<u>\$ 5,211,499</u>	<u>\$ 4,358,229</u>

Statement of Appropriations

For The Fiscal Year Ended June 30, 2010

Secretary of State

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 3,129,509	\$ 50,000	\$ 3,179,509	\$ 1,587,715	\$ 1,591,794
Operating Expenses	3,544,950		3,544,950	2,008,575	1,536,375
Petition Review	8,000		8,000		8,000
ND Business					
Computer Project	3,400,698		3,400,698		3,400,698
Election Reform	8,344,107	368,421	8,712,528	1,387,998	7,324,530
Totals	<u>\$ 18,427,264</u>	<u>\$ 418,421</u>	<u>\$ 18,845,685</u>	<u>\$ 4,984,288</u>	<u>\$ 13,861,397</u>
Expenditures by Source:					
General Fund	\$ 6,111,588	\$ 68,421	\$ 6,180,009	\$ 3,386,682	\$ 2,793,327
Other Funds	12,315,676	350,000	12,665,676	1,597,606	11,068,070
Totals	<u>\$ 18,427,264</u>	<u>\$ 418,421</u>	<u>\$ 18,845,685</u>	<u>\$ 4,984,288</u>	<u>\$ 13,861,397</u>

Secretary of State-Public Printing

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Operating Expenses	\$ 337,000		\$ 337,000	\$ 236,722	\$ 100,278
Totals	<u>\$ 337,000</u>		<u>\$ 337,000</u>	<u>\$ 236,722</u>	<u>\$ 100,278</u>
Expenditures by Source:					
General Fund	\$ 337,000		\$ 337,000	\$ 236,722	\$ 100,278
Totals	<u>\$ 337,000</u>		<u>\$ 337,000</u>	<u>\$ 236,722</u>	<u>\$ 100,278</u>

Appropriation Adjustments:

The \$50,000 increase in the Salaries and Wages includes increased appropriation allocated by the Office of Management and Budget from the statewide salary equity pool appropriated pursuant to House Bill 1015 of the 61st Legislative Assembly for market equity compensation adjustments.

The \$368,421 increase in the Election Reform line includes \$350,000 in federal funds and 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 (\$15,489 of expenditures for this fiscal year).

For The Biennium Ended June 30, 2009

Secretary of State

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 2,634,493	\$ 81,586	\$ 2,716,079	\$ 2,691,506	\$ 24,573
Operating Expenses	2,883,334	97,763	2,981,097	2,839,211	141,886
Petition Review	8,000		8,000	7,795	205
Election Reform	5,489,230	30,770	5,520,000	2,022,359	3,497,641
BND Loan	2,920,000		2,920,000		2,920,000
Totals	<u>\$ 13,935,057</u>	<u>\$ 210,119</u>	<u>\$ 14,145,176</u>	<u>\$ 7,560,871</u>	<u>\$ 6,584,305</u>
Expenditures by Source:					
General Fund	\$ 5,061,192	\$ 43,984	\$ 5,105,176	\$ 5,045,610	\$ 59,566
Other Funds	8,873,865	166,135	9,040,000	2,515,261	6,524,739
Totals	<u>\$ 13,935,057</u>	<u>\$ 210,119</u>	<u>\$ 14,145,176</u>	<u>\$ 7,560,871</u>	<u>\$ 6,584,305</u>

Secretary of State-Public Printing

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Operating Expenses	\$ 303,500		\$ 303,500	\$ 266,465	\$ 37,035
Totals	<u>\$ 303,500</u>	<u></u>	<u>\$ 303,500</u>	<u>\$ 266,465</u>	<u>\$ 37,035</u>
Expenditures by Source:					
General Fund	\$ 303,500		\$ 303,500	\$ 266,465	\$ 37,035
Totals	<u>\$ 303,500</u>	<u></u>	<u>\$ 303,500</u>	<u>\$ 266,465</u>	<u>\$ 37,035</u>

Appropriation Adjustments:

An increase of \$13,829 in the Salaries and Wages line and \$507 in the Election Reform line 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 60th Legislative Assembly for market equity compensation adjustments for classified state employees.

An increase of \$30,263 in the Election Reform 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.

An increase of \$67,757 in the Salaries and Wages line and \$97,763 in the Operating Expenses line includes increased appropriation authority to accept other special funds generated by the agency's general services operating fund for overtime related to the increase demand for agency services and for expenses associated with the migration of the agency's two databases

from the state's mainframe and the agency's AS/400 to a new operating platform. 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 (\$27,200 of expenditures for the biennium).

Internal Control

In our audit for the two-year period ended June 30, 2010, we identified the following areas of the Secretary of State's internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the AS400 information 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 internal control was adequate.

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 did not identify any significant deficiencies in internal control. However, we noted other matters involving internal control that we have reported to management of the Secretary of State in a management letter dated April 19, 2011.

Compliance With Legislative Intent

In our audit for the two-year period ended June 30, 2010, we identified and tested Secretary of State's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Submission of biennial report (NDCC section 54-09-02).
- Application of proper statutory rates relating to revenue.
- Proper use of the following legally restricted funds:
 - Election fund
 - Athletic Commission fund
 - General Services Operating fund
- Proper fund authorization.
- Compliance with OMB's Purchasing Procedures Manual.
- Compliance with appropriations and related transfers (2007 North Dakota Session Laws chapter 29 and 2009 North Dakota Session Laws chapter 2).
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Compliance with payroll-related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Legality of investments.
- Proper statutory provisions for retaining interest on investment.
- Proper use of petty cash funds.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record keeping and surplus property.

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 has occurred or is 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.

While we did not find any items that were required to be reported in accordance with *Government Auditing Standards*, we noted certain inconsequential or insignificant instances of non-compliance that we have reported to management of the Secretary of State in a management letter dated April 19, 2011.

Operations

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. However, we did note a certain matter involving operations that we have reported to management of the Secretary of State in a management letter dated April 19, 2011.

Management Letter (Informal Recommendations)

April 19, 2011

The Honorable Alvin A. Jaeger
Secretary of State
North Dakota Secretary of State
State Capitol
600 East 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, 2010, 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.

LEGISLATIVE INTENT

Informal Recommendation 10-1: We recommend the Secretary of State comply with the following OMB travel related policies:

- Reimbursement for Meals and Lodging,
- Travel in City of Employment, and
- Use of Personal Vehicle

ACCOUNTS PAYABLE/EXPENDITURES

Informal Recommendation 10-2: We recommend the Secretary of State comply with the reconciliation process outlined in OMB Purchasing Card policy and ensure purchase card holders obtain the proper level of procurement training.

Informal Recommendation 10-3: We recommend the Secretary of State comply with OMB Coffee and Soft Drink Expense policy for all purchases of coffee and soft drinks.

Informal Recommendation 10-4: We recommend the Secretary of State ensure expenditures are recorded in the proper period.

PAYROLL

Informal Recommendation 10-5: We recommend the Secretary of State limit access rights in ConnectND to those individuals requiring access.

IS SYSTEMS

Informal Recommendation 10-6: We recommend the Secretary of State implement policies and procedures to ensure individuals with access to cash are not marking work orders as “deleted” on the Business Entity and Accounting system.

OPERATIONS

Informal Recommendation 10-7: We recommend the Secretary of State use their P-card as a form of payment to all vendors accepting P-cards.

Management of Secretary of State agreed with these recommendations.

I encourage you to call myself or an audit manager at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,



Richard Fuher, CPA
Auditor in-charge

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