



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Department of Financial Institutions

Audit Report for the Two-Year Period Ended June 30, 2020

Client Code 413





WHAT WE LOOKED AT AND WHY

North Dakota state law requires our team to identify any errors, internal control weaknesses, or potential violation of law in significant or high-risk functions of the agency.

WHAT WE FOUND

This audit did not identify any areas of concern.

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KEY PERSONNEL

Dustin Walcker
AUDIT MANAGER

Kevin Scherbenske
CPA, LEAD AUDITOR

Leslie Reisenhauer
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HAVE QUESTIONS? ASK US.

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Introduction

Department of Financial Institutions

May 3, 2021

We are pleased to submit this audit of the Department of Financial Institutions for the two-year period ended June 30, 2020. 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.

The primary consideration in determining the contents of these audits is to produce informative audits to improve government. Statutory audit requirements are an important part of these audits and are addressed by our standard audit objective. Whenever possible, additional audit objectives are included to increase responsiveness and effectiveness of state government.

Dustin Walcker was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to the Department of Financial Institution's staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/s/

JOSHUA C. GALLION
NORTH DAKOTA STATE AUDITOR

TERMS USED IN REPORT

Appropriation: An amount authorized by the North Dakota Legislative Assembly to be spent for a specific purpose.

Blanket Bond Coverage: Insurance to state agencies for any default or wrongful act on the part of any public employee or public official.

ConnectND: The accounting system for North Dakota.

Internal Control: Policies and procedures that ensure reliable financial reporting, safeguard assets, promote accountability and efficiency, and prevent fraud.

National Multistate Licensing System & Registry (N.M.L.S.): System of record for non-depository, financial services licensing, or registration in participating state agencies.

Noncompliance: Failure to act in accordance with a wish or command.

North Dakota Century Code (N.D.C.C.): Collection of all the statutes passed by the North Dakota Legislative Assembly.

Performance Audit: Engagements that provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.

Session Laws: Published after each regular and special legislative session and contain the laws enacted during that session.

Audit Results

OBJECTIVE

Are there any errors, internal control weaknesses, or potential violations of law for significant and high-risk functions of the agency?

CONCLUSION

No areas of concern were identified.

INTERNAL CONTROL

We obtained an understanding of internal control through inquiries, observations, and inspection of documents and electronic data records. We planned our audit work to assess the design, implementation, and effectiveness of those internal controls that were significant to our audit objective. Specifically, our work related to internal control included the following components and underlying principles based on guidance issued by the U.S. Government Accountability Office.

COMPONENT: CONTROL ACTIVITIES

Principal: Management should design control activities to achieve objectives and respond to risks.

The specific internal control testing completed for this audit objective is identified below:

- Segregated preparation and approval of expenditures is tested statewide in the State of North Dakota Annual Financial Report.
- Reviewed results of initial appropriation input and adjustment authorization tested statewide in the State of North Dakota Annual Financial Report.

- Reviewed system edit checks in relation to appropriations tested statewide in the Statewide Operational audit.
- Determined individuals responsible for purchases had the appropriate level of training required.
- Reviewed documentation to support amounts remitted to the department for license renewals/fees and yearly assessments of State-chartered banks and credit unions.
- Reviewed spreadsheet used to track ending fund balance of the Department's operating fund.
- Reviewed approval of travel related expenditures.

There were no deficiencies identified.

SCOPE

This audit of the Department of Financial Institutions is for the two-year period ended June 30, 2020.

The Department of Financial Institutions' central location is in Bismarck with additional examiners based in Fargo and Grand Forks. Each location was included in the audit scope.

METHODOLOGY

The criteria used to evaluate legislative intent are the laws as published in the North Dakota Century Code and the North Dakota Session Laws. Our team worked to identify areas of high risk of noncompliance.

To meet this objective, we:

- Used non-statistical sampling and the results were projected to the population.
- Interviewed appropriate agency personnel.

- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines. (N.D.C.C. 26.1-21-08, N.D.C.C. 26.1-21-10(1)).
- Tested compliance with appropriation laws and regulations. Where necessary, internal control was tested which included selecting representative samples to determine if controls were operating effectively and if laws were being followed consistently. (2019 North Dakota Session Laws Chapter 8 (H.B. 1008), N.D.C.C. 54-10-01.1, N.D.C.C. 54-16-03).
- Reviewed compliance with changes in state-chartered Trust Company's capital. (N.D.C.C. 6-05-03).
- Reviewed compliance with changes in surety bond requirements for Money Brokers and Collection Agencies. (N.D.C.C. 13-04.1-04.1, N.D.C.C. 13-05-04.1).
- Reviewed compliance with changes in the license requirements for Money Transmitters. (N.D.C.C. 13-09-10.1).
- Reviewed purchases subject to procurement rules to ensure compliance with law. (N.D.C.C. 54-44.4-05, N.D.A.C. Title 4-12).
- Selected a judgmental sample of expenditures to ensure expenditures were within legal restrictions. (State Constitution article 10 section 12, N.D.C.C. 44-08-05, N.D.C.C. 54-44.1-10).
- Selected a judgmental sample of receipts to ensure the amount was properly deposited. (State Constitution article 10 section 12, N.D.C.C. 6-09-07, N.D.C.C. 21-04-02).
- Observed the Department's processes and procedures.
- Analyzed financial data in ConnectND to determine areas of risk.
- Reviewed departments ending fund balance. (N.D.C.C. 6-01-01.1).

- Tested compliance with travel related expenditures requirements. (N.D.C.C. 44-08-03, N.D.C.C. 44-08-04, N.D.C.C. 54-06-09).

AUTHORITY AND STANDARDS

This biennial audit of the Department of Financial Institutions has been conducted by the Office of the State Auditor pursuant to authority within North Dakota Century Code Chapter 54-10.

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 standards used to evaluate internal control are published in the publication Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (Green Book, GAO-14-704G). Agency management must establish and maintain effective internal control in accordance with policy of the Office of Management and Budget (OMB Policy 216).



Responses to LAFRC Audit Questions

1. WHAT TYPE OF OPINION WAS ISSUED ON THE FINANCIAL STATEMENTS?

Revenues, Expenditures and Appropriation information was not prepared by the Department of Financial Institutions 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 unmodified 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. We did not identify any deficiencies in internal control that were significant within the context of our audit objectives.

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?

There were no 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.

No, a management letter was not issued.



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, management conflicts of interest, contingent liabilities, or significant unusual transactions identified.

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 Department of Financial Institution's revenues, expenditures and appropriation information does 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 Capital Management (HCM) and Nationwide Mortgage Licensing and Registration system (NMLS) are high-risk information technology systems critical to the Department of Financial Institutions.

Finances

Revenues and Expenditures

REVENUES AND OTHER SOURCES	JUNE 30, 2020	JUNE 30, 2019
Bank Examination Fees	\$ 2,953,875	\$ 2,568,288
Credit Union Examination Fees	608,668	657,961
Collection Agency Fees	323,663	304,053
Mortgage Broker Fees	313,503	335,040
Mortgage Loan Originator Fees	268,275	181,200
Money Transmitter Fees	174,315	74,500
Payday Lender Fees	23,558	21,028
Interest	10,344	6,469
Miscellaneous	387	1,529
Total Revenue and Other Sources	\$ 4,676,588	\$ 4,150,068

Source: ConnectND Financials

Continued on following page

Finances

Revenues and Expenditures

EXPENDITURES AND OTHER USES	JUNE 30, 2020	JUNE 30, 2019
Salaries and Benefits - Banking	\$ 1,931,172	\$ 2,090,093
Salaries and Benefits - Credit Union	620,603	385,607
Salaries and Benefits - Non-Depository	546,936	605,242
Travel - Banking	116,737	185,836
Travel - Credit Union	19,870	35,811
Travel - Non-Depository	6,885	8,590
IT - Data Processing and Communications	244,680	541,054
Building Rent	128,641	107,667
Professional Development	63,054	102,144
Operating Fees	35,876	39,232
Equipment and Furniture	7,543	88,908
Miscellaneous	39,207	64,192
Total Expenditures and Other Uses	\$ 3,761,204	\$ 4,254,376

Source: ConnectND Financials

Appropriations

For the Year Ended June 30, 2020

	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATION
Expenditures by Line Item			
Salaries and Wages	\$ 7,022,655	\$ 3,098,248	\$ 3,924,407
Operating Expenses	2,093,217	662,957	1,430,260
Contingency	20,000	-	20,000
Totals	\$ 9,135,872	\$ 3,761,205	\$ 5,374,667
Expenditures by Source			
Other	\$ 9,135,872	\$ 3,761,205	\$ 5,374,667
Totals	\$ 9,135,872	\$ 3,761,205	\$ 5,374,667

For the Biennium Ended June 30, 2019

	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATION
Expenditures by Line Item			
Salaries and Wages	\$ 6,362,535	\$ 6,282,560	\$ 79,975
Operating Expenses	2,027,377	1,769,873	257,504
Contingency	20,000	-	20,000
Totals	\$ 8,409,912	\$ 8,052,433	\$ 357,479
Expenditures by Source			
Other	\$ 8,409,912	\$ 8,052,433	\$ 357,479
Totals	\$ 8,409,912	\$ 8,052,433	\$ 357,479

Source: ConnectND Financials



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