



# NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

## Secretary of State

For the Two-Year Period Ended June 30, 2022

Client Code 108





## WHAT WE LOOKED AT AND WHY

North Dakota state law requires that our team perform an audit once every two years. This includes a review of financial transactions and determining that expenditures are correct. Our audit reports any errors, internal control weaknesses, or potential violations of law identified in significant or high-risk functions of the agency.

## WHAT WE FOUND



### **Lack of Revenue Reconciliation**

Revenue generated through various citizen fees to the Secretary of State's Office was not recorded correctly.

*Read more on page 4*

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## HAVE QUESTIONS? ASK US.

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# Introduction

## Secretary of State

May 18, 2023

We are pleased to submit this audit of the Secretary of State for the two-year period ended June 30, 2022. 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.

Allison Bader was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-1073. We wish to express our appreciation to the Secretary of State'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.

**ConnectND (Peoplesoft):** The accounting system for North Dakota.

**Emergency Commission:** A group of elected officials that have the authority to transfer or expend money appropriated by the North Dakota Legislative Assembly. Additional information can be found in N.D.C.C. Chapter 54-16.

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

**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.

**North Dakota Administrative Code (N.D.A.C.):** Codification of all rules of state administrative agencies.

**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.

**Reconciliation:** The accounting process of comparing two sets of records to check that information is correct, consistent, accurate, and complete.

# Audit Results

## PRIMARY OBJECTIVE

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

## CONCLUSION

Revenue generated through various citizen fees to the Secretary of State's Office was not reconciled when recorded in the state's accounting system.

During the last audit, our team found that the Secretary of State's Office reported \$75,211 more revenue in their internal revenue systems when compared to deposits in the state's accounting system. A reconciliation was not completed during the previous or the current audit period to resolve this difference.

FINDING  
2022-01

## Lack of Revenue Reconciliation

### WHAT HAPPENED

Because the three systems used for collecting revenue are not being reconciled regularly, there is a potential for theft and incorrect recording to the state's accounting system.

The prior audit identified potential timing differences between transactions recorded in the new FirstStop system and ConnectND. The Secretary of State's Office has been working with the vendor to populate reconciliation reports from the FirstStop system.

The office does reconcile PeopleSoft daily deposit journals to all three systems, however during the audit period a reconciliations of all transactions between the three systems to PeopleSoft was not successful.

## BACKGROUND

The Secretary of State manages fees charged to citizens through three major information technology systems. The three systems used to manage these fees are:

- AS400 (in the process of being replaced)
- FirstStop
- Central Indexing

Revenue collections are recorded on these three systems, and a manual deposit is then reported to the state's accounting system. The reason for using multiple systems is because of the variety of fees the Secretary of State's Office collects. Some examples of these fees include:



During the last audit our audit team found **\$75,211** in revenue that was **unaccounted** for by the state's accounting system.

- Licensing fees (including registering contractors, charitable organizations, and home inspectors)
- Notary fees
- Election-related fees
- Registration fees (including trademarks, business name, and business amendments)
- Agricultural statutory liens

Reconciliation is an accounting process that compares two sets of records to check that information is correct, consistent, accurate, and complete.

Because a successful reconciliation is not happening regularly, there is no way of confirming that the amounts from all three systems are being deposited into the state's accounting system. Because the systems are not being reconciled, potential theft could go undetected, and revenue could be recorded incorrectly in the state's accounting system.

Standards for Internal Control in the Federal Government (Green Book) require management to perform ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. (GAO-14-704G para 16.05).

#### **RECOMMENDATION**

We recommend the Secretary of State complete a reconciliation between the AS400 system, FirstStop system, and Central Indexing system to the State's internal accounting system on a regular basis.

#### **SECRETARY OF STATE RESPONSE**

The Secretary of State agrees with the recommendation. Immediate action has been taken to address the audit finding upon the conclusion of the June 30, 2020, audit. In May/June of 2021 the agency completed a review of the deposit recording steps and implemented changes effective for FY2022. Throughout FY2022 the reconciliation was tested and verified to be only partially effective. The reconciliation was successful for cash, checks, and money order receipts, but not for the recording of credit card transactions.

The Office of Secretary of State has met compliance with the reconciliation requirement in FY2023. Since March of 2023, the Office of Secretary of State has been successful in fully reconciling daily deposit reports for each system to ConnectND general ledger reports for all three revenue recording systems.

The monthly reconciliation has been implemented and is currently in the testing phase to evaluate if dates on journal entries need to be applied back to a previous period or if adjustments need to be made to daily naming conventions to accommodate a monthly reconciliation when system data is compared to ConnectND GL data.



# Audit Procedures

## Primary Objective

### INTERNAL CONTROL

We obtained an understanding of internal control through inquiries, observations, and inspection of documentation and electronic data records. We planned our audit work to assess the design, implementation, and operating effectiveness of those internal controls that were significant to our audit objectives.

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

- Segregated preparation and approval of expenditures is tested statewide in the annual audit of the State of North Dakota Annual Financial Report.
- Selected a random sample of expenditures and ensured that the proper level of procurement training was completed by the purchasing employee.
- Selected random and judgmental samples of state purchase card expenditures and ensured that the related receipts were reconciled to monthly individual purchase card statements and were approved by the appropriate supervisor.
- Analyzed and selected a random sample of one-time payment expenditures to ensure the individual responsible for preparing one-time payments was segregated from the individual approving one-time payments.

There were no deficiencies identified.

### SCOPE

This audit of The Secretary of State is for the two-year period ended June 30, 2022.

The Secretary of State's sole location is its Bismarck office, which was included in the audit scope.

### METHODOLOGY

To meet this objective, we:

- Used non-statistical sampling and the results were projected to the population where appropriate.
- Interviewed appropriate agency personnel.
- Observed the Secretary of State's processes and procedures.
- Inspected documentary evidence.
- Queried the ConnectND (PeopleSoft) system for data analysis. Significant evidence was obtained from ConnectND.
- Analyzed and tested expenditures to determine that the Secretary of State did not expend more than appropriated (N.D.C.C. 54-16-03).
  - 2019 Session Laws Senate Bill 2002 Section 1.
- Analyzed accounts charged to each appropriation class to determine that expenditures were not charged to an inappropriate class to circumvent appropriation spending (N.D.C.C. 54-16-03).
- Tested compliance with the documented intent of appropriation adjustments, including specific Session Laws with related emergency measure sections authorized by the Emergency Commission (N.D.C.C. 54-16-03, N.D.C.C.54-10-01.1).



Federal Government issued by the Comptroller General of the United States (Green Book, GAO-14- 704G).

- Tested that expenditures supporting the \$8,200,000 was used for the statewide voting system and the e-poll book project from the strategic investment and improvements fund (2019 Session Laws North Dakota Session Laws Chapter 27 Section 3).
- Selected a random sample of expenditures to ensure that goods and services were properly procured (N.D.C.C. 54-44.4, N.D.C.C. 48-01.2, N.D.A.C. Article 4-12, and OMB State Procurement Manual guidelines).
- Analyzed and selected a sample of random and high risk expenditures, including purchase card expenditures, to test for accurate recording of payments in the state's accounting system related to appropriation class, funds, accounts, and reasonableness of purchase (N.D.C.C. 54-44.1-09, N.D.C.C. 44-08-05).
- Reviewed non-appropriated fund activity to ensure that the Secretary of State had legislative approval for non-appropriated expenditures (N.D.C.C. 54-44.1-09).
  - Secretary of State General Services Operating Fund (N.D.C.C. 41-09-45.1, N.D.C.C. 54-09-08).
  - Election Fund (N.D.C.C. 16.1-01-15).
  - Athletic Commission Fund (N.D.C.C. 53-01-02).

## **AUTHORITY AND STANDARDS**

This biennial audit of the Secretary of State 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

# Financials

## Revenues and Expenditures

REVENUES AND OTHER SOURCES	JUNE 30, 2022	JUNE 30, 2021
Licenses and Fees	\$ 7,362,160	\$ 7,518,245
Sales and Services	1,206,149	1,329,030
Revenue from Federal Government	1,000,000	-
Miscellaneous Revenue	28,512	9,789
Transfers In	200,000	49,216
<b>Total Revenue and Other Sources</b>	<b>\$ 9,796,821</b>	<b>\$ 8,906,280</b>

EXPENDITURES AND OTHER USES	JUNE 30, 2022	JUNE 30, 2021
Salaries and Benefits	\$ 2,562,431	\$ 2,500,620
Information Technology	1,007,274	725,013
Software Maintenance	578,254	644,125
Other Operating Fees	293,933	301,116
Software and License	251,315	103,530
Supplies	233,005	167,158
Professional Fees and Services	205,964	817,128
All Other Equipment	122,317	140,666
Printing	90,511	85,842
Postage	31,017	36,024
Travel	23,113	1,776
Equipment Over \$5,000	-	477,204
Transfers Out	200,000	-
<b>Total Expenditures and Other Uses</b>	<b>\$ 5,599,134</b>	<b>\$ 6,000,202</b>

Source: ConnectND Financials

# Appropriations

## For the Year Ended June 30, 2022

	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
<b>Expenditures by Line Item</b>			
Salaries and Wages	\$ 5,528,082	\$ 2,361,085	\$ 3,166,997
Operating Expenses	3,798,711	1,268,553	2,530,158
Construction Carryover	3,469,448	1,406,650	2,062,798
Grants	25,000	-	25,000
Petition Review	8,000	40	7,960
Election Reform	5,699,689	111,548	5,588,141
Public Printing-Operating	257,931	228,041	29,890
<b>Totals</b>	<b>\$ 18,786,861</b>	<b>\$ 5,375,917</b>	<b>\$ 13,410,944</b>
<b>Expenditures by Source</b>			
General	6,011,839	3,103,727	2,908,112
Other	12,775,022	2,272,190	10,502,832
<b>Totals</b>	<b>\$ 18,786,861</b>	<b>\$ 5,375,917</b>	<b>\$ 13,410,944</b>

Source: ConnectND Financials

Continued on following page

# Appropriations

For the Biennium Ended June 30, 2021

	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
<b>Expenditures by Line Item</b>			
Salaries and Wages	\$ 5,026,171	\$ 4,599,959	\$ 426,212
Operating Expenses	3,010,724	1,598,356	1,412,368
Construction Carryover	1,258,207	767,920	490,287
Petition Review	8,000	3,523	4,477
Election Reform	15,801,747	11,400,173	4,401,574
Public Printing-Operating	257,278	242,566	14,712
<b>Totals</b>	<b>\$ 25,362,127</b>	<b>\$ 18,612,497</b>	<b>\$ 6,749,630</b>
<b>Expenditures by Source</b>			
General	6,881,270	6,209,327	671,943
Other	18,480,857	12,403,170	6,077,687
<b>Totals</b>	<b>\$ 25,362,127</b>	<b>\$ 18,612,497</b>	<b>\$ 6,749,630</b>

Source: ConnectND Financials



# Status of Prior Recommendations

## Lack of Revenue Reconciliation (Finding 2020-01)

**Partially Implemented**

**Recommendation:** We recommend the Secretary of State completes a reconciliation between AS400 system, FirstStop system, and Central Indexing system to the State's internal accounting system ConnectND, on a regular basis.

**Status:** Partially Implemented. See Finding 2022-01 above.



Office of the  
State Auditor


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