

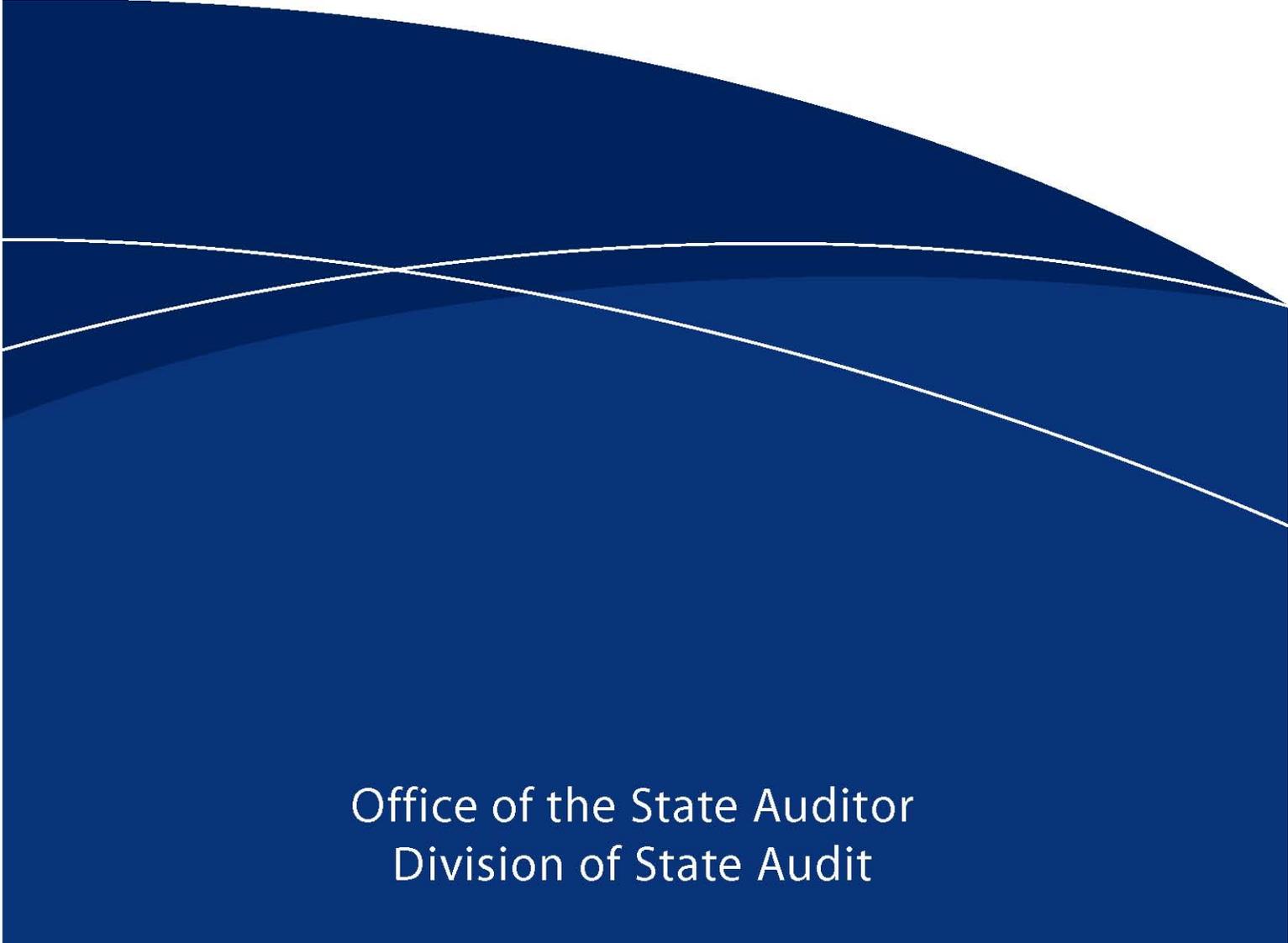
Department of Financial
Institutions

BISMARCK, NORTH DAKOTA

Audit Report

Two-year Period Ended
June 30, 2018

Joshua C. Gallion
State Auditor



Office of the State Auditor
Division of State Audit



Why We Conducted This Audit

The purpose of our work was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements.

What We Found

North Dakota Century Code (NDCC) 6-01-01.1(3) limits the Department of Financial Institutions' fund balance at the end of each biennium to 20% of the next succeeding biennial budget, excluding fees collected for use in the next succeeding biennium. The Department transferred \$165,906 to the General Fund at the end of the 2016-17 biennium. This is the only transfer of excessive fund balance by the Department in the last 14 years. The excess fund balance was generated by the Consumer Division.

The Department of Financial Institutions complied with law and appropriation requirements.

Did you know?

The Banking Division is responsible for examinations of 68 state-chartered banks and 4 trust companies. The division has 3 supervisors and 13 examiners.

The Credit Union Division is responsible for examinations of 21 state-chartered credit unions. The division has 1 supervisor and 3 examiners.

The Consumer Division processed 15,485 fees collected during the audit period. The division has 1 supervisor and 3 examiners.

The Department of Financial Institutions is responsible for enforcing all laws relating to state banks, trust companies, building and loan associations, mutual investment corporations, mutual savings corporations, banking institutions, and other financial corporations, exclusive of the Bank of North Dakota, and all credit unions organized or doing business under the laws of this State. The Department also issues licenses to money brokers, mortgage loan originators, collection agencies, deferred presentment service providers, money transmitter businesses, debt settlement providers, and agents for deposit.

The Department is organized into 3 divisions.



Banking Division

The Banking Division collects a yearly assessment from each bank under its jurisdiction to fund the division.



Credit Union Division

The Credit Union Division collects a yearly assessment from each credit union under its jurisdiction to fund the division.



Consumer Division

The Consumer Division collects licensing fees from collection agencies, payday lenders, money brokers and transmitters, debt settlers and mortgage loan originators. The Consumer Division had revenue in excess of expenditures by \$491,558 during the 2016-17 biennium. The transfer to the General Fund was made from the Consumer Division.

**LEGISLATIVE AUDIT AND FISCAL REVIEW
COMMITTEE MEMBERS**

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Representative Chet Pollert – Vice Chairman**

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Mary Johnson
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Judy Lee
Richard Marcellais**

AUDITOR AND AGENCY PERSONNEL

State Auditor Personnel

**Allison Bader, MBA, Audit Manager
Kevin Scherbenske, CPA, Audit Supervisor
Nathan Wangler, CPA
Paige Chapman, M. Acc.**

Primary State Agency Contacts

**Lise Kruse, MBA, Commissioner
Joan Becker, Director of Administration**

Contents

<i>Transmittal Letter</i>	<i>1</i>
<i>Audit Results</i>	<i>2</i>
<i>Statutory Audit Requirements</i>	<i>2</i>
<i>Conclusion</i>	<i>2</i>
<i>Background Information and Findings</i>	<i>2</i>
<i>Internal Control</i>	<i>3</i>
<i>Scope</i>	<i>3</i>
<i>Methodology</i>	<i>3</i>
<i>Authority and Standards</i>	<i>4</i>
<i>Financial Statements</i>	<i>5</i>
<i>Statement of Revenues and Expenditures</i>	<i>5</i>
<i>Statement of Appropriations</i>	<i>6</i>
<i>LAFRC Responses</i>	<i>7</i>
<i>Responses to LAFRC Audit Questions</i>	<i>7</i>
<i>LAFRC Audit Communications</i>	<i>7</i>



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE – DEPT 117
BISMARCK, NORTH DAKOTA 58505

Transmittal Letter

January 25, 2019

The Honorable Doug Burgum, Governor
Members of the North Dakota Legislative Assembly
Ms. Lise Kruse, Commissioner

We are pleased to submit this audit of the Department of Financial Institutions for the two-year period ended June 30, 2018. 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. Additionally, whenever possible additional audit objectives are included to increase the efficiency 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) 328-2241. We wish to express our appreciation to Commissioner Kruse and her staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

Joshua C. Gallion
State Auditor

Audit Results

Statutory Audit Requirements

The objective related to our statutory audit requirements was to answer the following question:

Are there any exceptions to report relating to statutorily required audit testing?

Statutorily required audit testing includes: performing the post audit of financial transactions, detecting and reporting any defaults, determining that expenditures have been made in accordance with law, appropriation acts, and emergency commission action, and evaluating blanket bond coverage. Defaults are defined as failures to do something required by duty or law. Bonding coverage provides insurance to state agencies for any default or wrongful act on the part of any public employee or public official.

Conclusion

No exceptions to our statutorily required audit testing were identified.

Background Information and Findings

Audit procedures included testing compliance with appropriation laws, evaluating the adequacy of blanket bond coverage, and performing tests of expenditures and receipts. The audit also determined the proper cash balance in the Department of Financial Institutions' regulatory fund at the close of the biennium was limited to the maximum amount allowed.

North Dakota Century Code (NDCC) 6-01-01.1(3) (effective 2001) limits the fund balance at the end of each biennium to 20% of the next succeeding biennial budget, excluding fees collected for use in the next succeeding biennium. The \$165,906 transfer to the General Fund noted in the financial statements was made following the 2016-17 biennium and is the only transfer of excessive fund balance by the Department of Financial Institutions in the past 14 years.

The Department of Financial Institutions is responsible for enforcing all laws relating to state banks, trust companies, building and loan associations, mutual investment corporations, mutual savings corporations, banking institutions, and other financial corporations, exclusive of the Bank of North Dakota, and all credit unions organized or doing business under the laws of this State. The Department also issues licenses to money brokers, mortgage loan originators, collection agencies, deferred presentment service providers, money transmitter businesses, debt settlement providers, and agents for deposit.

The Commissioner, in conjunction with the State Banking Board (seven members) and State Credit Union Board (five members), provides supervisory authority over North Dakota's state-chartered banks and credit unions. All members of these Boards are appointed by the Governor. The Commissioner is appointed by the Governor and confirmed by the North Dakota Senate and serves as the chairperson of each board.

The Department of Financial Institutions is organized into 3 divisions and funded by assessments and fees collected by each division.

The Banking Division collects a yearly assessment from each bank under its jurisdiction to fund the division (NDCC 6-01-17, 18). The Banking Division is responsible for examinations of 68 state-chartered banks and 4 trust companies. The division has 3 supervisors and 13 financial institution examiners

The Credit Union Division collects a yearly assessment from each credit union under its jurisdiction to fund the division (NDCC 6-06-08(4)). The Credit Union Division is responsible for examinations of 21 state-chartered credit unions. The division has 1 supervisor and 3 credit union examiners.

The Consumer Division collects licensing fees from collection agencies, payday lenders, money brokers and transmitters, debt settlers and mortgage loan originators. The Consumer Division processed 15,485 fees collected during the audit period. The Consumer Division has 1 supervisor and 3 consumer division examiners. The Consumer Division had revenue in excess of expenditures by \$491,558 during the 2016-17 biennium. The transfer to the General Fund was made from the Consumer Division.

Internal Control

We gained an understanding of internal controls 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.

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: misstatements in financial or performance information, violations of laws and regulations or impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any deficiencies in internal control that were significant within the context of our audit objectives and based upon the audit work performed.

Scope

This audit of the Department of Financial Institutions is for the two-year period ended June 30, 2018.

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

Methodology

To meet this objective, we:

- 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 compliance with appropriation laws and regulations and where necessary internal control which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently.

- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system for data analysis. Significant evidence was obtained from ConnectND.
- Observed the Department of Financial Institutions' processes and procedures.
- Reviewed documentary evidence.
- Reviewed blanket bond coverage to ensure adequate coverage by comparing agency coverage to state bonding guidelines.
- Performed an analysis of and selected a sample of high-risk transactions, including receipts, travel vouchers and purchase card transactions, for further testing.
- Reviewed biennial ending fund balance and ensured any amounts in excess of allowed carryover were transferred to the general fund.

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

Authority and Standards

This biennial performance 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* issued by the Comptroller General of the United States. 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 and based upon the audit work performed.

The criteria used to evaluate internal control is 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).

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Revenues and Other Sources:		
Bank Examination Fees	\$2,378,246	\$2,454,608
Credit Union Examination Fees	661,448	659,678
Mortgage Broker Fees	357,597	323,873
Collection Agency Fees	331,778	294,341
Mortgage Loan Originator Fees	238,725	213,100
Money Transmitter/Debt Settlement Fees	55,500	49,700
Payday Loan Fees	22,019	45,913
Fines	110,025	825
Interest	2,847	1,888
Miscellaneous Revenue	14	637
Total Revenues and Other Sources	<u>\$4,158,199</u>	<u>\$4,044,563</u>
Expenditures and Other Uses:		
Salaries and Benefits – Banking	\$2,100,774	\$2,133,339
Salaries and Benefits – Credit Union	518,730	554,645
Salaries and Benefits – Consumer Protection	582,114	573,553
Travel – Banking	159,978	168,383
Travel – Credit Union	23,922	49,114
Travel – Consumer Protection	9,903	11,625
IT – Data Processing and Communications	137,888	117,173
Building Rent	107,083	112,709
Professional Development	93,303	98,293
Furniture	777	41,603
Miscellaneous Expenditures	63,587	84,463
Transfers to General Fund	165,906	
Total Expenditures and Other Uses	<u>\$3,963,965</u>	<u>\$3,944,900</u>

Source: ConnectND Financials

Statement of Appropriations

For the Year Ended June 30, 2018

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	\$ 6,813,840		\$ 6,813,840	\$ 3,201,618	\$ 3,612,222
Operating Expenses	1,576,072		1,576,072	596,440	979,632
Contingency	20,000		20,000		20,000
Totals	<u>\$ 8,409,912</u>	<u>\$ 0</u>	<u>\$ 8,409,912</u>	<u>\$ 3,798,058</u>	<u>\$ 4,611,854</u>
Expenditures by Source:					
Other Funds	\$ 8,409,912		\$ 8,409,912	\$ 3,798,058	\$ 4,611,854
Totals	<u>\$ 8,409,912</u>	<u>\$ 0</u>	<u>\$ 8,409,912</u>	<u>\$ 3,798,058</u>	<u>\$ 4,611,854</u>

Source: ConnectND Financials

For the Biennium Ended June 30, 2017

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	\$ 6,737,190		\$ 6,737,190	\$ 6,334,802	\$ 402,388
Operating Expenses	1,641,577		1,641,577	1,420,979	220,598
Contingency	77,000		77,000		77,000
Totals	<u>\$ 8,455,767</u>	<u>\$ 0</u>	<u>\$ 8,455,767</u>	<u>\$ 7,755,781</u>	<u>\$ 699,986</u>
Expenditures by Source:					
Other Funds	\$ 8,455,767		\$ 8,455,737	\$ 7,755,781	\$ 699,986
Totals	<u>\$ 8,455,767</u>	<u>\$ 0</u>	<u>\$ 8,455,767</u>	<u>\$ 7,755,781</u>	<u>\$ 699,986</u>

Source: ConnectND Financials

LAFRC Responses

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 responses are noted below.

Responses to LAFRC Audit Questions

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

This question is not applicable for performance audits. 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.

- 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 Institutions' 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 Nationwide Mortgage Licensing and Registration System (NMLS) are high-risk information technology systems critical to the Department of Financial Institutions.

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

or by contacting the
Division of State Audit

Office of the State Auditor
600 East Boulevard Avenue – Department 117
Bismarck, ND 58505-0060

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