

Office of the Secretary of State

BISMARCK, NORTH DAKOTA

Audit Report

For the 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

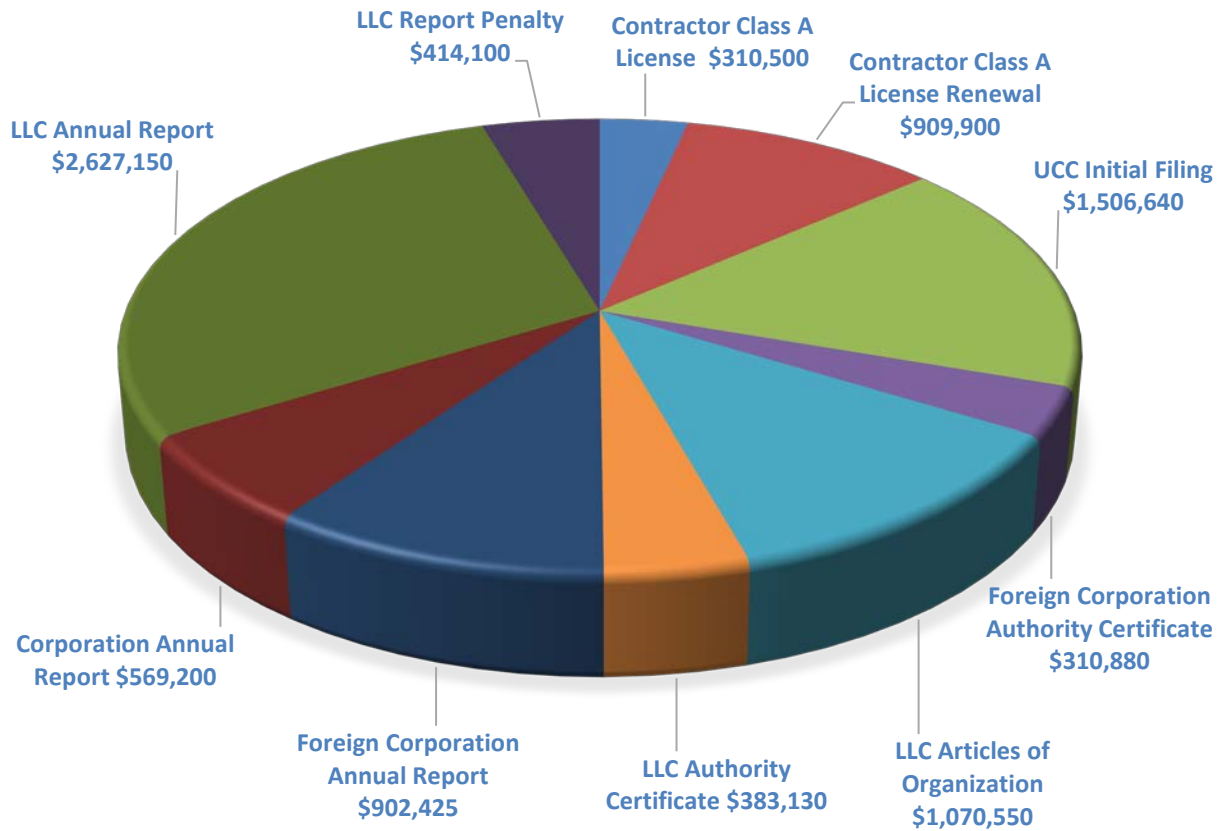
The purpose of this audit was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements.

What We Found

The Office of the Secretary of State complied with law and appropriation requirements.

The Office of the Secretary of State receives revenue from a variety of fees charged for filings, issuing licenses, amendments, reports, lists, and registrations. The agency utilizes the AS400 information system and the Central Indexing System (CIS) to record these various revenue streams.

TOP TEN REVENUE SOURCES 7/1/16 TO 6/30/18



Source: Secretary of State's AS400 and Central Indexing System reports

Trend analyses on this information can be found in the body of the audit report.

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AUDITOR AND AGENCY PERSONNEL

State Auditor Personnel

**Allison Bader, MBA, Audit Manager
Kristi Morlock, MBA, Audit Supervisor
Delan Hellman, Audit Senior
Holly Runia, Auditor
Paige Chapman, M.Acc, Auditor**

Primary State Agency Contacts

**Al Jaeger, Secretary of State
Jamie Wilke, MBA, Accounting Director**

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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
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BISMARCK, NORTH DAKOTA 58505

Transmittal Letter

March 26, 2019

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

We are pleased to submit this audit of the Office of the Secretary of State 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 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) 328-2241. 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,

/S/

Joshua C. Gallion
State Auditor

Audit Results

Statutory Audit Requirements

The objective related to our statutory audit requirements is:

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 Results

Audit procedures included testing compliance with appropriation laws, evaluating the adequacy of blanket bond coverage, performing tests of expenditures and revenue. The audit also included procedures to follow up on compliance of the prior audit finding.

The North Dakota Office of the 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.

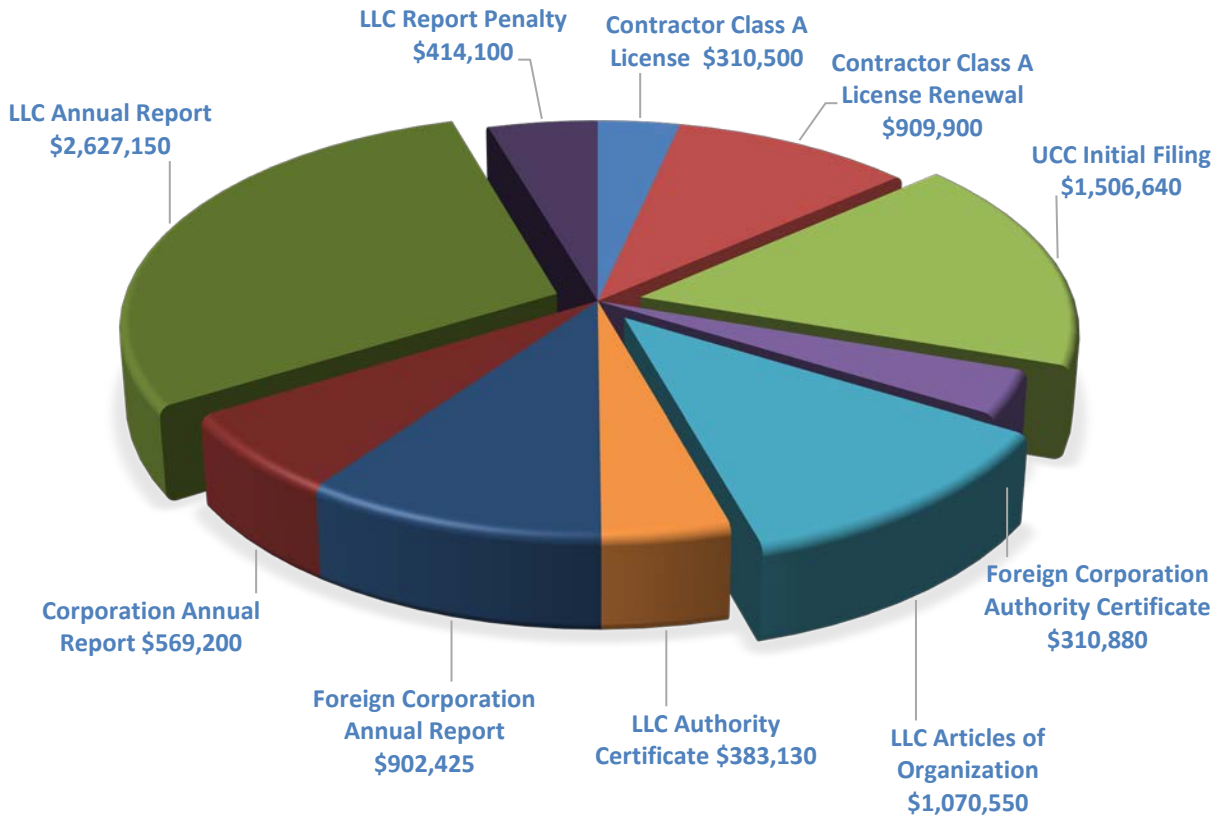
The Secretary of State serves as a member and secretary of the Emergency Commission, is a member of the Board for the State Historical Society, is a member of the Theodore Roosevelt Rough Rider Awards Committee, is a member of the Board of University and School Lands and is the Secretary of the State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

The office is organized into six operating units which include: Central Indexing, Licensing, Accounting, Elections, Business Registration, and Business Information.

The office registers and files reports for 48 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.

Most of the revenue that the Secretary of State receives is from a variety of fees charged for filings, issuing licenses, amendments, reports, lists, and registrations. The Secretary of State utilizes the Central Indexing System (CIS) to record revenue for various lien documents with all other revenue being collected through the AS400 information system.

TOP TEN REVENUE SOURCES 7/1/16 TO 6/30/18

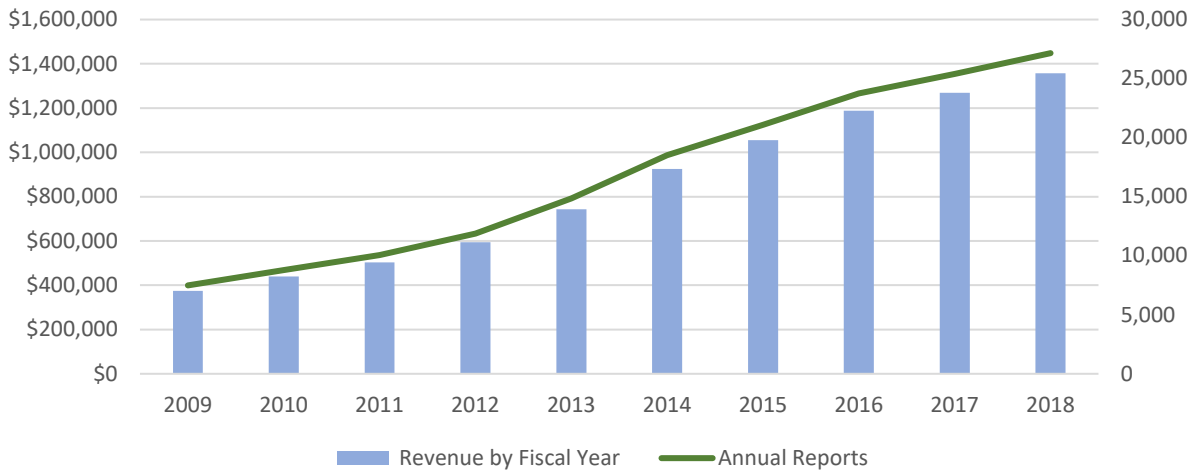


Source: Secretary of State's AS400 and Central Indexing System reports

The top three sources of revenue (LLC Annual Report, UCC Initial Filing, and LLC Articles of Organization) will be shown separately in the following 10-year trend analyses.

A Limited Liability Company (LLC) is an entity that has its own rights, privileges, and liabilities that are distinct from the members. The structure of an LLC combines the characteristics of a partnership and corporation. LLC's must file an annual report with \$50 with the Secretary of State each year by November 15. This fee is collected by the Business Information Unit and the Business Registration Unit through the agency's AS400 Information System.

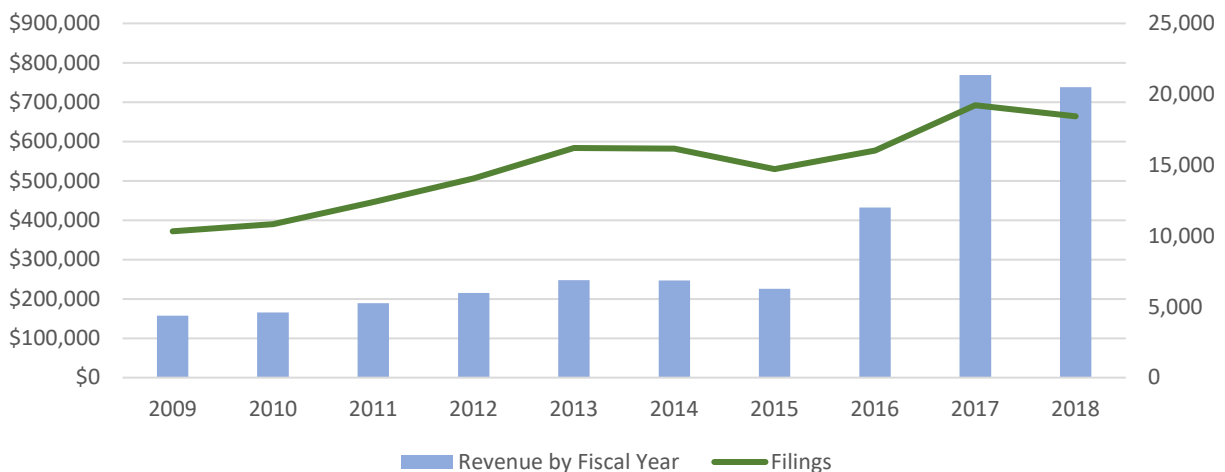
Limited Liability Company Annual Report



Source: Secretary of State's AS400 and Central Indexing System reports

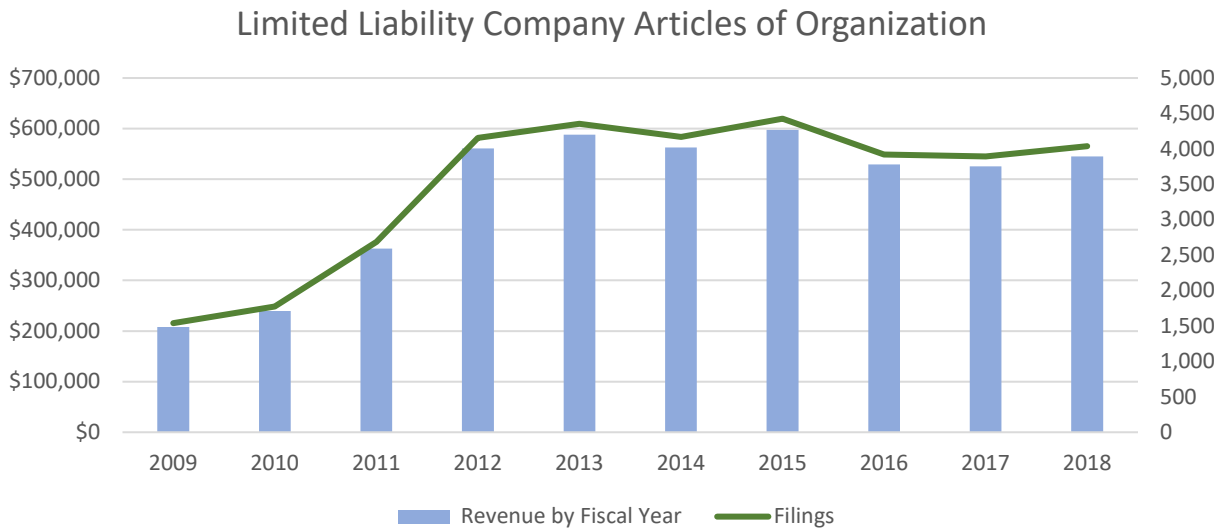
Uniform Commercial Code (UCC) documents are filed to protect the collateral of secured parties. UCC documents are used primarily to provide proof of collateral on a variety of personal property. The cost of completing a UCC filing increased from \$15 to \$40 and allowed for unlimited searches at no cost to the public on March 1, 2016. This change led to more revenue being collected during the end of fiscal year 2016 and in fiscal years 2017 and 2018. This fee is collected by the Central Indexing Unit through the agency's Central Indexing System (CIS) Information System.

Uniform Commercial Code Filing



Source: Secretary of State's AS400 and Central Indexing System reports

For a Limited Liability Company (LLC) to exist, LLC's must first have an approved article of organization filed with the Secretary of State. The cost to do this is \$135. LLC's became a more common choice for business structures during the fiscal year 2012 timeframe and, with the oil boom also happening at this time, it caused an even higher increase in the number of LLC's. This fee is collected by the Business Registration Unit through the agency's AS400 Information System.



Source: Secretary of State's AS400 and Central Indexing System reports

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 Office of the Secretary of State is for the two-year period ended June 30, 2018.

The Office of the Secretary of State's sole location is its Bismarck office which 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.
- 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 for data analysis. Significant evidence was obtained from ConnectND.
- Observed Office of the Secretary of State's processes and procedures.
- Inspected documentary evidence.
- Tested compliance with appropriation laws and regulations including related emergency commission action. 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.
- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines.
- Performed an analysis and selected a sample of high-risk transactions, including expenditures and one-time payments, for further testing.
- Tested compliance with OMB's Purchasing Procedures Manual.
- Determined if fixed assets capitalization requirements were being met.
- Reconciled revenue recorded on the AS400 Information System and the Central Indexing System (CIS) to the ConnectND (PeopleSoft) system.

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 Office 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* 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.

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:		
Licenses and Fees	\$6,310,113	\$6,361,789
Sales and Services	842,293	779,344
Refunds	258,995	255,326
Program Income	12,170	10,925
Interest on Investment	1,068	897
Total Revenues and Other Sources	<u>\$7,424,639</u>	<u>\$7,408,281</u>
Expenditures and Other Uses:		
Salaries and Benefits	\$2,445,530	\$2,530,405
Information Technology	762,457	782,828
Software Maintenance	436,311	436,311
Books	204,642	50,405
Printing	124,178	119,447
Credit Card and Other Operating Fees	99,223	108,875
Professional Services	91,256	220,186
Postage	67,557	74,992
Supplies	17,878	20,388
Travel	16,723	22,613
Professional Development	13,494	7,676
Miscellaneous Expenses	8,152	30,012
Equipment	7,499	753
Repairs	1,932	5,390
Software Licenses	140	384,826
Total Expenditures and Other Uses	<u>\$4,296,972</u>	<u>\$4,795,107</u>

Source: ConnectND Financials

Statement of Appropriations

For the Year Ended June 30, 2018

Expenditures by Line Item:	Final Appropriation	Expenditures	Unexpended Appropriation
Salaries and Wages	\$ 4,652,764	\$2,278,981	\$2,373,783
Operating Expenses	3,725,691	955,170	2,770,521
Construction Carryover	2,197,340	230,753	1,966,587
Petition Review	8,000	915	7,085
Election Reform	1,192,655	619,855	572,800
Public Printing	<u>288,450</u>	<u>209,515</u>	<u>78,935</u>
Total	<u>\$12,064,900</u>	<u>\$4,295,189</u>	<u>\$7,769,711</u>
Expenditures by Source:			
General	\$ 8,006,072	\$3,252,587	\$4,753,485
Other	<u>4,058,828</u>	<u>1,042,602</u>	<u>3,016,226</u>
Total	<u>\$12,064,900</u>	<u>\$4,295,189</u>	<u>\$7,769,711</u>

Source: ConnectND Financials

For the Biennium Ended June 30, 2017

Expenditures by Line Item:	Final Appropriation	Expenditures	Unexpended Appropriation
Salaries and Wages	\$ 5,111,514	\$ 4,879,231	\$ 232,283
Operating Expenses	5,666,190	3,162,685	2,503,505
Petition Review	10,000	8,594	1,406
Business Process Modeling Services	290,207	290,207	
Election Reform	2,703,534	1,888,518	815,016
Public Printing	<u>290,045</u>	<u>256,337</u>	<u>33,708</u>
Total	<u>\$14,071,490</u>	<u>\$10,485,572</u>	<u>\$3,585,918</u>
Expenditures by Source:			
General	\$ 9,973,948	\$ 7,742,900	\$2,231,048
Other	<u>4,097,542</u>	<u>2,742,672</u>	<u>1,354,870</u>
Total	<u>\$14,071,490</u>	<u>\$10,485,572</u>	<u>\$3,585,918</u>

Source: ConnectND Financials

Status of Prior Recommendations

Inadequate Process for Handling Complaints Filed Against a Contractor (Finding 16-1)

Recommendation:

We recommend the Office of the Secretary of State develop an adequate complaint process and document policies and procedures regarding proper and effective handling of complaints for the Contractor Licensing program.

Status:

Implemented

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?*

The Office of the Secretary of State has implemented the recommendation 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 Office of 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), the AS400 (Business Registration and Accounting System), and the Central Indexing System (CIS) are high-risk information technology systems critical to the Office of the Secretary of State.

You may obtain audit reports on the internet at:

www.nd.gov/auditor

or by contacting the Office of the State Auditor at:

Email: ndsao@nd.gov

Phone: (701) 328-2241

Office of the State Auditor

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