



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Secretary of State

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

Client Code 108





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 high-risk or significant functions of the agency.

WHAT WE FOUND



Fees Charged to Citizens Not Being Reconciled

Our team found a difference of \$75,211 from revenue generated through various citizen fees through the Secretary of State's Office systems when compared to ConnectND.

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KEY PERSONNEL

Allison Bader
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HAVE QUESTIONS? ASK US.

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Introduction

Secretary of State

May 24, 2021

We are pleased to submit this audit of the Secretary of State 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.

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 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.

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.

Emergency Commission: 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.

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 or high-risk functions of the agency?

Because a reconciliation between all three systems is not happening regularly, there is not a way of confirming that the amounts from all three systems are being deposited into ConnectND. Additionally, one of the systems being used (FirstStop) is still in the process of being fully developed.

While deposit receipts are received for daily deposits of revenue from each system to ConnectND, other adjustments can occur in the systems and not be detected without a proper reconciliation. Without this reconciliation, revenue could potentially be unaccounted for in ConnectND.

Because of the systems not being reconciled, potential theft could go undetected, and revenue could be incorrectly listed in ConnectND.

Internal control standards require management performs 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).

FINDING
2020-01

Lack of Revenue Reconciliation

CONCLUSION

Our team found a difference of \$75,211 from revenue generated through various citizen fees through the Secretary of State's Office information technology systems, when compared to ConnectND, the state's accounting system.

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

Revenue collections are recorded on these three systems. A manual deposit is then reported to ConnectND, North Dakota's internal accounting system.

The reason for using multiple programs is because of various fees the Secretary of State's Office collects. Some examples of the fees include:

- Licensing fees
- Notary fees
- Election-related fees
- Registration fees
- Agricultural statutory liens

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, ConnectND, on a regular basis.

The agency's continuing reconciliation of the finding difference has already documented approximately 95% related to the transactional timing issue for the two year audit period ending June 30, 2020.

The monthly reconciliation will be simplified when the agency's FirstStop software system is completely implemented (including its reporting module), which will then eliminate the AS400 software system.

SECRETARY OF STATE RESPONSE

The agency agrees with the recommendation and has completed a review that identified the reason for the reported difference finding. It is because of transactional timing differences related to the dates in which transactions occurring near the end of the month and the beginning of next month are reflected on ConnectND.

A monthly reconciliation process will be added to the agency's existing procedures, which did already document revenue by comparing the transactional details and revenue received for a completed transaction processed in one of the agency's three software systems that utilize one of five credit card payment processors, along with the daily reports from the Bank of North Dakota and the State Treasurer.

Although the revenue is accounted for, the reporting from the agency's three software systems does not exactly match the ConnectND reporting. That is because of the transactional timing difference when transactions are processed near the end of the month in one of agency's operating systems and which are then received after the beginning of the next month by the Bank of the North Dakota or the State Treasurer and then listed on their daily reports.

When the reason for the difference was identified, the agency implemented a process where batch transactions are recorded to correlate dates in all systems and then reflected correctly in ConnectND. For the monthly reconciliation and the continuing timing issue, the agency will then match dates with reports from its three operating systems and the ConnectND reports.

Audit Procedures

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 ENVIRONMENT

Principal: Management should demonstrate a commitment to recruit, develop, and retain competent individuals.

COMPONENT: CONTROL ACTIVITIES

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

Principal: Management should design the entity's information system and related control activities to achieve objectives and respond to risks.

The specific internal control testing completed for these audit objectives is identified below:

- Segregated preparation and approval of expenditures tested statewide in the State of North Dakota Annual Comprehensive Report audit.
- Proper authorizations of original appropriations and adjustments tested in the State of North Dakota Annual Comprehensive Financial Report audit.

- Procurement performed by an individual with the proper level of procurement training.

- Refunds of fee collections properly approved by individuals separate from making the refund payment.

- Observed data entry screens in the FirstStop System to determine that the system populates the fee amounts to be collected from fee tables in the system and required fee amounts cannot be manually overridden.

There were no deficiencies identified.

SCOPE

This audit of the Secretary of State is for the two-year period ended June 30, 2020.

The Secretary of State's sole location is its Bismarck office, which 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 also worked to identify areas of high risk of noncompliance including the following listed below.

Non-statistical sampling was used and the results were projected to the population where appropriate.

To meet this objective, we:

- Interviewed appropriate agency personnel.
- Observed the North Dakota Secretary of State's processes and procedures.
- Inspected documentary evidence.
- Queried the ConnectND (PeopleSoft) system for data analysis. Significant evidence was obtained from ConnectND.

- Selected a random sample of expenditures to test payments were for lawful and official purposes, pursuant to law, and properly recorded in the State's accounting system (N.D.C.C. 44-08-05.1(1a), N.D.C.C. 54-44.1-10).
- Tested compliance with appropriations, adjustments, and related transfers in accordance with limits and purpose (N.D.C.C. 54-44.1-09, State Constitution article 10 section 12).
- Analyzed and tested that expenditures did not exceed appropriations authorized by emergency commission action (N.D.C.C. 54-16-03).
- Tested expenditures supporting up to \$8,200,000 was used for the statewide voting system and e-poll book project from the strategic investment and improvements fund (2019 Session Law North Dakota Session Laws Chapter 27 Section 3).
- Selected a high-risk sample of expenditures to ensure goods and services were properly procured (N.D.C.C. Chapter 54-44.4-05, N.D.A.C. Article 4-12, and OMB State Procurement Manual guidelines).
- Reconciled revenue recorded on external systems, AS400 (Business Registration and Accounting System), FirstStop (replacement of AS400 system), and Central Indexing system (CIS), to the State's internal accounting system (ConnectND).
- Ensured fees were imputed into the FirstStop system properly and corresponded with applicable N.D.C.C. required fee amounts (N.D.C.C. 06-08-26; N.D.C.C. 10-01.1-03; N.D.C.C. 10-15-54; N.D.C.C. 10-19.1-147; N.D.C.C. 10-32.1-92; N.D.C.C. 10-33-140; N.D.C.C. 10-34-09; N.D.C.C. 10-36-08; N.D.C.C. 41-09-96; N.D.C.C. 43-54-03; N.D.C.C. 43-54-05; N.D.C.C. 44-06.1-20; N.D.C.C. 45-10.2-109; N.D.C.C. 45-11-05; N.D.C.C. 45-11-05.1; N.D.C.C. 45-13-05; N.D.C.C. 45-22-22; N.D.C.C. 45-23-08; N.D.C.C. 47-22-03; N.D.C.C. 47-25-03.1; N.D.C.C. 47-25-04; N.D.C.C. 50-22-02; N.D.C.C. 54-09-04).
- Determined amounts transferred from the General Fund to the Secretary of State General Services Operating Fund from the various fees collected through the Central Indexing system, increased from ten to twenty dollars as outlined under subsection 4 of section 41-09-94 and subsection 5 of section 41-09-96 (2019 Session Law North Dakota Session Laws Chapter 27 Section 7).
- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines. Evaluated blanket bond coverage maintained in accordance with state law and state guidelines (N.D.C.C. 26.1-21-08, N.D.C.C. 26.1-21-10 (1)).
- Continuing appropriations of funds were properly authorized in accordance with N.D.C.C.
 - o Secretary of State General Services Operating Fund (N.D.C.C. 54-09-08).
 - o Election Fund (N.D.C.C. 16.1-01-15).
 - o 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 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 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 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?

Except for "Lack of Revenue Reconciliation", Secretary of State's internal controls were adequate and functioning effectively.

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 Secretary of State 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), AS400 (Business Registration and Accounting System), FirstStop (replacement of AS400 system), and Central Indexing System (CIS) are information technology systems utilized by the Secretary of State that were significant to the audit objective.

Finances

Revenues and Expenditures

REVENUES AND OTHER SOURCES		JUNE 30, 2020	JUNE 30, 2019
Licenses and Fees		\$ 6,704,709	\$ 5,938,082
Revenue from Federal Government		6,000,000	3,000,000
Sales and Services		1,367,115	1,035,305
Refunds		-	173,059
Program Revenue		21,285	6,404
Interest on Investment		14,621	9,336
Transfer In		-	8,200,000
Total Revenue and Other Sources		\$ 14,107,730	\$ 18,362,186

Source: ConnectND Financials

Continued on the following page

Finances

Revenues and Expenditures

EXPENDITURES AND OTHER USES	JUNE 30, 2020	JUNE 30, 2019
Equipment over \$5,000	\$ 8,071,960	\$ -
Salaries and Benefits	2,492,921	2,574,804
Information Technology	629,312	961,622
Postage	438,466	115,571
Other Operating Fees	247,772	221,973
Supplies	207,073	68,779
Software Maintenance	183,292	100,506
Printing	166,874	103,268
Software/Licenses	94,795	351,927
Professional Services	37,753	87,252
Travel	30,854	21,516
Professional Development	12,895	5,122
Repairs	3,857	3,938
Other Equipment Under \$5,000	3,100	19,942
Total Expenditures and Other Uses	\$ 12,620,924	\$ 4,636,220

Source: ConnectND Financials

Appropriations

As of the Year Ended June 30, 2020

	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATION
Expenditures by Line Item			
Salaries and Wages	\$ 4,978,126	\$ 2,290,915	\$ 2,687,211
Operating Expenses	3,009,553	957,395	2,052,158
Construction Carryover	1,258,207	169,552	1,088,655
Petition Review	8,000	965	7,035
Election Reform	15,801,747	9,005,485	6,796,262
Public Printing-Operating	257,278	190,892	66,386
Totals	\$ 25,312,911	\$ 12,615,204	\$ 12,697,707
Expenditures by Source			
General	\$ 6,881,270	\$ 3,302,618	\$ 3,578,652
Other	18,431,641	9,312,586	9,119,055
Totals	\$ 25,312,911	\$ 12,615,204	\$ 12,697,707

Source: ConnectND Financials

Appropriations

For the Biennium Ended June 30, 2019

	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATION
Expenditures by Line Item			
Salaries and Wages	\$ 4,792,764	\$ 4,657,867	\$ 134,897
Operating Expenses	3,585,691	1,762,362	1,823,329
Construction Carryover	2,197,340	939,133	1,258,207
Petition Review	11,280	11,274	6
Election Reform	1,395,655	1,295,624	100,031
Public Printing-Operating	288,450	258,941	29,509
Totals	\$ 12,271,180	\$ 8,925,201	\$ 3,345,979
Expenditures by Source			
General	\$ 8,009,352	\$ 6,719,836	\$ 1,289,516
Other	4,261,828	2,205,365	2,056,463
Totals	\$ 12,271,180	\$ 8,925,201	\$ 3,345,979

Source: ConnectND Financials



NORTH DAKOTA STATE AUDITOR
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