



# NORTH DAKOTA OFFICE OF THE STATE AUDITOR

*State Auditor Joshua C. Gallion*

## Securities Department

For the Two-Year Period Ended June 30, 2020

*Client Code 414*





### 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

This audit did not identify any areas of concern.

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# KEY PERSONNEL

Allison Bader  
MBA, AUDIT MANAGER

Taylor Hendrickson  
AUDITOR

# HAVE QUESTIONS? ASK US.

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# Introduction

## Securities Department

June 14, 2021

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**W**e are pleased to submit this audit of the Securities Department 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 Securities Department 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 conclusion 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.

### COMPONENT: MONITORING ACTIVITIES

**Principal:** Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

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 Comprehensive Report.

- Agent and dealer fees collected through the Central Registration Depository (CRD) by the Financial Industry Regulatory Authority are monitored for accuracy of the fee in accordance with NDCC on the daily disbursement listing from CRD.

- Revenue collected through Central Registration Depository, Electronic Filing Depository, Blue Express, and the Securities Deposit System is reconciled to the state's accounting system (Peoplesoft) and the reconciliation is properly approved.

There were no deficiencies identified.

## SCOPE

This audit of the North Dakota Securities Department is for the two-year period ended June 30, 2020.

The Securities Department has operations in the following locations. Each location was included in the audit scope:

- The Bismarck office in the State Capitol.
- A satellite office in Grafton, ND.

## METHODOLOGY

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 Securities Department's processes and procedures.
- Inspected documentary evidence.



- Queried the ConnectND (PeopleSoft) system for data analysis. Significant evidence was obtained from ConnectND.
- Queried the ConnectND (PeopleSoft) system for data analysis. Performed detailed analytical procedures. These procedures were used to identify high risk transactions and potential problems for additional testing.
- Analyzed and tested expenditures statewide in the State of North Dakota Annual Comprehensive Financial Report to determine the Securities Department did not expend more than appropriated. (N.D.C.C. 54-16-03).
  - 2017 Session Laws Senate Bill 1011, Section 1.
- Analyzed accounts charged to each appropriation class to determine that expenditures were not charged to an inappropriate class to circumvent appropriation spending authority. (N.D.C.C. 54-16-03).
- Reviewed non-appropriated fund activity to ensure legislative approval for non-appropriated expenditures. (N.D.C.C. 54-44.1-09).
- Investor Restitution Fund authorized with continuing appropriation by N.D.C.C. 10-04-03(5).
- Transfer of any balance in the securities department special fund in excess of the amounts necessary for department expenditures pursuant to the department's biennial appropriation to the general fund. At the end of the 2017-2019 biennium, the transferred balance was \$7,754,324. (N.D.C.C. 10-04-03(5)(b)).
- Selected a judgmental sample of higher dollar or high risk expenditures to test accurate recording of payments in the state's accounting system related to appropriation class, funds and revenue and expenditure accounts. (N.D.C.C. 54-44.1-09, N.D.C.C. 54-44.1-10, N.D.C.C. 44-08-05).
- Selected a judgmental sample of higher dollar or high risk expenditures to determine that charges to significant legislatively restricted funds were in accordance with fund restrictions.
  - Investor Education and Technology Fund to provide education services to the public relating to any of the financial services industries, including the securities industry, and to provide for the technology needs of the department. (N.D.C.C. 10-04-03(4)(c)).
- Investor Restitution Fund distribution of civil penalties collected from enforcement actions to aggrieved investors. (N.D.C.C. 10-04-03 (5)).
- 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)).
- Selected a sample of statutory fees to determine that appropriate fees are being collected in accordance with Century Codes.
  - \$400 filing fee for mutual funds. (N.D.C.C. 10-04-08.4(1)(c)).
  - \$200 filing fee for broker-dealers. (N.D.C.C. 10-04-10(8)).
  - \$60 filing fee for agents. (N.D.C.C. 10-04-10(8)).
- Inspected the statutory salary of the Securities Commissioner compared to salary authorized by the Governor. (N.D.C.C. 10-04-03).
- Selected a random sample of receipts to determine that revenue is reconciled and deposited with the Treasurer's Office. (N.D.C.C. 54-06-29, Article X, Section 12 of North Dakota Constitution).

## **AUTHORITY AND STANDARDS**

This biennial audit of the North Dakota Securities Department 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).





# 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 North Dakota Securities Department 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 North Dakota Securities Department'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 Resource Management System (HRMS), Central Registration Depository, Electronic Filing Depository, Blue Express, and the Securities Deposit System are high-risk information technology systems critical to the North Dakota Securities Department that were also significant to the primary audit objective.

# Financials

## Revenues and Expenditures

REVENUES AND OTHER SOURCES		JUNE 30, 2020	JUNE 30, 2019
Agent Registrations		\$ 6,814,770	\$ 6,731,140
Securities Registrations		3,710,797	3,907,959
Dealer Registrations		341,400	338,800
Franchise Registrations		113,050	117,200
Miscellaneous Licenses and Fees		375	450
Fines, Forfeitures, Escheat		500	500,200
Total Revenue and Other Sources		\$ 10,980,892	\$ 11,595,749

Source: ConnectND Financials

Continued on the next page

# Financials

## Revenues and Expenditures

EXPENDITURES AND OTHER USES	JUNE 30, 2020	JUNE 30, 2019
Salaries and Benefits	\$ 979,490	\$ 905,447
Information Technology Services	51,128	45,980
Rentals and Leases of Buildings and Land	32,140	1,297
Professional Development	27,709	12,108
Operating Fees and Services	22,071	58,558
Supplies	18,261	39,405
Travel	17,794	15,629
Professional Fees and Services	9,900	87
Equipment under \$5,000	4,474	29,891
Postage	1,152	1,590
Printing	1,426	2,181
Insurance	990	562
Repairs	353	564
Investor Restitution Payments	-	139,172
Transfers Out	7,754,324	-
<b>Total Expenditures and Other Uses</b>	<b>\$ 8,921,212</b>	<b>\$ 1,252,471</b>

Source: ConnectND Financials

# Appropriations

For the Year Ended June 30, 2020

EXPENDITURES BY LINE ITEM	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
Salaries and Wages	\$ 2,163,558	\$ 978,976	\$ 1,184,582
Operating Expenses	593,561	187,912	405,649
<b>Totals</b>	<b>\$ 2,757,119</b>	<b>\$ 1,166,888</b>	<b>\$ 1,590,231</b>
<b>Expenditures by Source</b>			
Other	\$ 2,757,119	\$ 1,166,888	\$ 1,590,231
<b>Totals</b>	<b>\$ 2,757,119</b>	<b>\$ 1,166,888</b>	<b>\$ 1,590,231</b>

Source: ConnectND Financials

For the Year Ended June 30, 2019

EXPENDITURES BY LINE ITEM	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
Salaries and Wages	\$ 1,848,667	\$ 1,768,153	\$ 80,514
Operating Expenses	506,047	333,770	172,277
<b>Totals</b>	<b>\$ 2,354,714</b>	<b>\$ 2,101,923</b>	<b>\$ 252,791</b>
<b>Expenditures by Source</b>			
General	\$ 2,184,714	\$ 2,023,634	\$ 161,080
Other	170,000	78,289	91,711
<b>Totals</b>	<b>\$ 2,354,714</b>	<b>\$ 2,101,923</b>	<b>\$ 252,791</b>

Source: ConnectND Financials



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