



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Securities Department

For the Two-Year Period Ended June 30, 2022

Client Code 414





WHAT WE LOOKED AT AND WHY

North Dakota state law requires that our team perform an audit once every two years. This included 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

This audit did not identify any areas of concern.

TABLE OF CONTENTS

INTRODUCTION

Terms Used in Report 3

AUDIT RESULTS

Primary Objective 4

Conclusion 4

AUDIT PROCEDURES

Primary Objective 5

Conclusion 5

FINANCIALS

Revenues and Expenditures 7







Appropriations 9



HAVE QUESTIONS? ASK US.

**NORTH DAKOTA STATE
AUDITOR'S OFFICE**

600 E. Boulevard Ave. Dept. 117
Bismarck, North Dakota 58505

-  701-328-2241
-  NDSAO@nd.gov
-  ND.gov/Auditor
-  Facebook - [ndsao.link/ebs](https://www.facebook.com/ndsao.link/ebs)
-  LinkedIn - [ndsao.link/wsw](https://www.linkedin.com/company/ndsao.link/wsw)
-  YouTube - [ndsao.link/f2d](https://www.youtube.com/channel/ndsao.link/f2d)

Introduction

Securities Department

May 9, 2023

We are pleased to submit this audit of North Dakota Securities Department 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 North Dakota Securities Department'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: 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.

Sessions Laws: Published after each regular and special legislative session and contain the laws enacted during that session.



Audit Results

▼ PRIMARY 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.

Audit Procedures

Primary Objective

INTERNAL CONTROL

We obtained an understanding of internal control through inquiries, observations, and inspection of documentations 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 was tested statewide in the annual audit of the State of North Dakota Annual Financial Comprehensive Report.
- Revenue collected through Central Registration Depository, Electronic Filing Depository, Blue Express, and the Securities Deposit System was reconciled to the state's accounting system (Peoplesoft) and the reconciliation was 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, 2022.

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

- Office in the State Capitol located in Bismarck, ND.
- Satellite offices in Grafton, ND and Fargo, 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.
- Analyzed and tested expenditures to determine the Securities Department did not expend more than appropriated by the ND Legislature. (N.D.C.C. 54-16-03).
 - 2019 Session Laws Senate Bill 2011, Section 1.
- Analyzed accounts charged to each appropriation class to determine the expenditures were not charged to an inappropriate class to circumvent appropriation spending authority. (N.D.C.C. 54-16-03).
- 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 fiscal year 2021 \$9,052,998 was transferred and \$12,421,795 was transferred in fiscal year 2022. (N.D.C.C. 10-04-03(5)(b)).
- Reviewed non-appropriated fund activity to ensure legislative approval for non-appropriated expenditures. (N.D.C.C. 54-44.1-09).

- Analyzed and selected a high-risk sample and a random sample of expenditures to test accurate recording of payments in the state’s accounting system related to appropriation class, funds 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 high dollar and high-risk expenditures to determine that charges to significant legislatively restricted funds were in accordance with the fund restrictions.
 - The Investor Education and Technology Fund, by state law, is 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)).
- Compared the statutory salary of the Securities Commissioner to the salary authorized by the Governor. (N.D.C.C. 10-04-03).
- Selected a random sample of weeks during the audit period to determine that the weekly revenue reconciliation was completed, and revenue was deposited with the State Treasurer’s Office. (N.D.C.C. 54-06-29, Article X, Section 12 of North Dakota Constitution).

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).

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.

Financials

Revenues and Expenditures

REVENUES AND OTHER SOURCES	JUNE 30, 2022	JUNE 30, 2021
Agent Registrations	\$ 8,276,650	\$ 7,107,110
Securities Registrations	3,698,509	3,604,280
Dealer Registrations	408,220	510,890
Fines and Forfeitures	188,679	48,900
Franchise Registrations	140,100	137,750
Miscellaneous Licenses and Fees	150	450
Total Revenue and Other Sources	\$ 12,712,308	\$ 11,409,380

Source: ConnectND Financials

Continued on the next page

Financials

Revenues and Expenditures

EXPENDITURES AND OTHER USES	JUNE 30, 2022	JUNE 30, 2021
Salaries and Benefits	\$ 1,011,443	\$ 1,106,087
Information Technology Services	231,767	279,267
Rentals and Leases of Buildings and Land	38,317	24,497
Supplies	26,619	18,748
Operating Fees and Services	25,358	13,647
Travel	9,912	7,412
Professional Development	6,327	22,054
Insurance	1,591	1,655
Repairs	592	2,112
Professional Fees and Services	468	9,038
Equipment under \$ 5,000	308	2,709
Postage	264	792
Printing	110	11,208
Transfers Out*	12,421,795	9,052,998
Total Expenditures and Other Uses	\$ 13,774,871	\$ 10,552,224

Source: ConnectND Financials

*Transfers out are transactions authorized pursuant to (N.D.C.C. 10-04-03(5)(b)) and are separate from the Department's appropriation. The transferred amounts are from the Securities Department special fund to the general fund of balances in excess of the amounts necessary for Department expenditures pursuant to the Department's biennial appropriation.

Appropriations

For the Year Ended June 30, 2022

	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
Expenditures by Line Item			
Salaries and Wages	\$ 2,213,881	\$ 1,011,443	\$ 1,202,438
Operating Expenses	595,103	341,633	253,470
Totals	2,808,984	1,353,076	1,455,908
Expenditures by Source			
Other	2,808,984	1,353,076	1,455,908
Totals	\$ 2,808,984	\$ 1,353,076	\$ 1,455,908

Source: ConnectND Financials

For the Biennium Ended June 30, 2021

	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
Expenditures by Line Item			
Salaries and Wages	\$ 2,163,558	\$ 2,085,577	\$ 77,981
Operating Expenses	593,561	580,537	13,024
Totals	2,757,119	2,666,114	91,005
Expenditures by Source			
Other	2,757,119	2,666,114	91,005
Totals	\$ 2,757,119	\$ 2,666,114	\$ 91,005

Source: ConnectND Financials



Office of the
State Auditor


NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION


NORTH DAKOTA STATE AUDITOR'S OFFICE


600 E. Boulevard Ave. Dept. 117 | Bismarck, North Dakota 58505


 [ND.gov/Auditor](https://nd.gov/Auditor)

 NDSAO@nd.gov

 701-328-2241

 Facebook - nd sao.link/ebs

 YouTube - nd sao.link/f2d

 LinkedIn - nd sao.link/wsw