



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Office of the State Treasurer

Audit Report for the Biennium Ended June 30, 2021

Client Code 120





WHAT WE LOOKED AT AND WHY

North Dakota state law (N.D.C.C. 54-10-01) requires that our team perform an audit once every two years. This includes a review of financial transactions and determining that expenditures are correct. Our audits report 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.

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KEY PERSONNEL

Lindsey Slappy
MACC, AUDIT MANAGER

Kevin Scherbenske
CPA, LEAD AUDITOR

Leslie Reisenauer
AUDITOR

Taylor Hendrickson
AUDITOR

HAVE QUESTIONS? ASK US.

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Introduction

Office of the State Treasurer

May 10, 2022

We are pleased to submit this audit of the Office of the State Treasurer for the biennium ended June 30, 2021. 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.

Lindsey Slappy 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 Office of the State Treasurer 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: Sum of money or total of assets devoted to a special 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.

Default: Failures to do something required by duty or law.

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: Process for assuring of an organization's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations, and policies.

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.

Tax Distribution Outstanding Check (TDOC): Web-based distribution system.



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

INTERNAL CONTROL

We obtained an understanding of internal control through inquiries, observations, and inspection of documentation 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 State of North Dakota Annual Financial Report.
- Manual reconciliation of all distributions within TDOC to ensure they continue to function properly.
- Certifications received from the North Dakota Office of Management and Budget for distribution of Coronavirus Aid, Relief, and Economic Security Act funds have proper approvals.
- Manual verification of calculated or certified distribution amounts to ConnectND uploaded for all distributions.

There were no deficiencies identified.

SCOPE

The Office of the State Treasurer's sole location is its Bismarck office which was included in the audit scope.

METHODOLOGY

To meet this objective, we:

- Used non-statistical sampling and projected the results to the population.

- Observed the Department's processes and procedures.
- Analyzed financial data in ConnectND to determine areas of risk.
- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines (N.D.C.C. 26.1-21-10).
- Selected a sample of Oil and Gas production tax distributions to ensure proper distribution in accordance with law. We also verified that manual reconciliations of the distribution were performed (N.D.C.C. 57-51-15).
- Selected a sample of oil extraction tax distributions to ensure proper distribution in accordance with law. We also verified that manual reconciliations of the distribution were performed (N.D.C.C. 57-51.1-07).
- Selected a sample of oil and gas production tax distributions to the general fund to ensure proper distribution in accordance with law. We also verified that manual reconciliations of the distribution were performed (N.D.C.C. 57-51.1-07.5).
- Selected a sample of distributions to the municipal infrastructure fund to ensure they were in accordance with law. We also verified that manual reconciliations of the distribution were performed (N.D.C.C. 57-51.1-07.7).
- Selected a sample of distributions of the coal conversion tax to ensure they were in accordance with law. We also verified that manual reconciliations of the distribution were performed (N.D.C.C. 57-60-14).
- Selected a sample of distributions related to the Coronavirus Aid, Relief, and Economic Security Act and verified that OMB provided approved certifications for all distributions completed by the State Treasurer's Office. We compared the amount certified to the amount sent to the Bank of North Dakota for

distribution. Since this is an audit of the State Treasurer's Office and not the Bank of North Dakota, we did not perform any procedures to ensure that the individual amounts distributed by the Bank of North Dakota agreed to the certifications.

AUTHORITY AND STANDARDS

This biennial audit of the Office of the State Treasurer 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 Office of the State Treasurer 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 Office of the State Treasurer's revenues, expenditures and appropriation information 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 Capital Management (HCM), and Tax Distribution and Outstanding Checks (TDOC) are high-risk information technology systems critical to the Office of the State Treasurer. No exceptions were noted for these high-risk systems.

Financials

Revenues and Expenditures

REVENUES AND OTHER SOURCES	JUNE 30, 2021	JUNE 30, 2020
Investment Earnings	\$ 302,214,930	\$ 327,781,439
Mineral Lease Royalties	60,749,702	84,555,471
Fines and Court Fees	11,627,233	10,598,742
Mill Profits	6,393,652	5,423,841
General Property Tax	5,206,615	5,427,448
Federal Revenue	163,688	190,837
Miscellaneous Revenue	20,481	24,919
Transfers To	1,665,782,116	1,903,438,538
Total Revenues and Other Sources	\$ 2,052,158,417	\$ 2,337,441,235

EXPENDITURES AND OTHER USES	JUNE 30, 2021	JUNE 30, 2020
Tax Distributions to Government Units	\$ 1,174,045,061	\$ 1,139,256,124
Other Distributions	3,418,855	3,455,244
Salaries and Benefits	705,113	673,703
IT – Data Processing/Communications/Equip	57,426	77,363
Professional Services	60,909	53,110
Other Operating Expenditures	28,030	14,429
Transfers Out	2,512,479,473	2,496,123,537
Total Expenditures and Other Uses	\$ 3,690,794,867	\$ 3,639,653,510

Source: ConnectND Financials

Appropriations

For the Biennium Ended June 30, 2021

EXPENDITURES BY LINE ITEM	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATION
Salaries and Wages	\$ 1,383,141	\$ 1,378,817	\$ 4,324
Operating Expenses	227,229	159,301	67,928
Technology Project Carryover	20,000	15,752	4,248
Coal Severance Payments	171,000	115,786	55,214
CARES Act Funding - 2020	173,440,257	123,240,514	50,199,743
Total	\$ 175,241,627	\$ 124,910,170	\$ 50,331,457

EXPENDITURES BY SOURCE	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATION
General	\$ 1,766,370	\$ 1,649,119	\$ 117,251
Other	173,475,257	123,261,051	50,214,206
Total	\$ 175,241,627	\$ 124,910,170	\$ 50,331,457

Source: ConnectND Financials



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