

Office of State Treasurer

BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2015

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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BISMARCK, NORTH DAKOTA 58505

Transmittal Letter

August 6, 2015

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
The Honorable Kelly Schmidt, State Treasurer

We are pleased to submit this audit of the Office of State Treasurer for the biennium ended June 30, 2015. 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.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Kristi Morlock. Krista Lambrecht, CPA, was the staff auditor. Cindi Pedersen, CPA, 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 Treasurer Schmidt and her staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

The Office of State Treasurer receives and keeps all monies belonging to the state not required to be received or kept by another state entity. The Office of State Treasurer is responsible for the investment of certain special funds, as well as several trust funds, including the Veteran's Postwar Trust Fund.

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?

Financial statements were not prepared by the Office of 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.

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.

Yes, a management letter was issued and is included on page 17 of this report, along with management's response.

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, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

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 State Treasurer'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), and Tax Distribution and Outstanding Checks (TDOC) are high-risk information technology systems critical to the Office of State Treasurer.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the Office of State Treasurer for the biennium ended June 30, 2015 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the Office of State Treasurer's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the Office of State Treasurer and are they in compliance with these laws?
3. Are there areas of the Office of State Treasurer's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the Office of State Treasurer is for the biennium ended June 30, 2015. 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

Audit Methodology

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and reviewed management's discussion and analysis of the financial statements.
- 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.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. 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. Significant evidence was obtained from ConnectND.
- Observed Office of State Treasurer's processes and procedures.

In aggregate there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

Management's Discussion and Analysis

The accompanying financial statements have been prepared to present the Office of State Treasurer's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

The following management discussion and analysis was prepared by the Office of State Treasurer's management. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of this supplementary information to ensure it does not conflict with the knowledge we gained as part of our audit.

For the biennium ended June 30, 2015, operations of the Office State Treasurer were supported by appropriations from the state's general fund and special funds.

Financial Summary

Revenues and other sources consisted primarily of "transfers in," tax dollars collected by the state then distributed by the Office of State Treasurer (OST). Revenues include investment earnings, mineral lease royalties, fines and court fees, profits of the ND mill and elevator, property taxes, and miscellaneous revenues.

The OST noted a significant increase in revenues in the second year of the biennium in one area. Investment earnings increased due to the substantial increase in income earned on the North Dakota Legacy Fund. This increase was attributable to both a drastic increase in fund balance due to oil and gas activity as well as a change in the investment strategy approved by the State Investment Board. Legacy Fund earnings increased by nearly \$100 million from one year to the next.

The most significant decrease in revenue and other sources from fiscal year 2014 to 2015 was transfers in. This decrease was solely due to the rapid reduction in oil and gas prices recognized in the second year of the biennium. The fiscal year 2015 transfers in from the oil and gas production distribution fund and the oil extraction tax development fund were a combined \$681 million less than what was recognized in fiscal year 2014. This reduction in oil prices also attributed to a significant decrease in revenues in the second year of the biennium as it relates to mineral lease royalties received.

Total revenues and other sources were \$1,444,096,112 for the year ended June 30, 2015, as compared to \$2,033,947,643 for the year ended June 30, 2014.

The vast majority of expenditures represent the distribution of state dollars to political subdivisions and transfers out. Distributions of state dollars to political subdivisions increased significantly from fiscal year 2014 to 2015 primarily due to Senate Bill 2103 which was passed by the 64th Legislative Assembly. Senate Bill 2103, referred to as the "surge bill", called for the Treasurer to distribute an additional \$298 million to cities and townships across the state. These monies were distributed in March of 2015. This additional distribution was more than enough to offset the smaller decreases in oil and gas distributions due to the drop in oil prices.

Another significant increase in expenditures was seen in other distributions due to the prepaid wireless 911 services distributions. This increase was realized as the distribution went into effect at the end of fiscal year 2014. Therefore, the fiscal year 2014 total only represented one fiscal quarter of distributions, whereas the fiscal year 2015 amount was for a full year.

Transfers out decreased from fiscal year 2014 to 2015 and this, as well, can be attributed to the fall in oil and gas prices. The majority of oil and gas revenues are transferred into other funds, therefore, the reduction in revenues led to a significant reduction in transfers out to these associated funds.

Total expenditures and other uses for the Office of State Treasurer were \$3,989,056,206 for the year ended June 30, 2015, as compared to \$4,100,193,300 for the year ended June 30, 2014.

Funds Used to Account for Assets Held by the State in a Trustee Capacity

In accordance with NDCC chapter 57-39.2 the Office of State Treasurer, upon certification of the State Tax Commissioner, distributes funds collected for sales, use, or gross receipts taxes in accordance with NDCC chapter 57-01-02.1 for any incorporated city or county that has adopted the home rule provisions of NDCC chapters 40-05.1 or 11-09.1. These monies are remitted pursuant to the applicable contract with the city or county. City occupancy, restaurant and lodging, and motor vehicle rental taxes are collected by the state pursuant to NDCC chapter 40-57.3. Sales, occupancy, restaurant and lodging, and motor vehicle rental taxes collected pursuant to these chapters were \$270,711,490 for the year ended June 30, 2015, as compared to \$254,366,863 for the prior year.

Analysis of Significant Variances - Budgeted and Actual Expenditures

The Office of State Treasurer shows a substantial variance between its original appropriated biennial budget and actual expenditures. The variance stems primarily from a turn back of \$2,625,000 of funds appropriated for distributions to townships in certain oil-producing counties. The initial version of the appropriation bill called for distribution to townships in counties that met a specific criteria. This initial criteria would have resulted in seven counties being eligible. Eventually, the criteria spelled out in the final version of the bill was adjusted so that only five counties remaining eligible however, the original appropriation was left unadjusted. Thus the reason for the excess funds in the OST's appropriation.

Analysis of Significant Changes in Operation

Tax Distribution System Re-write

During the 2013 legislative session the law governing the oil and gas gross production distribution was amended making it necessary to re-write the software in the tax distributions and outstanding checks system (TDOC). The new formula also called for the Office of State Treasurer to make oil and gas distributions directly to school districts for the first time. To accomplish this, the OST had to create a school district average daily attendance certification form, distribute these forms, and collect certified documents for each fiscal year from all oil-producing counties. Furthermore, the new formula called for specific allocations to townships in the major oil-producing counties. This allocation required certifications in addition to the biennial road mileage certifications that were already being collected. These formula changes also required modification of the Oil and Gas Flow Charts posted on the Office of State Treasurer website.

Additional Political Subdivision Distributions

Senate Bill 2103 was passed during the 2015 legislative session which required the Office of State Treasurer to distribute \$298,000,000 to cities and townships across the state as soon as possible after final passage the last week in February of 2015. The OST staff worked directly with the political subdivisions in gathering direct deposit authorizations from nearly 100 recipients of the funds. Funds were successfully distributed the first week in March.

Office-Wide Strategic Action Plan

The Office of State Treasurer completed and adopted a strategic action plan in June of 2014 in order to guide the office in its goal of constantly striving to realize its mission statement. All OST staff met and provided input, this combined with input from a number of stakeholders was used to derive an action plan. The office continues to follow up on the actions outlined in this plan and will continue to do so in an attempt to continually improve the functions of the Office of State Treasurer.

Accomplishments with Ongoing Projects

Continued Utilization of TDOC

The Office of State Treasurer continued to advance its goal of adding all the tax distributions performed by this office to TDOC. During the 2013-15 biennium staff of the Treasurer's Office worked with ITD to write, test, and implement the distributions of each of the local option taxes to convert them over to TDOC. The Office of State Treasurer has now moved all currently practicable distributions to this system and will add any future new distributions if deemed feasible.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<u>Revenues and Other Sources:</u>		
Investment Earnings	\$ 118,605,750	\$ 9,751,317
Mineral Lease Royalties	55,471,976	96,431,196
Fines and Court Fees	14,164,283	12,956,063
Mill and Elevator Profits	3,408,600	3,408,600
General Property Tax	3,504,675	3,026,376
Miscellaneous Revenue	52,576	61,724
Transfers In	1,248,888,252	1,908,312,367
Total Revenues and Other Sources	<u>\$1,444,096,112</u>	<u>\$2,033,947,643</u>
<u>Expenditures and Other Uses:</u>		
Tax Distributions to Government Units	\$1,260,580,309	\$1,106,015,950
Other Distributions	2,900,982	1,843,326
Salaries and Benefits	689,615	607,392
IT – Data Processing	143,444	156,844
Professional Services	36,945	41,930
Equipment	31,944	
Other Operating Expenditures	64,225	29,011
Transfers Out	2,724,608,742	2,991,498,847
Total Expenditures and Other Uses	<u>\$3,989,056,206</u>	<u>\$4,100,193,300</u>

Statement of Appropriations

For The Biennium Ended June 30, 2015

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 1,396,437	\$ 3,120	\$ 1,399,557	\$ 1,289,288	\$ 110,269
Accrued Leave Payments	13,038		13,038	7,675	5,363
Operating Expenses	526,194		526,194	424,632	101,562
In Lieu of Tax Payments		298,000,000	298,000,000	297,550,000	450,000
Transportation Funding	100,385,000	(100,385,000)			
Coal Severance Payments	252,800	25,000	277,800	274,882	2,918
Township Allocation	8,760,000	(525,000)	8,235,000	5,610,000	2,625,000
Property Tax Relief Credits	200,000,000	500,000	200,500,000	200,432,069	67,931
Totals	<u>\$311,333,469</u>	<u>\$ 197,618,120</u>	<u>\$508,951,589</u>	<u>\$505,588,546</u>	<u>\$ 3,363,043</u>
Expenditures by Source:					
General Fund	\$311,333,469	\$(100,381,880)	\$210,951,589	\$208,038,546	\$ 2,913,043
Other Funds		298,000,000	298,000,000	297,550,000	450,000
Totals	<u>\$311,333,469</u>	<u>\$ 197,618,120</u>	<u>\$508,951,589</u>	<u>\$505,588,546</u>	<u>\$ 3,363,043</u>

Appropriation Adjustments:

The \$3,120 increase for the Salaries and Benefits line was for the state internship stipend program authorized by the 2015 Legislative Session in House Bill 1015, section 11.

The \$298,000,000 increase for the In Lieu of Tax Payments line was authorized by the 2015 Legislative Session in Senate Bill 2103, section 1 to provide strategic investment and improvements funds. This was declared an emergency measure.

The \$100,385,000 decrease in the Transportation Funding line is made up of the following:

- \$100,000,000 general fund moneys authorized by the 2013 Legislative Session in Senate Bill 2176, section 2 for providing transportation funding distributions. This was declared an emergency measure and spent in the biennium ended June 30, 2013.
- \$385,000 general fund moneys authorized by the 2013 Legislative Session in Senate Bill 2012, section 7 for providing transportation funding distributions. This was declared an emergency measure and spend in the biennium ended June 30, 2013.

The \$25,000 increase for the Coal Severance Payments line and \$25,000 of the decrease in the Township Allocation line is for the transfer of funds to allow the distribution of coal severance shortfall payments to eligible counties and political subdivisions. This was approved by the Emergency Commission.

The \$500,000 increase for the Property Tax Relief Credits line and \$500,000 of the decrease in the Township Allocation line is for the transfer of funds to allow full payment due to counties as authorized by Senate Bill 2013, section 4 from the 2013 Legislative Session. This was approved by the Emergency Commission.

Expenditures Without Appropriations Of Specific Amounts:

Transfers from the General Fund to the Lignite Research Fund, authorized by NDCC section 57-61-01.5 (\$2,418,061 of expenditures for this biennium).

Transfers from the General Fund to the Senior Citizens Services and Programs Fund as authorized by NDCC section 57-39.2-26.2 (\$4,965,410 of expenditures for this biennium).

Transfers from the General Fund to the Coal Conversion Tax Trust Fund as authorized by NDCC 57-60-14(2) (\$1,029,773 of expenditures for this biennium).

Senior Citizens Services and Programs Fund has a continuing appropriation authorized by NDCC Section 57-39.2-26.2 (\$4,954,410 of expenditures for this biennium).

Jobs Training Program Fund has a continuing appropriation authorized by NDCC section 52-02.1-03(2) (\$3,682,955 of expenditures for this biennium).

Federal Mineral Royalties fund has a continuing appropriation authorized by NDCC section 15.1-27-25 (\$50,557,857 of expenditures for this biennium).

Highway Tax Distribution Fund has a continuing appropriation authorized by NDCC section 54-27-19 (\$655,253,769 of expenditures for this biennium).

State Aid Distribution Fund has a continuing appropriation authorized by NDCC section 57-39.2-26.1 (\$279,097,992 of expenditures for this biennium).

Financial Institution Tax Distribution Fund has a continuing appropriation authorized by NDCC section 57-35.3-09 (\$18,272,223 of expenditures for this biennium).

Veterans Postwar Trust Fund has a continuing appropriation authorized by NDCC section 34-14-14 (\$79,754 of expenditures for this biennium).

Prepaid Wireless 911 Fee Fund has a continuing appropriation authorized by NDCC section 57-40.6-15 (\$1,061,352 of expenditures for this biennium).

Coal Severance Tax Distribution Fund has a continuing appropriation authorized by NDCC section 57-61-10 (\$22,955,988 of expenditures for this biennium).

Federal Tax Replacement Fund has a continuing appropriation authorized by NDCC section 15.1-27-24 (\$59,031,901 of expenditures for this biennium).

Cigarette Tax Distribution Fund has a continuing appropriation authorized by NDCC section 57-36-31 (\$3,467,679 of expenditures for this biennium).

Telecommunications Carriers Fund has continuing appropriation authorized by NDCC section 57-34-05 (\$16,800,000 of expenditures for this biennium).

Oil and Gas Production Tax Distribution Fund has a continuing appropriation authorized by NDCC section 57-51-15 (\$2,794,487,459 of expenditures for this biennium).

State Taxes Distribution Fund has a continuing appropriation authorized by Article X, subsection 10, of the North Dakota Constitution (\$6,414,527 of expenditures for this biennium).

Township Road and Bridge Fund has a continuing appropriation authorized by NDCC section 54-27-19.1 (\$18,711,203 of expenditures for this biennium).

Agricultural Land Valuation Fund has a continuing appropriation authorized by NDCC section 57-02-50 (\$133,764 of expenditures for this biennium).

Coal Conversion Tax Trust Fund has a continuing appropriation authorized by NDCC section 57-60-14 (\$53,764,750 of expenditures for this biennium).

Electric Generation and Transmission Fund has a continuing appropriation authorized by NDCC section 57-33.2-19 (\$18,711,203 of expenditures for this biennium).

Oil Extraction Tax Development Trust Fund has a continuing appropriation authorized by NDCC section 57-51.1-07 (\$3,271,592,861 of expenditures for this biennium).

Estate Tax Distribution Fund has a continuing appropriation authorized by NDCC section 57-37.1-08 (\$83,851 of expenditures for this biennium).

Oil Tax Resources Trust Fund upon legislative appropriation for the State Water Commission as noted in House Bill 1020 sections 3, 4, and 13 and House Bill 1269 sections 1 and 2 of the 2013 Legislative Session, is authorized by NDCC section 57-51.1-07(1) (\$296,157,864 of expenditures for this biennium).

Air Transportation Fund has a continuing appropriation authorized by NDCC section 57-32-04 (\$376,792 of expenditures for this biennium).

Internal Control

In our audit for the biennium ended June 30, 2015, we identified the following areas of the Office of State Treasurer's internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls surrounding the processing and tracking of investment activities.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the TDOC information system

The criteria used to evaluate internal control is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas 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. We concluded internal control was adequate.

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: (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control. However, we noted an instance involving internal control that we have reported to management of the Office of State Treasurer in a management letter dated August 6, 2015.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2015, we identified and tested Office of State Treasurer's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Properly distributed \$8,760,000 of general fund moneys to political subdivisions (2013 North Dakota Legislative Session, House Bill 1358, section 7 and House Bill 1015, section 34).
- Properly distributed \$298,000,000 of strategic investment and improvement funds to political subdivisions (2015 North Dakota Legislative Session, Senate Bill 2103, section 1).
- Proper distribution of the Highway Tax Distribution Fund (NDCC 54-27-19).
- Proper distribution of the City Sales Tax Suspense Fund (NDCC 57-01-02.1).
- Proper distribution of the State-paid property tax relief credit (NDCC 57-20-07.2).
- Proper distribution of the Senior Citizens Services and Program Fund (NDCC 57-39.2-26.2).
- Proper distribution of the Prepaid Wireless Emergency 911 Fee Fund (NDCC 57-40.6-15).
- Proper distribution of the Oil and Gas Gross Production Tax Distribution Fund (NDCC 57-51-15).
- Proper distribution of the Oil Extraction Tax Development Trust Fund (NDCC 57-51.1-07).
- Proper distribution of the Coal Conversion Tax Trust Fund (NDCC 57-60-14 and NDCC 57-60-15).
- Proper distribution of the Coal Severance Tax Distribution Fund (NDCC 57-61-01.5, NDCC 57-61-10, and NDCC 57-62-02).
- Compliance with appropriations and related transfers (2013 North Dakota Session Laws, House Bill 1005 and NDCC 54-27-10).
- Proper legislative approval for all funds and non-appropriated expenditures (NDCC 54-44.1-09).
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with payroll-related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.
- Proper legislative approval concerning the deposit of all investment interest.
- Proper authority for investments outside the Bank of North Dakota.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

Government Auditing Standards require auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

While we did not find any items that were required to be reported in accordance with *Government Auditing Standards*, we noted a certain inconsequential or insignificant instance of non-compliance that we have reported to management of the Office of State Treasurer in a management letter dated August 6, 2015.

Operations

This audit did not identify areas of Office of State Treasurer's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

Management Letter (Informal Recommendations)

August 6, 2015

The Honorable Kelly Schmidt
State Treasurer
Office of the State Treasurer
600 E Boulevard Avenue
Bismarck, ND 58505

Dear Treasurer Schmidt:

We have performed an audit of the Office of State Treasurer for the biennium ended June 30, 2015, and have issued a report thereon. As part of our audit, we gained an understanding of the Office of State Treasurer's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

ACCOUNTS PAYABLE/EXPENDITURES

Informal Recommendation 15-1: We recommend the Office of the State Treasurer ensure that there is proper segregation between the individuals preparing and approving transactions.

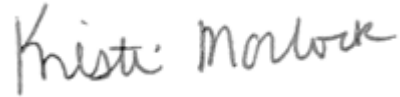
LEGISLATIVE INTENT

Informal Recommendation 15-2: We recommend the Office of the State Treasurer increase their blanket bond coverage to an adequate level in accordance with the Insurance Commission's blanket bond application.

Management of Office of State Treasurer agreed with these recommendations.

I encourage you to call myself or an audit manager at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

A handwritten signature in cursive script that reads "Kristi Morlock".

Kristi Morlock
Auditor in-charge

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

or by contacting the
Division of State Audit

Office of the State Auditor
600 East Boulevard Avenue – Department 117
Bismarck, ND 58505-0060

(701) 328-2241