

Performance Audit Follow-Up

Status of Recommendations

North Dakota Department of Trust Lands

Report No. 3036.1

May 25, 2018

Joshua C. Gallion
State Auditor

Office of the State Auditor
Performance Audit

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May 25, 2018

Honorable Doug Burgum, Governor

Members of the North Dakota Legislative Assembly

Jodi Smith, Commissioner, Department of Trust Lands

The Office of the State Auditor conducted audit follow-ups from January 30, 2018 through May 25, 2018 on the performance audits of the Department of Trust Lands entitled:

- *Unclaimed Property* (report #3036(b) dated January 5, 2016)
- *Trust Assets and Department Resources* (report #3036(c) dated March 18, 2016)

No audit follow-up was conducted on the performance audit of the Department of Trust Lands entitled *Energy Infrastructure and Impact Office* (report #3036(a) dated November 6, 2015) since the only moneys appropriated to the program for the 2017-2019 biennium were earmarked by the Legislature for specific projects.

The decision was also made to not follow-up on certain recommendations and the remaining recommendations were grouped into more general areas. This report contains the results of our review to determine the progress made by the Department of Trust Lands in each of the general areas. Management's response to the actions taken are included in Appendix A.

Respectfully Submitted,

Joshua C. Gallion
State Auditor

Finding Property Owners

In this section, the actions taken by the Department of Trust Lands to improve their effectiveness in finding and reuniting individuals with property presumed abandoned will be discussed. This section addresses the following recommendations included in the performance audit report (Report No. 3036(b)) related to unclaimed property.

- 1-1 On-line Search Results
- 1-2 Locate Owners of Property
- 1-7 Property Information Correct
- 1-10 Aggregate Reporting
- 1-13 Processing Claims
- 1-14 Claim Fees
- 1-15 Identifying State Agency Property

Summary

Overall, the Department of Trust Lands has made progress to improve their effectiveness in finding and reuniting individuals with property presumed abandoned. Follow-up work performed verified the Department (not all inclusive):

- Started processing all reports electronically.
- Implemented additional procedures to validate data entered into the system.
- Increased outreach efforts to locate owners.
- Processed claims within the 90-day requirement, identified claimants properly, and retained claim documentation.
- No longer charges a claim fee to register stock back in an owner's name.
- Provided lists of state agencies not submitting claims for property after a year of being notified to the Budget Section.
- No longer published state agencies in the annual notice of property.

However, data integrity issues still exist which negatively impacts an owner's ability to search or find their property.

The Department is also in the process of obtaining a new Unclaimed Property IT system to help resolve some of the data integrity issues. The Department is also working on Administrative Rules for Unclaimed Property which includes a section related to processing of claims. The Department plans to publish and make searchable property information for items received on or after January 1, 2019 when aggregate property is received and the holder provides identifying information.

Little, to no improvements were made related to property not believed to belong to state agencies. State agencies are still provided the option to allow property not belonging to them to stay in the Common Schools Trust Fund (in effect donating the property).

Accepting and Maintaining Property

In this section, the actions taken by the Department of Trust Lands to improve their effectiveness in accepting and maintaining property presumed abandoned will be discussed. This section addresses the following recommendations included in the performance audit report (Report No. 3036(b)) related to unclaimed property.

- 1-6 Early Acceptance of Property
- 1-8 Receiving and Maintaining Safe Deposit Box Contents
- 1-9 Inventorying of Property
- 1-11 Protecting Property
- 1-12 Protecting Sensitive Information
- 1-16 Conducting Property Sales

Summary

Overall, the Department of Trust Lands has made progress to improve their effectiveness in accepting and maintaining property presumed abandoned. Follow-up work performed verified the Department (not all inclusive):

- Implemented a process to verify safe deposit box contents received.
- Changed the annual inventory date so more property is included in the annually published lists.
- Added safeguards to protect property and sensitive information.
- Started to destroy property received with insubstantial commercial value.

However, the progress made has not eliminated the following concerns identified in the original audit:

- Safe deposit box contents are still separated into multiple envelopes, inconsistently described, and incorrectly listed in inventory.
- Tangible property can still be in the custody of the Department for an extended period without being properly inventoried and entered into the unclaimed property database.
- Sensitive information is still accessible by employees with no business purpose to do so.
- Pre-existing property with insubstantial commercial value has not been purged from inventory.

Little, to no improvements are planned to be made related to the early acceptance of property submitted prior to being presumed abandoned. The Department consulted with their Assistant Attorney General who indicated North Dakota Century Code Section 47-30.1-27 does not prohibit them from delivering unclaimed property to the rightful owner at any time. The Department also indicated they will accept property early without prior written consent.

Compliance with Unclaimed Property Laws

In this section, the actions taken by the Department of Trust Lands to comply with unclaimed property laws will be discussed. This section addresses the following recommendations included in the performance audit report (Report No. 3036(b)) related to unclaimed property.

- 1-3 Audits of Property Holders
- 1-4 Training and Information
- 1-5 Negative Reporting
- 1-17 Administrative Code
- 1-18 Records Management

Summary

Overall, the Department of Trust Lands has made progress to comply with unclaimed property laws. Follow-up work performed verified the Department (not all inclusive):

- Increased outreach efforts on unclaimed property requirements to North Dakota entities.
- Attempted to increase monitoring of abandoned property reporting information.

However, the increased level of monitoring could not be sustained; and to date, only one audit has been conducted on an in-state entity by a third-party vendor.

The Department is also in the process of establishing administrative rules for unclaimed property, which are currently in draft form.

Little, to no action was taken related to records management. However, the Department plans to do so by the end of 2018. Little, to no action was also taken related to negative reporting. While the Department updated the Unclaimed Property website to remove contradictory language regarding negative reporting, negative reporting is still not required or used for holder compliance tracking. If North Dakota adopted the Uniform Unclaimed Property Act of 2016 then negative reports would be required under the Act.

State Trust Land Records

In this section, the actions taken by the Department of Trust Lands to improve the state trust land records will be discussed. This section addresses the following recommendations included in the performance audit report titled Trust Assets and Department Resources (Report No. 3036(c)).

- 1-1 Tract Trust Assignment
- 1-2 Correct Decimal Interest
- 1-3 Royalty Payment Allocation
- 1-7 Monitoring Acreage
- 4-1 Information Technology System

Summary

Overall, the Department of Trust Lands has made progress to improve the trust land records including tract assignments, royalty payment allocation, etc. Follow-up work performed verified the department (not all inclusive):

- Conducted a review of trust assignments for all tracts located in oil and gas producing counties.
- Corrected tract assignment issues with the Youth Correctional Center and Ellendale trusts.
- Performed a comprehensive review of royalty revenue allocation payment codes for non-river tracts.
- Compared Department calculated decimal interests to the decimal interests reported by operators and implemented an ongoing review process.
- Implemented a process for monitoring changes in the mineral database.

However, the potential still exists for tracts to be assigned to the wrong trusts and royalty payments being allocated incorrectly. The Department's review of tract trust assignments was focused on the oil and gas producing counties and the review of payment codes did not include river tracts. The plan is to continue the trust assignment review for the remaining counties as time allows. The Department also plans on reviewing river tracts after the current litigation is resolved.

The Department has not implemented an effective information technology system. The Department has continued using the same outdated system that was a contributing factor in several of the original audit findings. The Department has plans to replace the current system with the funding appropriated by the 65th Legislative Assembly. The Department issued a formal request for proposal; however, the procurement process was unsuccessful. Instead of re-issuing, the Steering Committee voted to re-evaluate the request for proposal. The Steering Committee is at the very beginning of the re-evaluation phase.

The corrections in tract assignments for the Youth Correctional Center and Ellendale trusts resulted in the transfer of revenue and investment income totaling approximately \$7.5 million. The misallocation of the revenue and investment income impacted past distribution to the trust beneficiaries (approximately \$621,000). The 65th Legislative Assembly authorized one-time distribution adjustments for beneficiaries affected by the misallocations.

Management of State Trust Lands and Royalty Collections

In this section, the actions taken by the Department of Trust Lands to improve the management of state trust lands and royalty collections will be discussed. This section addresses the following recommendations included in the performance audit report titled Trust Assets and Department Resources (Report No. 3036(c)).

- 1-4 Royalty Reporting
- 1-5 Interest on Late Payments
- 1-6 Assessing Penalties
- 1-8 Fair Market Value Lease of Land
- 1-9 On-line Mineral Auctions
- 1-10 Surface Tract Inspections
- 2-4 Allocating Expenses

Summary

Overall, the Department of Trust Lands has made progress to improve the management of state trust lands and royalty collections. Follow-up work performed verified the department (not all inclusive):

- Developed a standardized royalty reporting template which operators are required to submit electronically.
- Started conducting audits of oil and gas operators submitting royalty payments.
- Automated the process for assessing penalties on late oil and gas royalty payments.
- Changed to online mineral auctions.
- Added grazing association tracts to the surface inspection schedule.
- Implemented procedures to ensure direct and indirect costs are allocated correctly between trusts.

Little, to no changes have been made related to the fair market value. The Department contracted with a new vendor to provide survey data and plans to continue exploring potential options after new survey data is provided.

The Department continues to assess interest on late oil and gas royalty payments in the same manner. However, the Department is in the process of drafting administrative rules related to the assessment of interest.

Management of the Department

In this section, the actions taken by the Department of Trust Lands to improve the overall management of the Departments operations will be discussed. This section addresses the following recommendations included in the performance audit report titled Trust Assets and Department Resources (Report No. 3036(c)).

- 3-1 Minimum Qualifications
- 3-2 Hiring Process Best Practices
- 3-3 Veterans' Preference
- 3-6 Performance Evaluations
- 3-7 Performance Management Program
- 4-2 Policy and Procedure Establishment and Periodic Review
- 4-3 Policy and Procedure Centralization and Employee Acknowledgement
- 4-4 Monitoring Internal Controls
- 4-5 Archiving State Records

Summary

Overall, the Department of Trust Lands has made progress to improve the management of the Department's operations including human resources, policies and procedures, monitoring, and archiving records. Follow-up work performed verified the department (not all inclusive):

- Started utilizing of Human Resource Management Services in the hiring process.
- Performed annual employee performance evaluations
- Enhanced the performance evaluation process.
- Conducted risk and control environment assessments.
- Implemented changes in internal controls surrounding the transfer of funds.
- Transferred records to State Archives.

The Department has also started the process of reviewing policies and procedures. This includes department-wide as well as division specific policies and procedures. According to the schedule, the process should be completed by August 2018. The Department is currently on track with the schedule and intends to review the policies and procedures of the remaining divisions (surface, minerals, and revenue compliance) in conjunction with the establishment of administrative rules.

Appendix A – Department of Trust Lands Response

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February 20, 2018

Dear Mr. Lafleur,

The Department of Trust Lands has completed an assessment in response to your request for a follow-up relating to two of the three reports issued in 2015-2016 to determine whether appropriate corrective actions have been taken.

Unclaimed Property

Every U.S. state, District of Columbia, Puerto Rico, the U.S. Virgin Islands, and Quebec, British Columbia and Alberta in Canada, and the nation of Kenya have unclaimed property programs that actively and continuously find owners of lost and forgotten assets.

The purpose of unclaimed property laws is to protect consumers by ensuring money owed to them is returned to them, rather than remaining permanently with financial institutions, business associations, governments, and other entities. Prior to the enactment of unclaimed property laws and the establishment of state programs, there was no centralized means through which owners could seek to recover unclaimed assets. Most companies in possession of unclaimed property had no particular reason or incentive to attempt to locate missing owners entitled to property.

For decades, it has been recognized as the appropriate policy for unclaimed funds to be used for the public good, until such time as it is recovered by the rightful owner. Without impacting the obligation of the state to return unclaimed funds, collections are utilized to finance operations, including special programs for public schools and college scholarships. The U.S. Supreme Court stated in the 1951 *Standard Oil Co. v. New Jersey* case, 11 property thus escapes seizure by would-be possessors and is used for the general good rather than for the chance enrichment of particular individuals or organizations.¹¹

Since 1975, the Unclaimed Property Division of North Dakota has resided in the Department of Trust Lands for the purposes of administering and enforcing the Uniform Unclaimed Property Act (N.D.C.C. ch. 47-30.1). The property is maintained to the credit of the Common Schools Trust with revenue earned on the investment of properties benefitting school funding.

In January 2016, the Office of the State Auditor issued the results of an extensive performance audit with the primary purpose to determine whether the Department of Trust Lands is effectively administering unclaimed property. The 19 formal recommendations can be categorized into three themes; (1) Finding Property Owners, (2) Accepting and Maintaining Property, and (3) Compliance with Unclaimed Property Laws.

Appendix A – Department of Trust Lands Response

Finding Property Owners

The Office of State Auditor reviewed the Department's efforts to reunite owners with their property. This included a review of outreach efforts conducted by the Department to locate owners and

information provided on unclaimed property. This also included a review of the resources provided by the Department to be used by owners to search for unclaimed property. The conclusion by the Office of State Auditor was that improvements were needed to increase property owners' chances to be reunited with their property.

The Department has developed many powerful and effective methods to locate owners including the use of our website, cross-checking public data, and working with the national database missingmoney.com. The Department has developed procedures and created IT based programs which assist in the integrity of the data. Consistent efforts in locating property owners have been ongoing, which have resulted in a significant increase in dollars returned to owners with \$4.9 million during the 2013-2015 biennium and \$9.3 million during the 2015-2017 biennium. This continued growth is attributed to the Department's outreach efforts of not only the newspaper advertisements which are required by law but also online property search tools, the purchasing of third party address mailings to owners, poster placement in public locations, articles to major employers and electronic-mail reminders sent for incomplete claims.

Regarding State Agency claims, the Department has implemented data validation components related to identifying state agency property within the electronic reporting system.

The Department is currently reviewing the Unclaimed Property Policies and will adopt policies in March 2018 which will address concerns regarding the "aggregate reporting" and "processing of claims". Currently, a draft of the Administrative Rules for Unclaimed Property contains a section regarding the processing of claims.

Accepting and Maintaining Property

The Department regularly receives property from holders prior to the two year minimum abandonment period having been met. More often than not, this property is submitted to the Department without prior Administrator permission being sought. Upon further review of the law, it was unclear if the Department was in compliance with state law requirements regarding acceptance of property that is not assumed abandoned. On October 3, 2016, in a memorandum from Assistant Attorney General David Garner he concluded: "the Administrator's actions in delivering unclaimed property to the rightful owner even before it was presumed abandoned were authorized under the Act. N.D.C.C. § 47-30.1-27 does not prohibit the Administrator from delivering unclaimed property to the rightful owner at any time and any interpretation to the contrary runs afoul of the plain language of the Act and its universally recognized purpose, and potentially renders N.D.C.C. § 47-30.1-27 unconstitutional. The plain language of N.D.C.C. § 47-30.1-27 is clear in that it affords the Administrator the opportunity to take custody of unclaimed property before it is presumed abandoned but does not impact an owner's right to reclaim it. As such, no provisions of the Act including, but not limited to, N.D.C.C. § 47-30.1-27 require any revisions based on Recommendation 1-6."

The Department has created a policy (to be adopted in March 2018) which will outline safeguards for property including the protecting of property in fire and water resistant file cabinets and the assurance that all sensitive information is secure through locked storage rooms, protected off-site storage and an encrypted database. The Department will keep a schedule of property review and will determine upon the time of inadequate storage if a sale of unclaimed property and the disposal of insubstantial commercial value property is necessary.

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Compliance with Unclaimed Property Law

Unclaimed property laws have existed for decades. Until relatively recently, however, the Department has not devoted significant resources to enforcing these laws. Many states have now taken a variety of measures to promote compliance with unclaimed property laws, including increasing the number of audits, engaging third-party auditors, and offering voluntary disclosure programs (VDPs).

North Dakota requires holders of unclaimed property to conduct due diligence to contact the property's owners. Holders must generally send a letter to the owner, listing information sufficient to identify the unclaimed property and notifying the owner of its property rights. Holders must also file annual unclaimed property reports and escheat property to the Department if they cannot contact the owner.

Most holders are required to file unclaimed property reports in states outside where they hold the property, in part because of the priority of escheat laws established in *Texas v. New Jersey*, 379 U.S. 674 (1965). In that case, the U.S. Supreme Court established that the state of the owner's last known address (the primary state) has primary authority over the owner's unclaimed property. If the owner's address is not known or if the primary state does not have unclaimed property laws, then the state of the holder's incorporation (the secondary state) obtains authority over the unclaimed property.

While a wide variety of businesses are required to file unclaimed property reports, a surprisingly large number of those businesses have not heard of unclaimed property or escheat laws. In 2016, the Department began webinars to assist in the education of the importance of filing an unclaimed property report, including the importance and submission of a negative report. Concerted efforts have taken place to educate all North Dakota businesses through the development and distribution of a holder reporting manual, which is also on the Department's website.

Many states have recently increased the number of companies selected for unclaimed property audits. North Dakota state law authorizes the Department to conduct audits to determine if holders have complied with requirements of the law. The Office of the State Auditor recommended the Department monitor abandoned property reporting information from entities in the state and to complete audits of entities in the state to ensure abandoned property is appropriately turned over to the Department. To date, only one audit has been completed by a third-party vendor. This is an opportunity for improvement by the Department and internal practices will be evaluated.

Trust Assets and Department Resources

Since statehood, North Dakota's Constitution entrusts the management of acquired land and grant land to the "board of university and school lands" (Land Board). The Land Board has control of various grant and acquired lands, the minerals under sovereign lands (navigable rivers/lakes), and other statutory funds. The Department is responsible for the supervision of trusts and assets under the control of the Land Board. The land grant at statehood and the State Constitution both provide the Land Board manage the trust land and minerals and their proceeds, for the exclusive benefit of supporting the common schools and the institutions for which the lands were granted. In accordance with Article IX of the North Dakota Constitution, the trust funds must be managed to preserve purchasing power and to maintain stable distributions to trust beneficiaries. Revenues are generated through the prudent management of permanent trust assets, including land, minerals and investments. The surface acres are leased to ranchers and farmers, who assist in their care; mineral acres are leased for oil, gas, coal, and aggregate development. All revenues generated are deposited into the trust funds and are invested in a diversified portfolio of financial assets.

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In March 2016, the Office of the State Auditor issued the results of an extensive performance audit with the primary purpose to determine whether the Department of Trust Lands is obtaining, accounting for, and using resources efficiently and effectively. The 29 formal recommendations can be categorized into three themes; (1) State Land Records, (2) Management of State Land and Royalty Collections, and (3) Management of the Department of Trust Lands.

State Land Records

Severe limitations in the current IT system, including redundant manual processes - many of which were highlighted in the 2016 performance audit, have hampered efficiencies. Many of the Department's core data management systems were developed in the 1980s and 1990s using designs and tools no longer supported by vendors. Some supplemental system improvements and purchases have been implemented; however, the outdated database structure restricts potential improvements. In 2016, as part of the plan for replacement of the IT system, a business process modeling contractor, Major Oak, was hired to identify and document processes and to recommend efficiencies for most operations. Major Oak helped document current State processes for all functional areas of the Department. This was followed by preparation of a model of future-State suggestions to further enhance controls, increase efficiencies, and boost productivity. Major Oak developed a list of problems/opportunities within each Division to address. In total 133 opportunities were presented with 92 (69%) of them being dependent upon the implementation of a new technology system. The Department ' s 2017-2019 biennial budget appropriation includes \$3.6 million to replace legacy information technology systems. The Department is currently in the process of developing a Request for Proposal for a Land Management and Accounting system and, separately, an Unclaimed Property IT system with anticipated award dates in 2018.

It is the goal of the Department to work diligently to verify the integrity of the information entered into the new IT system. When the Department began developing and transitioning to electronic databases in the 1980s, information related to tracts and the assigned trusts was manually entered. Since the original input of the information, the Department operated with the understanding that all of the information is accurate. Through the performance review, the State Auditor was able to identify several inaccuracies in assignment of the tracts of land to the correct trust. As of January 2018, fourteen counties have been completed, all hydrocarbon producing, with nearly 800 hours spent on the project. Staff will continue to work to review the remaining 39 counties. As part of SB 2013 of the 65th Legislative Assembly of North Dakota, the board of university and school lands distributed one-time corrections resulting from the misallocation of prior mineral revenues, from the permanent funds managed for the benefit of certain State institutions.

The State Auditor also recommended the Department conduct a formal review of oil and gas royalty payments to ensure amounts received were based on the correct decimal interests. The Department compared the decimal interests reported by the operators in royalty reports to the decimal interests in the minerals database. The Department compiled a list of potential concerns as decimal interest numbers reported by operators were not the same as the decimal interest calculated by the Department. The Department's list required additional reviews be performed to determine whether or not there was an error with the decimal interest number used by the operator or by the Department. In the fall of 2015, the Department adjusted system requirements so mineral ownership is calculated to eight decimal places. The Department has also completed a review of oil and gas interests, comparing the trusts' documented decimal interest to the decimal interest paid by operators. This action will assure the accuracy and integrity of the information to be entered into the new IT system.

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Since October 2015, the Department has required all oil and gas operators submit royalty information electronically via the Department's standardized form, to allow for adequate monitoring of acreage and leasing. The Department has worked through internal processes to ensure any data changes are monitored appropriately.

If there is any additional information the Department of Trust Lands may be able to provide to you prior to your arrival do not hesitate to contact me.

Management of State Land and Royalty Collections

Each oil and gas operator is required to submit a royalty report to the Department with its royalty payment. The Department's Revenue Compliance division is responsible for developing and implementing procedures to assure the timely and accurate accounting of all royalties, bonuses, rentals, and other revenue received by the Department. A significant amount of time is dedicated to evaluating the accounting and collection of oil and gas royalties.

In October 2015, an electronic reporting form was created and provided to operators for the submission of all oil and gas royalties, along with the expectation that all reports would be filed online by the end of the third quarter of FY 2016. The majority of oil and gas royalties are reported electronically, with only five of the 66 operators reporting manually as of June 30, 2017. These operators represent only \$250,000 or 0.13% of the total royalties received in FY 2017. Royalty data is reviewed for discrepancies in volume, ownership, valuation, and lease terms. These efforts have brought additional revenue to the trusts that may not have otherwise been collected. Reported volume data is compared with the NDIC's data to identify variances. Additionally, division orders and submitted royalty reports are reviewed to identify issues. Technology systems have been improved to highlight errors and discrepancies on monthly royalty reports and to automatically calculate potential penalties owed. The enhanced efforts have resulted in additional royalty collections over the prior four fiscal years.

Improvements have been made to the Department's penalty issuance process. Penalties are now automatically calculated. During the 2015-2017 biennium, 19 oil and gas audits were initiated. As of the close of the biennium, the audits were in various stages, but none were complete. During the initial audits, concerns were raised on appropriate treatment of deductions as payors were inconsistent in calculating royalties.

Due to the passage of HB 1300 during the 65th Legislative Session, the Department become subject to the Administrative Agencies Practice Act. The Department is currently drafting administrative rules to comply with HB 1300. Upon these rules being finalized, the Department will be reviewing all policies and will proceed with formalizing internal policies on interest rates and assessment of interest on late royalty payments.

The Department's Surface Management Division manages the surface acres owned by the various trust funds under the control of the Land Board. The major source of income from these lands comes from grazing and agricultural leases, with significant revenue generated from rights-of-way, surface damage agreements and construction aggregate mining.

The objective of surface management is to obtain a "fair market" return from the trust lands while maintaining or improving their condition and value. Private land rental rates are the basis for calculating the minimum opening bid on school trust lands. The fair market value method for establishing minimum

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bids to ensure opening bids for pastureland which results in fair market return requires review of survey adjustments and analysis of reported values and response numbers. It is anticipated the survey data will be received in the fall of 2018. The rental market for grazing lands and cropland has remained strong, keeping pace with private land rental rates even though there has been a decrease in agricultural commodity prices. Private grassland rental market prices have been steadily increasing for over 25 years.

The Department ' s Surface Management Division has established a policy to perform on-site integrity inspections of each surface tract at least once every five years. The Department completed a project that will add all of the tracts that were not being inspected within the Grazing Association. Prior to the audit, trust land within grazing units in the National Grasslands has been annually inspected by the grazing associations and livestock use has been adjusted based upon weather and guidelines established by the Forest Service. There has not been a written agreement between the grazing associations and the Department, one was developed to document the relationship and reporting requirements. This project included equalizing the inspections over a five year period; 32 additional inspection stops per year will be added to the approximate 360 current statewide inspection stops.

The State Auditor's Office also completed a review of accounting information and identified the Department was not properly allocating certain expenses to the appropriate trusts, programs, and/or activities. The State Lands Maintenance Fund was created under N.D.C.C. § 15-03-01.1 to fund Department operations. It consists of fees charged for services, plus a portion of the trusts' financial assets. Due to the multi-functional nature of the Department, a review of the allocation of direct and indirect costs was completed. Effective July 2017, a direct cost allocation policy and process was implemented.

Management of Department of Trust Lands

The State Auditor identified significant improvements relating to human resources, policies and procedures, management monitoring and state archiving.

Human Resources Policies and Procedures are important as they provide structure, control, consistency, fairness and reasonableness amongst Department employees. They also ensure compliance with employment legislation and inform employees of their responsibilities and the Department's expectations. In addition, they also provide transparency in how recruitment processes will be managed, and should be easily accessible by all team leaders and employees alike. In January 2018, the Department adopted the majority of the OMB HRMS policy manual with a dozen internal policies slated for adoption in February 2018. Within the human resources policy manual, hiring practices (Chapter 4), HRMS best practices, veterans' preference (Chapter 4), and performance evaluations (Chapter 12) are addressed. Additionally, effective February 2018, the Department will no longer manage human resources internally but will be utilizing HRMS to manage all Department human resources needs.

The State Auditor identified the need for the Department to formally review policies and procedures and adopt a standardized format. The Department continues to have a mixture of various policy formats, emails and memos with a lack of periodic review. The Department acknowledges the importance of establishing a standardized format and is currently reviewing all policies. The Department adopted human resources and fiscal policies on January 26, 2018. Internal policies to supplement these policies will be reviewed and adopted on February 26, 2018. Unclaimed property policies will be reviewed in March 2018, with an expected adoption date of March 31, 2018. Information Technology and Investments will be reviewed and adoption of policies will occur by end of April 2018. Surface, Minerals and Revenue Compliance will complete a review of their policies once Administrative Rules have been approved for the divisions. Procedures for each division will be reviewed and approved with the implementation of new technology.

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If the new technology systems will not impact the division then a review of those procedures will begin in May 2018.

As per the State Auditor, the Department needs to establish and operate monitoring activities to monitor the internal control system and evaluate the results. While the Department had established certain internal control procedures, limited monitoring was conducted. The Department completed a Control Environment and Information Technology Assessment Summary and a Fraud Risk Assessment in late 2016. The results of these assessments were issued to Commissioner Gaebe on May 19, 2017. The Department is currently reviewing the results of this assessment and implementing necessary controls and processes surrounding significant risks that were identified.

The Department maintains a large number of original documents and records related to land transactions. The Department recognizes that it is the custodian of records of unique historic value. The Records Coordinator transferred to State Archives all eligible archive material according to the State ITD Retention Schedule. Electronic records will not be managed by the same retention schedule until new IT systems are implemented across the Department.

Thank you,



Jodi Smith
Commissioner