



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, 2019

Client Code 120





WHAT WE LOOKED AT

Our team audited the Office of the State Treasurer which included reviewing financial transactions, expenditures and blanket bond coverage.

WHAT WE FOUND

This audit did not identify any areas of concern.

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KEY PERSONNEL

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HAVE QUESTIONS? ASK US.

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Introduction

Office of the State Treasurer

January 23, 2020

We are pleased to submit this audit of the Office of the State Treasurer for the biennium ended June 30, 2019. 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.

Robyn Hoffmann, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7291. 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,

/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.

Distribution: The act or process of dividing among several or many.

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.

Fraud Risk Assessment: Tool used by management to identify and understand risks to its business and weaknesses in controls that present a fraud risk to the organization.

General Fund: Primary fund used by a government entity.

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.

Audit Results

OBJECTIVE RELATED TO OUR STATUTORY AUDIT REQUIREMENTS

Are there any exceptions to report relating to
statutorily required audit testing?

Statutorily required audit testing includes: performing the post-audit of financial transactions, detecting and reporting any defaults, determining that expenditures have been made in accordance with law, appropriation acts, and emergency commission action, and evaluating blanket bond coverage.

CONCLUSION

No exceptions to our statutorily required audit testing were identified.

INTERNAL CONTROL

As we determined internal control was significant to this audit objective, we assessed internal control by gaining an understanding of internal control and concluded as to the adequacy of the design of internal control and whether the applicable internal controls were implemented. We also tested the operating effectiveness of those controls we considered necessary to address our audit objective. The controls assessed were generally the key controls identified during the planning phase of the engagement, which may include controls at both the entity and transaction levels. We identified key controls significant to this audit objective related to the control activities component of internal control, specifically the principles related to the design of control activities to achieve objectives and respond to risks. We also identified controls relating to the information and communication component of internal control, specifically the principle of using quality information to achieve the entity's objectives.

Based on the audit work performed, auditors are required to report deficiencies in internal control that are significant within the context of the audit objectives. A deficiency in internal control exists when the design, implementation, or operation of a control does not allow management or personnel to achieve control objectives and address related risks.

Considering both qualitative and quantitative factors, we did not identify any deficiencies in internal control that were significant within the context of our audit objectives.

SCOPE

This audit of the Office of the State Treasurer is for the biennium ended June 30, 2019. 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:

- 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.
- Non-statistical sampling was used and the results were projected to the population.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system for data analysis. Significant evidence was obtained from ConnectND.
- Observed the Office of the State Treasurer's processes and procedures.
- Inspected documentary evidence.

- Tested compliance with appropriation laws and regulations including related transfers. Where necessary, internal control was tested which included selecting representative samples and testing information system processes to determine if controls were operating effectively and if laws were being followed consistently.
- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines.
- Tested year-end bank reconciliations on funds held in custody for others.

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

STATUTORY CRITERIA

Agency management must establish and maintain effective internal control in accordance with policy of the Office of Management and Budget (OMB Policy 216).

The criteria used to evaluate legislative intent are the laws as published in the North Dakota Century Code and the North Dakota Session Laws. The following areas were identified to be of higher risk of noncompliance.

- Compliance with appropriations, adjustments, and related transfers in accordance with limits and purpose. (2017 North Dakota Session Laws Chapter 4 (H.B. 1005), S.B. 2013 Sections 5-7).
- Compliance with the following distributions:
 - o Multistate Tax Audit Fund (2017 North Dakota Session Laws H.B. 1006 Section 8)
 - o Non-Oil Producing Counties (2019 North Dakota Session Laws S.B. 2016 Section 4)
 - o Highway Tax Distribution Fund (N.D.C.C. 54-27-19)
 - o City Sales Tax Fund (N.D.C.C. 57-01-02.1)
 - o State Aid Distribution Fund (N.D.C.C. 57-39.2-26.1)

- o Oil and Gas Production Tax Distribution Fund (N.D.C.C. 57-51-15)
- o Oil Extraction Tax Development Fund (N.D.C.C. 57-51.1-07)
- o Coal Conversion Tax Trust Fund (N.D.C.C. 57-60-14 and 15)
- o Coal Severance Tax (N.D.C.C. 57-61-10, 57-61-01.5, 57-62-02)
- o Court administration fees (N.D.C.C. 29-26-22)
- Blanket bond coverage maintained in accordance with state law and state guidelines. (N.D.C.C. 26.1-21-08, N.D.C.C. 26.1-21-10)

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 conclusions based on our audit objectives.

The standards used to evaluate internal control is 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?

Financial statements were 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.

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 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 the State Treasurer. No exceptions were noted for these high-risk systems.

Financial Statements

Statement of Revenues and Expenditures

REVENUES AND OTHER SOURCES	JUNE 30, 2019	JUNE 30, 2018
Investment Earnings	\$ 369,383,481	\$ 484,074,343
Mineral Lease Royalties	85,141,628	47,014,857
Fines and Court Fees	11,944,945	11,802,499
Mill Profits	7,568,325	10,109,147
General Property Tax	4,635,557	4,548,963
Miscellaneous Revenue	43,970	40,791
Transfers In	979,534,377	1,370,419,152
Total Revenues and Other Sources	\$ 1,458,252,283	\$ 1,928,009,752

EXPENDITURES AND OTHER USES	JUNE 30, 2019	JUNE 30, 2018
Tax Distributions to Government Units	\$ 1,339,558,108	\$ 923,011,116
Other Distributions	2,771,166	3,473,107
Salaries and Benefits	650,089	619,988
IT – Data Processing	74,332	100,789
Professional Services	45,029	43,937
Other Operating Expenditures	25,506	17,903
Transfers Out	2,348,870,693	1,955,071,270
Total Expenditures and Other Uses	\$ 3,691,994,923	\$ 2,882,338,110

Source: ConnectND Financials

Statement of Appropriations

For the Biennium Ended June 30, 2019

EXPENDITURES BY LINE ITEM	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATION
Salaries and Wages	\$ 1,316,139	\$ 1,270,078	\$ 46,061
Operating Expenses	251,260	195,891	55,369
Technology Project Carryover	20,000	20,000	0
Coal Severance Payments	180,000	171,357	8,643
Non-Oil Producing Counties	8,100,000	7,965,000	135,000
Total	\$ 9,867,399	\$ 9,622,326	\$ 245,073

EXPENDITURES BY SOURCE	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATION
General	\$ 1,767,399	\$ 1,657,326	\$ 110,073
Other	8,100,000	7,965,000	135,000
Total	\$ 9,867,399	\$ 9,622,326	\$ 245,073

Source: ConnectND Financials



Office of the
State Auditor

NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

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