



Nicole Galloway, CPA
Missouri State Auditor

Office of State Treasurer

Year Ended
June 30, 2015

April 2016
Report No. 2016-019



<http://auditor.mo.gov>



Nicole Galloway, CPA
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CITIZENS SUMMARY

Findings in the audit of the Office of State Treasurer

Background

The Office of State Treasurer is an elective office as provided in the Missouri Constitution. The duties of the State Treasurer as defined by Article IV Section 15 are to be the custodian of all state funds; to determine the amount of state monies not needed for current operating expenses; and to invest such monies in interest-bearing time deposits, in Missouri banking institutions selected by the State Treasurer and approved by the Governor and State Auditor, in short-term U.S. government securities, or in certain allowable commercial paper and banker's acceptances.

The State Treasurer operates in four major functional areas (1) accounting and banking services, (2) disbursements and records, (3) investments and deposit programs, and (4) unclaimed property. Auditors reviewed policies and procedures and financial records, interviewed personnel, and selected transactions related to those four major areas.

Findings

The audit identified no significant deficiencies in internal controls, no significant noncompliance with legal provisions, and no significant deficiencies in management practices and procedures. No findings resulted from this audit.

In the areas audited, the overall performance of this entity was **Excellent**.*

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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Office of State Treasurer

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NICOLE GALLOWAY, CPA

Missouri State Auditor

Honorable Clint Zweifel, State Treasurer
Jefferson City, Missouri

We have audited certain operations of the Office of State Treasurer in fulfillment of our duties under Chapter 29, RSMo. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2015. The objectives of our audit were to:

1. Evaluate the office's internal controls over significant management and financial functions.
2. Evaluate the office's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

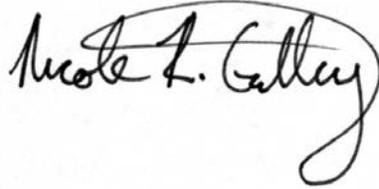
Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the office; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the office's management and was not subjected to the procedures applied in our audit of the office.

For the areas audited, we identified (1) no deficiencies in internal controls, (2) no significant noncompliance with legal provisions, and (3) no significant deficiencies in management practices and procedures.

Report No. 2016-016, *State of Missouri Single Audit, Year Ended June 30, 2015*, issued in March 2016 communicated the results of our audit of the state's financial statements and its use of federal awards during the year ended June 30, 2015. That report identified a deficiency in internal controls for the State Treasurer's Office in ensuring the accuracy of year-end financial data submitted to the Office of Administration - Division of Accounting for use in preparing the *Missouri Comprehensive Annual Financial Report* for the year ended June 30, 2015. The complete finding, recommendation, and auditee response is contained in that report.



Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor:	Keriann Wright, MBA, CPA
Director of Audits:	Douglas J. Porting, CPA, CFE
Audit Manager:	Jeannette Eaves, CPA
In-Charge Auditor:	Gayle Garrison
Audit Staff:	Albert Borde-Koufie, MBA
	Christopher A. McClain
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Office of State Treasurer

Organization and Statistical Information

The office of State Treasurer is an elective office as provided in the Missouri Constitution. The duties of the State Treasurer as defined by Article IV Section 15 are to be the custodian of all state funds; to determine the amount of state monies not needed for current operating expenses; and to invest such monies in interest-bearing time deposits, in Missouri banking institutions selected by the State Treasurer and approved by the Governor and State Auditor, in short-term U.S. government securities, or in certain allowable commercial paper and banker's acceptances.

The Office of State Treasurer operates in four major functional areas (1) accounting and banking services, (2) disbursements and records, (3) investments and deposit programs, and (4) unclaimed property.

The accounting and banking services area (1) maintains a fund accounting system to fulfill a statutory responsibility to keep separate accounts of the funds of the state and to allocate investment interest to funds, (2) maintains ledger controls on fund balances and appropriations to assure that no check is issued that exceeds the lawful appropriated balances, (3) controls receipt of state monies collected by state agencies and deposited in local banks throughout the state, (4) reconciles bank activity to receipt and disbursement activity reflected on the state books, (5) determines the amount of state monies not needed for current operating expenses, and (6) confirms daily disbursements with the bank as certified by the Office of Administration.

The disbursements and records area provides processing support to other areas of the office by (1) retrieving state checks, and (2) controlling and processing outlawed checks and processing and verifying claims for replacement checks.

The investments area places state monies not needed for current operating expenses in interest-bearing time deposits, U.S. government and agency securities, commercial paper, banker's acceptances, and repurchase agreements. This area also administers the State Treasurer's statutory linked deposit program and monitors and accounts for the collateralization of state funds.

The Unclaimed Property Division administers Missouri's Unclaimed Property Act (Chapter 447, RSMo). The Unclaimed Property Division is responsible for (1) ensuring unclaimed property is reported, (2) receiving and recording reports of unclaimed property, (3) depositing unclaimed funds to the Abandoned Fund Account Fund, (4) maintaining custody and safekeeping of abandoned or unclaimed physical property, and (5) processing owner claims for abandoned funds or physical property.

On January 14, 2013, Clint Zweifel was inaugurated for his second term as the forty-fifth Treasurer of the state of Missouri. His term will expire in January 2017.



Office of State Treasurer
Organization and Statistical Information

As of June 30, 2015, the office had 45 full-time positions to assist in the accomplishment of its mission.

Financial Activity

A summary of the office's operating financial activity, cash and investment balances, and investment income is presented in the following Appendixes and in the Notes to the Appendixes.

Appendix A

Office of State Treasurer
 Combined Statement of Receipts, Disbursements, and Changes in Cash and Investments
 Year Ended June 30, 2015

	Treasurer's General Operations Fund	Treasurer's Information Fund	Central Check Mailing Service Revolving Fund	Abandoned Fund Account Fund	Total (Memorandum Only)
RECEIPTS					
Agency securities interest	\$ 2,189,521	0	0	0	2,189,521
Time deposit interest	258,450	0	0	0	258,450
Unclaimed properties	0	0	0	100,581,909	100,581,909
Mail and postage services	0	0	89,293	0	89,293
Miscellaneous	2,910	251	0	2,178	5,339
Total Receipts	<u>2,450,881</u>	<u>251</u>	<u>89,293</u>	<u>100,584,087</u>	<u>103,124,512</u>
DISBURSEMENTS					
Personal service	1,447,882	0	10,183	519,442	1,977,507
Employee fringe benefits	652,499	0	6,827	279,463	938,789
Unemployment benefits	1,737	0	0	0	1,737
Expense and equipment	246,338	761	67,108	77,303	391,510
Advertising and auction expenses	0	0	0	1,075,211	1,075,211
Abandoned fund claim payments	0	0	0	39,309,427	39,309,427
Cost allocation plan	24,076	0	0	0	24,076
Leasing operations	181,108	0	0	0	181,108
Total Disbursements	<u>2,553,640</u>	<u>761</u>	<u>84,118</u>	<u>41,260,846</u>	<u>43,899,365</u>
RECEIPTS OVER (UNDER)					
DISBURSEMENTS	(102,759)	(510)	5,175	59,323,241	59,225,147
TRANSFERS					
From General Revenue Fund	0	0	0	1,354,608	1,354,608
To General Revenue Fund	0	0	0	(44,175,308)	(44,175,308)
To Mental Health Trust Fund	0	0	0	(32,781)	(32,781)
To State Public School Fund	0	0	0	(2,141,035)	(2,141,035)
Total Transfers	<u>0</u>	<u>0</u>	<u>0</u>	<u>(44,994,516)</u>	<u>(44,994,516)</u>
RECEIPTS OVER (UNDER)					
DISBURSEMENTS AND TRANSFERS	(102,759)	(510)	5,175	14,328,725	14,230,631
CASH AND INVESTMENTS, JULY 1	1,872,659	2,625	400	19,418,201	21,293,885
CASH AND INVESTMENTS, JUNE 30	<u>\$ 1,769,900</u>	<u>2,115</u>	<u>5,575</u>	<u>33,746,926</u>	<u>35,524,516</u>

The accompanying Notes to the Appendixes are an integral part of this statement.

Appendix B

Office of State Treasurer
Comparative Statement of Appropriations and Expenditures

	Year Ended June 30,					
	2015			2014		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
GENERAL REVENUE FUND						
Issuing duplicate/outlawed checks	\$ 2,000,000	1,900,873	99,127	1,625,000	1,614,905	10,095
Refunds of excess interest from the linked deposit program	2,500	2,463	37	2,500	530	1,970
Sustainable communities/family economic stability program models	0	0	0	225,000	225,000	0
Total General Revenue Fund	2,002,500	1,903,336	99,164	1,852,500	1,840,435	12,065
TREASURER'S GENERAL OPERATIONS FUND						
Personal service	1,611,525	1,447,882	163,643	1,596,591	1,467,869	128,722
Expense and equipment	270,672	246,338	24,334	270,672	242,496	28,176
Total Treasurer's General Operations Fund	1,882,197	1,694,220	187,977	1,867,263	1,710,365	156,898
TREASURER'S INFORMATION FUND						
Expense and equipment	8,000	761	7,239	8,000	763	7,237
Total Treasurer's Information Fund	8,000	761	7,239	8,000	763	7,237
CENTRAL CHECK MAILING SERVICE REVOLVING FUND						
Personal service	12,074	10,183	1,891	11,894	9,905	1,989
Expense and equipment	225,000	67,108	157,892	225,000	62,762	162,238
Total Central Check Mailing Service Revolving Fund	237,074	77,291	159,783	236,894	72,667	164,227
ABANDONED FUND ACCOUNT FUND						
Personal service	536,365	519,442	16,923	530,019	512,238	17,781
Expense and equipment	98,600	77,303	21,297	98,600	93,923	4,677
Advertising and auctions	1,475,000	1,075,211	399,789	1,475,000	1,176,330	298,670
Payment of claims for abandoned property	40,500,000	39,309,427	1,190,573	40,000,000	38,604,634	1,395,366
Total Abandoned Fund Account Fund	42,609,965	40,981,383	1,628,582	42,103,619	40,387,125	1,716,494
Total All Funds	\$ 46,739,736	44,656,991	2,082,745	46,068,276	44,011,355	2,056,921

The accompanying Notes to the Appendixes are an integral part of this statement.

Appendix C

Office of State Treasurer
 Comparative Statement of Expenditures (From Appropriations)

	Year Ended June 30,	
	2015	2014
Personal service	\$ 1,977,507	1,990,012
Travel	39,635	27,033
Expense and equipment	283,817	261,238
Communications expense	95,845	92,383
Professional services	956,632	1,102,332
Maintenance and repair services	67,226	63,940
Equipment and software purchases	23,566	29,348
Abandoned fund claim payments	39,309,427	38,604,634
Replacement of outlawed checks	1,900,873	1,614,905
Other	0	225,000
Refunds of excess interest from the linked deposit program	2,463	530
Total Expenditures	\$ <u>44,656,991</u>	<u>44,011,355</u>

The accompanying Notes to the Appendixes are an integral part of this statement.

Appendix D

Office of State Treasurer

Comparative Statement of Funds in Custody of State Treasurer

	2015	2014	2013	2012	2011
APPROPRIATED FUNDS					
Demand Deposits:					
US Bank	\$ 2,550,938	89,043	21,066	19,521,037	19,576,124
Central Bank	44,588,087	25,777,485	72,111,952	8,162,215	69,141,278
Wells Fargo Bank	75,005,354	75,008,898	75,026,626	0	0
Commerce Bank	8,823,746	8,049,837	8,637,503	10,063,041	14,987,119
Bank of New York Midwest	0	0	0	75,045,355	50,045,196
UMB Bank	124,063	36,741	13,939	(1,032,510)	(25,491,067)
Collection bank accounts	2,567,900	2,097,687	1,958,119	2,560,911	12,160,071
Total Demand Deposits	<u>133,660,088</u>	<u>111,059,691</u>	<u>157,769,205</u>	<u>114,320,049</u>	<u>140,418,721</u>
Pooled Investments:					
Time deposits	496,858,052	531,748,998	559,725,267	569,867,495	652,429,893
U.S. government securities	2,185,298,465	2,100,914,983	2,300,958,056	2,070,031,748	2,224,602,562
Commercial paper and banker acceptances	0	0	0	0	61,693,783
Repurchase agreements	877,952,000	833,101,000	846,675,000	887,623,000	1,213,394,000
Total Pooled Investments	<u>3,560,108,517</u>	<u>3,465,764,981</u>	<u>3,707,358,323</u>	<u>3,527,522,243</u>	<u>4,152,120,238</u>
Total Demand Deposits and Pooled Investments	<u>3,693,768,605</u>	<u>3,576,824,672</u>	<u>3,865,127,528</u>	<u>3,641,842,292</u>	<u>4,292,538,959</u>
Special Fund Dedicated Investments:					
U.S. government securities	49,265,012	46,998,293	41,280,359	39,270,832	39,282,060
Donated corporate stock	5,130	5,130	5,130	5,130	5,130
Total Special Fund Dedicated Investments	<u>49,270,142</u>	<u>47,003,423</u>	<u>41,285,489</u>	<u>39,275,962</u>	<u>39,287,190</u>
Total Appropriated Funds	<u>3,743,038,747</u>	<u>3,623,828,095</u>	<u>3,906,413,017</u>	<u>3,681,118,254</u>	<u>4,331,826,149</u>
NONAPPROPRIATED FUNDS					
Demand deposits	13,505,558	12,721,952	12,375,296	10,640,648	10,926,394
Repurchase agreements	0	1,012,000	1,000,000	1,006,000	0
Commercial paper and banker acceptances	0	0	0	0	999,988
Total Nonappropriated Funds	<u>13,505,558</u>	<u>13,733,952</u>	<u>13,375,296</u>	<u>11,646,648</u>	<u>11,926,382</u>
Total Cash and Investments	\$ <u>3,756,544,305</u>	<u>3,637,562,047</u>	<u>3,919,788,313</u>	<u>3,692,764,902</u>	<u>4,343,752,531</u>

The accompanying Notes to the Appendixes are an integral part of this statement.

Appendix E

Office of State Treasurer

Comparative Statement of Interest Received on Pooled Investments

	Year Ended June 30,				
	2015	2014	2013	2012	2011
INTEREST RECEIPTS					
General and special funds	\$ 19,147,768	21,870,120	23,614,348	26,429,849	31,748,010
Debt retirement funds	2,466,920	2,125,573	1,515,945	2,288,094	2,906,855
Total Appropriated Funds	21,614,688	23,995,693	25,130,293	28,717,943	34,654,865
Trust funds	1,555	808	1,473	6,539	3,792
Total Interest Receipts	\$ 21,616,243	23,996,501	25,131,766	28,724,482	34,658,657

The accompanying Notes to the Appendixes are an integral part of this statement.



Notes to the Appendixes

1. Basis of Presentation

Amounts presented in Appendixes A through E are reported on the budgetary or cash basis of accounting. The budgetary basis recognizes revenues as cash is received and expenditures as cash is disbursed. Missouri issued a Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015, in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The financial activity of the Office of State Treasurer is included in the CAFR.

The amounts presented in Appendix A represent receipts, disbursements, transfers, and cash balances of funds that are dedicated to the activities and programs of the office.

The amounts presented in Appendixes B and C represent funds appropriated to the office by the Missouri General Assembly and expended by the office.

The amounts presented in Appendixes D and E represent all funds in the state treasury and all trust funds in the custody of the State Treasurer.

State treasury funds are subject to appropriation; trust funds are not. The appendixes do not include any funds or investments that are not in the custody of the State Treasurer.

2. Cash and Investments

Article IV, Section 15 of the Missouri Constitution establishes the State Treasurer as custodian of all state funds and funds received from the U.S. government. This section further authorizes the State Treasurer to place all such monies on time deposit, bearing interest, in Missouri banking institutions selected by the State Treasurer and approved by the Governor and the State Auditor, or in obligations of the U.S. government or any agency or instrumentality thereof maturing or becoming payable not more than 5 years from the date of purchase. In addition, the State Treasurer may enter into repurchase agreements maturing and becoming payable within 90 days secured by U.S. Treasury obligations or obligations of U.S. government agencies or instrumentalities of any maturity, as provided by law. The State Treasurer may also invest in banker's acceptances issued by domestic commercial banks possessing the highest rating issued by at least 2 nationally recognized statistical rating organizations and in commercial paper, issued by domestic corporations receiving the highest rating issued by at least 2 nationally recognized statistical rating organizations. Investments in bankers acceptances and commercial paper shall mature and become payable not more than 180 days from the date of purchase, maintain the highest rating throughout the duration of the investment and meet any other requirements provided by law. The State Treasurer shall prepare, maintain, and adhere to a written investment policy that shall include an



Office of State Treasurer
 Organization and Statistical Information

asset allocation plan limiting the total amount of state money that may be invested in each investment category authorized by law.

Deposits

The State Treasurer maintains approximately 206 demand deposit bank accounts throughout the state. These accounts include collection accounts for various state agencies and the state's primary operating accounts. Cash balances in the state's operating accounts that are not needed for immediate use are invested.

The State Treasurer's deposits at June 30, 2015, were entirely covered by federal depositary insurance or by collateral securities held by the custodial banks in the State Treasurer's name.

To protect the safety of state deposits, Sections 30.270 and 110.020, RSMo, require depositories to pledge collateral securities to secure deposits not insured by the Federal Deposit Insurance Corporation.

Investments

The State Treasurer's investments at June 30, 2015, are listed by type below to give an indication of the level of risk assumed by the state at year end. All investments are insured or registered, or have collateral held by the State Treasurer or a custodial bank in the state's name.

Investments in Custody of State
 Treasurer - June 30, 2015

	Reported Amount	Fair Value
Time deposits	\$ 496,858,052	496,858,052
U.S. government securities	2,234,563,477	2,234,042,380
Repurchase agreements	877,952,000	877,952,000
Other investments	5,130	73,439
Total investments	\$ 3,609,378,659	3,608,925,871

Investments are recorded at acquisition cost except "other" investments which are recorded at par. Investments in time deposits and repurchase agreements are acquired at face value and earn a stated interest rate. Investments in U.S. government securities are acquired at fair value and mature at face value.

3. Demand Deposit and
 Collection Accounts

The demand deposit accounts on Appendix D are used to manage the state's daily receipt, disbursement, and transfer activities and to segregate funds available for investing.

The demand deposit accounts consist of the following:



Office of State Treasurer
 Organization and Statistical Information

Demand Deposit Accounts

	June 30, 2015		June 30, 2014		June 30, 2013	
	Bank Balance (\$)	Number of Accounts	Bank Balance (\$)	Number of Accounts	Bank Balance (\$)	Number of Accounts
US Bank	2,550,938	1	89,043	1	21,066	1
Central Bank	161,954,859	33	177,858,617	32	170,849,347	31
Commerce Bank	8,999,974	9	8,285,228	9	8,812,671	9
Wells Fargo	75,096,454	2	75,100,857	2	75,014,605	2
UMB Bank	124,063	1	36,741	1	13,939	1

The collection bank accounts on Appendix D consist of three master concentration accounts and their related collection accounts. The master General Concentration, Conservation Concentration, and Lottery Concentration accounts were at Central Bank at June 30, 2015, 2014, and 2013 and have been reported above. The related collection account bank balances were \$2,848,010, \$2,571,803, and \$2,243,064 at June 30, 2015, 2014, and 2013, respectively.

Banking service agreements on the central demand accounts allow the State Treasurer to invest outstanding checks up until the checks clear the bank, thereby investing an amount in excess of book balances. The negative balances at June 30 (Appendix D) for the appropriated funds demand deposits represent the book balance net of amounts invested.

4. Special Fund Dedicated Investments

The State Treasurer is assigned the authority for recording direct investments of special funds in the accounting system. The amounts presented as special fund dedicated investments in the appropriated funds on Appendix D represent specific investments made or held by the State Treasurer on behalf of the Pansy Johnson-Travis Memorial State Gardens Trust Fund and the State Public School Fund. The State Treasurer is responsible for purchasing, custodial, income collection, distribution, and record-keeping duties related to the investments of these funds.

The investments of the Pansy Johnson-Travis Memorial State Gardens Trust Fund are maintained in the instruments transferred to the State Treasurer from the previous trustee of the fund. The investment purchases for the State Public School Fund are made in accordance with the instructions of the State Public School Fund investment committee.