



Claire McCaskill

Missouri State Auditor

February 2005

Office of the State Treasurer

Period July 1, 2004
Through
January 10, 2005



Office Of
Missouri State Auditor
Claire McCaskill

February 2005

On January 8, 2001, Nancy Farmer was inaugurated as the forty-third Treasurer of the state of Missouri. Her term as State Treasurer expired January 2005. On January 10, 2005, Sarah Steelman was inaugurated as the forty-fourth Treasurer of the state of Missouri.

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 following report of the Office of the State Treasurer reflects audited financial statements dating from July 1, 2004 through January 10, 2005.

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YELLOW SHEET

OFFICE OF STATE TREASURER

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FINANCIAL SECTION

State Auditor's Reports



CLAIRE C. McCASKILL
Missouri State Auditor

**INDEPENDENT AUDITOR'S REPORT ON
THE FINANCIAL STATEMENT**

Honorable Nancy Farmer
and
Honorable Sarah Steelman, State Treasurer
Jefferson City, MO 65102

We have audited the accompanying Statement of Appropriations and Expenditures of the various funds of the Office of State Treasurer as of and for the period July 1, 2004 through January 10, 2005. This financial statement is the responsibility of the office's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statement, this financial statement was prepared on the state's legal budgetary basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to in the first paragraph presents fairly, in all material respects, the appropriations and expenditures of the various funds of the Office of State Treasurer as of and for the period July 1, 2004 through January 10, 2005, on the basis of accounting discussed in Note 1.

In accordance with *Government Auditing Standards*, we also have issued our report dated January 28, 2005, on our consideration of the office's internal control over financial reporting and on

our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statement, taken as a whole, that is referred to in the first paragraph. The accompanying financial information listed as supplementary data in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the office's management and was not subjected to the auditing procedures applied in the audit of the financial statement referred to above. Accordingly, we express no opinion on the information.



Claire McCaskill
State Auditor

January 28, 2005 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
Audit Manager:	Douglas J. Porting, CPA, CFE
In-Charge Auditor:	Katherine K. Cardenas, CPA
Audit Staff:	Lucinda Hentges
	Gary A. Raines



CLAIRE C. McCASKILL
Missouri State Auditor

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS**

Honorable Nancy Farmer
and
Honorable Sarah Steelman, State Treasurer
Jefferson City, MO 65102

We have audited the financial statement of the Office of State Treasurer as of and for the period July 1, 2004 through January 10, 2005, and have issued our report thereon dated January 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement of the Office of State Treasurer, we considered the office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statement of the Office of State Treasurer is free of material misstatement, we performed tests of the office's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with

which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the management of the Office of State Treasurer and other applicable government officials. However, pursuant to Section 29.270, RSMo 2000, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill
State Auditor

January 28, 2005 (fieldwork completion date)

Financial Statement

Exhibit

OFFICE OF STATE TREASURER
STATEMENT OF APPROPRIATIONS AND EXPENDITURES
PERIOD JULY 1, 2004 THROUGH JANUARY 10, 2005

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Encumbrances</u>	<u>Uncommitted Appropriations</u>
GENERAL REVENUE FUND - STATE				
Issuing duplicate/outlawed checks	\$ 1,775,000	1,697,373	0	77,627
Lease and utility expense	2,867	345	1,035	1,487
Personal service	1,417,312	907,070	0	510,242
Expense and equipment	312,005	102,032	6,694	203,279
Refunds of excess interest from the linked deposit program	3,000	38	0	2,962
Total General Revenue Fund - State	<u>3,510,184</u>	<u>2,706,858</u>	<u>7,729</u>	<u>795,597</u>
TREASURER'S INFORMATION FUND				
Personal service	479,135	63,497	0	415,638
Expense and equipment	25,000	875	0	24,125
Total Treasurer's Information Fund	<u>504,135</u>	<u>64,372</u>	<u>0</u>	<u>439,763</u>
CENTRAL CHECK MAILING SERVICE REVOLVING FUND				
Expense and equipment	<u>225,000</u>	<u>33,897</u>	<u>0</u>	<u>191,103</u>
SECOND INJURY FUND				
Personal service	37,875	36,056	0	1,819
Expense and equipment	3,280	1,993	0	1,287
Total Second Injury Fund	<u>41,155</u>	<u>38,049</u>	<u>0</u>	<u>3,106</u>
ABANDONED FUND ACCOUNT FUND				
Expense and equipment	225,000	27,754	0	197,246
Payment of claims for abandoned property	16,000,000	9,683,854	0	6,316,146
Total Abandoned Fund Account Fund	<u>16,225,000</u>	<u>9,711,608</u>	<u>0</u>	<u>6,513,392</u>
Total All Funds	<u>\$ 20,505,474</u>	<u>12,554,784</u>	<u>7,729</u>	<u>7,942,961</u>

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

Supplementary Data

Schedule

OFFICE OF STATE TREASURER
STATEMENT OF CHANGES IN GENERAL CAPITAL ASSETS
PERIOD JULY 1, 2004 THROUGH JANUARY 10, 2005

	Furniture and Equipment	Motor Vehicles	Total General Capital Assets
Balance, June 30, 2004	\$ 890,209	16,582	906,791
Additions	1,094	0	1,094
Dispositions	(97,096)	0	(97,096)
Balance, January 10, 2005	\$ 794,207	16,582	810,789

Fund of Acquisition	Balance January 10, 2005
General Revenue Fund-State	\$ 747,632
Central Check Mailing Service Revolving Fund	38,054
Second Injury Fund	2,093
Abandoned Fund Account Fund	21,311
Treasurer's Information Fund	1,699
Total All Funds	\$ 810,789

The accompanying Note to the Supplementary Data is an integral part of this statement.

Notes to the Financial Statement and Supplementary Data

OFFICE OF STATE TREASURER
NOTES TO THE FINANCIAL STATEMENT AND SUPPLEMENTARY DATA

Notes to the Financial Statement:

1. Summary of Significant Accounting Policies

A. Reporting Entity and Basis of Presentation

The accompanying financial statement presents only selected data for each fund of the Office of State Treasurer.

Appropriations, presented in the Exhibit, are not separate accounting entities. They do not record the assets, liabilities, and equity or other balances of the related funds but are used only to account for and control the office's expenditures from amounts appropriated by the General Assembly.

Expenditures presented for each appropriation may not reflect the total cost of the related activity. Other direct and indirect costs provided by the office and other state agencies are not allocated to the applicable fund or program.

B. Basis of Accounting

The Statement of Appropriations and Expenditures, Exhibit, is presented on the state's legal budgetary basis of accounting which recognizes expenditures on the encumbrance method. For the period ended January 10, 2005, expenditures include amounts payable at January 10, 2005, including payroll earned through December 31, 2004, for all employees, plus the final payroll and accrued annual leave amounts payable to employees terminating on January 10, 2005. Encumbered amounts are reported as encumbrances.

The budgetary basis of accounting differs from accounting principles generally accepted in the United States of America. Those principles require revenues to be recognized when they become available and measurable or when they are earned and expenditures or expenses to be recognized when the related liabilities are incurred.

C. Fiscal Authority and Responsibility

The office administers transactions in the funds listed below. The state treasurer as fund custodian and the Office of Administration provide administrative control over fund resources within the authority prescribed by the General Assembly.

General Revenue Fund-State: The Office of State Treasurer receives appropriations from this fund and does not maintain a proprietary interest in the fund.

Appropriations from the fund are used for the basic operation of the office, including those programs and services that have no other funding source. These appropriations also may be used to initially fund, or to provide matching funds or support for, programs paid wholly or partially from other sources.

Treasurer's Information Fund: The office receives appropriations from this fund and maintains a proprietary interest in the fund. This fund, established by Section 30.610, RSMo Cumulative Supp. 2003, may receive monies from governmental entities or the general public for the preparation, reproduction, or dissemination of information or publications of the State Treasurer. In addition, beginning in Fiscal Year 2005 this fund also receives fees billed to the Missouri Department of Transportation for activities related to investing and managing the funds of the agency. Appropriations from this fund shall be used to pay for personal service, equipment and other expenses of the office necessary for the preparation, reproduction, or dissemination of information or publications of the State Treasurer and for activities related to investing and managing the funds of the Missouri Department of Transportation.

Central Check Mailing Service Revolving Fund: The office receives appropriations from this fund and maintains a proprietary interest in the fund. The State Treasurer is administrator and custodian of the fund and receives funds paid or transferred to the office by state agencies for centralized check mailing services. Appropriations from the fund are used for check mailing service expenses.

Second Injury Fund: The office receives appropriations from this fund and does not maintain a proprietary interest in the fund. Appropriations from the fund are to be used for that portion of basic operations which relate to the administration of Second Injury Fund claims.

Abandoned Fund Account Fund: This fund receives monies from banking or financial institutions, business associations, insurance corporations, utilities, courts and other governmental entities, and proceeds from the sale of abandoned property representing abandoned or unclaimed funds.

This fund is established and governed under Section 447.543.2, RSMo Cumulative Supp. 2003. Under Sections 447.500 through 447.595, RSMo Cumulative Supp. 2003, various financial, business, and governmental entities, unless otherwise exempted, are to remit to the State Treasurer all funds which have been presumed abandoned or unclaimed for the required dormancy period, less any reasonable costs of complying with the law incurred during the required notification or reporting process. The State Treasurer is to deposit these funds in the Abandoned Fund Account Fund. Claims may be filed at any time and are paid upon proof of an approved claim. At any time when the balance of the fund exceeds one-twelfth of

the previous fiscal year's total disbursements from the Abandoned Fund Account Fund, the State Treasurer may, and at least once every fiscal year shall, transfer to the state's General Revenue Fund the balance of the Abandoned Fund Account Fund which exceeds one-twelfth of the previous fiscal year's total disbursements from the Abandoned Fund Account Fund. If any claim or refund reduces the balance of the fund to less than one-twenty-fourth of the previous year's total disbursements from the Abandoned Fund Account Fund, the State Treasurer shall transfer from the state's General Revenue Fund an amount which is sufficient to restore the balance to one-twelfth of the previous fiscal year's total disbursements. Appropriations from this fund authorize disbursements for the payment of claims of abandoned funds.

D. Employee Fringe Benefits

In addition to the social security system, employees are covered by the Missouri State Employees' Retirement System (MOSERS) (a noncontributory plan) and may participate in the state's health care, optional life insurance, cafeteria, and deferred compensation and deferred compensation incentive plans. The optional life insurance and cafeteria plans involve only employee contributions or payroll reductions. The deferred compensation plan involves employee payroll deferrals and the deferred compensation incentive plan a state contribution for each employee who participates in the deferred compensation plan and has been employed by the state for at least 1 year.

The state's required contributions for employee fringe benefits are paid from the same funds as the related payrolls. Those contributions are for MOSERS (retirement, basic life insurance, and long-term disability benefits); social security and medicare taxes; health care premiums; and the deferred compensation incentive amount.

Transfers related to fringe benefits are not appropriated by agency and thus are not presented in the Exhibit.

2. Uncommitted Appropriations – Fiscal Year 2005

The amounts presented as uncommitted appropriations represent appropriations not yet spent or committed at January 10, 2005.

Note to the Supplementary Data:

3. General Capital Assets

General capital assets are recorded at cost in the general capital assets account. General capital assets are depreciated on a straight-line basis using various useful life classifications and a salvage value of zero. Accumulated depreciation on general capital assets at January 10, 2005, was approximately \$635,000.

MANAGEMENT ADVISORY REPORT SECTION

Follow-Up on Prior Audit Findings

OFFICE OF STATE TREASURER
FOLLOW-UP ON PRIOR AUDIT FINDINGS

The Management Advisory Report included in the report of the State Auditor for the year ended June 30, 2003, will be followed up on in the report of the State Auditor for the year ended June 30, 2004, when completed. The results of that audit do not modify our report dated January 28, 2005, on the financial statement for the period July 1, 2004 through January 10, 2005.

STATISTICAL SECTION

History, Organization, and
Statistical Information

OFFICE OF STATE TREASURER HISTORY, 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 fee agents and 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 departments of the State Treasurer's office, as follows: 1) provides storage and retrieval of state checks; and 2) controls and processes outlawed checks and processes and verifies 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.

Nancy Farmer became Missouri's forty-third State Treasurer when she took the oath of office January 8, 2001. She was the first woman to serve as State Treasurer in the state's 180-year

history. Her term expired in January 2005. On January 10, 2005, Sarah Steelman was inaugurated as the forty-fourth Treasurer of the state of Missouri.

As of January 10, 2005, the office had 42 full-time and 5 part-time positions to assist in the accomplishment of its mission. An organization chart follows.

OFFICE OF STATE TREASURER
 ORGANIZATION CHART
 JANUARY 10, 2005

