

FINANCIAL AUDIT

OFFICE OF THE STATE TREASURER

For the fiscal year ended June 30, 2012



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

**OFFICE OF THE STATE TREASURER
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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Oklahoma State Auditor & Inspector

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December 31, 2012

**TO THE HONORABLE KEN MILLER
STATE TREASURER OF OKLAHOMA**

This is the audit report of the Office of the State Treasurer for the year ended June 30, 2012. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our Office during our engagement.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Gary A. Jones', is written in a cursive style.

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

**OFFICE OF THE STATE TREASURER
FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORTS
FOR THE YEAR ENDED JUNE 30, 2012**

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**Office of the State Treasurer of Oklahoma
Management's Discussion and Analysis (MD&A)
June 30, 2012**

The Management's Discussion and Analysis (MD&A) of the Office of the State Treasurer of Oklahoma provides an overview of the Office of the State Treasurer's financial activities for the fiscal year ended June 30, 2012. The intent of the MD&A is to look at the Office of the State Treasurer's financial performance as a whole. It should, therefore, be read in conjunction with the financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

Statements of Net Assets

The Statement of Net Assets provides an indication of the Office of the State Treasurer's financial condition at the end of the 2012 fiscal year. The statement reports all assets and liabilities using the accrual basis of accounting. The Statement of Changes in Net Assets reports all of the revenues and expenses during the time periods indicated.

**OFFICE OF THE STATE TREASURER
NET ASSETS**

	<u>2012</u>	<u>2011</u>
Current Assets	\$ 7,535,898	\$ 6,691,921
Capital assets	43,297	76,872
Capital assets - development in progress	<u>1,038,519</u>	<u>-</u>
Total Assets	<u>8,617,714</u>	<u>6,768,793</u>
Other Liabilities	488,655	374,853
Noncurrent Liabilities	<u>15,357</u>	<u>107,170</u>
Total Liabilities	<u>504,012</u>	<u>482,023</u>
Invested in capital assets	1,081,816	76,872
Restricted for taxpayer relief	-	25,000
Unrestricted	<u>7,031,886</u>	<u>6,184,898</u>
Total Net Assets	<u>\$ 8,113,702</u>	<u>\$ 6,286,770</u>

As of June 30, 2012, the Office of the State Treasurer's increase in current assets was primarily attributable to an increase in net revenues for administration of the Unclaimed Property Program, increased securities lending revenue and the continued use of compensating balances to offset certain banking fees. Capital assets increased due to the capitalization of costs incurred with the ongoing development and implementation of web based disbursement and deposit processing

and cash management applications. The new systems replace COBOL based systems that had reached the end of their product life cycle and were no longer supported by the software vendors.

The increase in other liabilities was due to additional payables outstanding at the end of the fiscal year associated with contracts for the ongoing systems development and implementation projects.

Compensated absences represent the dollar value of employee annual leave balances and are reflected in both other and noncurrent liabilities. Employee annual leave is used as vacation time or must be reimbursed if an employee separates from agency service. This dollar value changes as employees use their leave or receive reimbursement payments as they leave the service of the Office. Noncurrent liabilities decreased by 86% as employee leave usage increased and as certain technology related employees with leave balances were transferred to the Office of Management and Enterprise Services Information Services Division on August 1, 2012, pursuant to the terms of an interagency agreement.

The substantial portion of unrestricted net assets consists of funds dedicated to the administration of the Unclaimed Property Program. It also includes other funding designated for banking fees and capital projects like systems development and workspace consolidation. This asset category increased by 14% primarily due to increases associated with the Unclaimed Property Program.

Changes in Net Assets - Revenues and Expenses

Except for revenues received for the administration of the Unclaimed Property Program, operating revenues of the Office of State Treasurer are largely dependent upon state general revenue appropriation. The general revenue appropriation was reduced by \$273,216, or 7% in FY 2012.

Effective July 1, 2012, the Office began to collect an investment management fee from state agency participants in the state blended portfolio as authorized by 62 O.S. § 89.6. A fee of 1.25 basis points was applied to the average daily balance invested in the portfolio and was deducted from interest earnings resulting in a substantial increase in administrative charges.

Pursuant to state law, securities lending revenue may be used by the Office of State Treasurer to pay bank service charges. Revenue from securities lending increased 57% in FY 2012 due to an increase in the demand for the relatively stable securities held in the Treasurer's portfolio.

Four percent of all property relinquished to the state under the Uniform Unclaimed Property Act is recognized as revenue by the Office of State Treasurer and used to finance Unclaimed Property Program expenses. Additionally, program revenues include transfers from the Unclaimed Property Fund to pay for personnel services charges associated with property recovery and advertising services.

Personnel services decreased 9% in FY 2012 due to the transfer of technology related personnel to the Office of Management and Enterprise Services Information Services Division. The Office of the State Treasurer also incurred expenses to renovate assigned space in the State Capitol in FY 2012, addressing longstanding security concerns and increasing the usable square footage.

The Office was able to relocate staff from leased space and recognize a small reduction in rental expenses. This relocation will reduce rental expenses by more than \$25,000 annually in future operating periods.

OFFICE OF THE STATE TREASURER
CHANGES IN NET ASSETS

	2012	2011
General Revenues		
Appropriations	\$ 3,629,873	\$ 3,903,089
Unclaimed property	3,545,466	3,198,790
Service charges	59,996	64,772
Administrative charges	601,597	236,773
Securities lending	410,698	262,046
Other income	2,665	377
Total General Revenues	8,250,295	7,665,847
Expenses		
Personnel services	5,408,259	5,926,185
Travel	38,430	25,935
Administrative expenses	159,326	147,777
Building renovation	155,662	0
Contracted services	137,770	295,374
Equipment	38,488	99,624
Other	2,536	10,416
Bank service charges	301,512	233,135
Payments to counties	93,000	100,000
Depreciation	35,202	54,134
Total Expenses	6,370,185	6,892,580
Excess Before Transfers	1,880,110	773,267
Transfers	(53,178)	(2,004,547)
Increase (Decrease) in Net Assets	1,826,932	(1,231,280)
Net Assets Beginning Balance	6,286,770	7,518,050
Net Assets Ending Balance	\$ 8,113,702	\$ 6,286,770

Fund Highlights:

Governmental Fund - Fund Balance

The Office of the State Treasurer has a legally adopted budget that is established by the legislature. The FY 2012 final budget included carryover funds not available at the time of the original budget. The final budget expenses exceeded actual expenses for the fiscal year by more

than \$2.4 million, or 25%. Unclaimed property recovery and advertising expenses have been difficult to predict with any degree of accuracy because they are largely driven by the services of third parties who locate and recover property for the state.

USING THIS ANNUAL REPORT

The basic financial statements presented in the annual report include both government-wide and fund financial statements.

Government-wide statements:

Government-wide statements include a Statement of Net Assets and a Statement of Activities. These statements display information about the Office of the State Treasurer as a whole. The government-wide financial statements of the Office of the State Treasurer are presented on a full accrual economic resource basis which includes all assets and liabilities whether current or non-current. These statements provide both short-term and long-term information about the Office of the State Treasurer's overall financial status.

Fund statements:

The fund financial statements include the Governmental Fund's Balance Sheet and Statement of Revenue, Expenditures, and Changes in Fund Balance. In the fund financial statements the revenues and expenditures of the Office of the State Treasurer are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Under these accounting methods, revenues and assets are recognized when they become both measurable and available, and expenditures and liabilities are recognized when obligations are incurred as a result of the receipt of goods or services.

The Office of the State Treasurer provides banking and investment services for state agencies. The deposits and investments held by the Office of the State Treasurer on behalf of the state are reported in the fiduciary fund.

This financial report is designed to provide a general overview of the Office of the State Treasurer's finances for all of Oklahoma's citizens, taxpayers, customers, and investors and creditors. This financial report seeks to demonstrate the Treasurer's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

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Oklahoma State Auditor & Inspector

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INDEPENDENT AUDITOR'S REPORT

TO THE HONORABLE KEN MILLER STATE TREASURER OF OKLAHOMA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the State Treasurer, as of and for the year ended June 30, 2012, which collectively comprise the Office of the State Treasurer's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Office of the State Treasurer's management. Our responsibility is to express opinions on these financial statements 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 opinions.

As discussed in Note 1, the financial statements of the Office of the State Treasurer are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Oklahoma that is attributable to the transactions of the Office of the State Treasurer. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2012, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining

fund information of the Office of the State Treasurer, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2012 on our consideration of the Office of the State Treasurer'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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1-4 and budgetary comparison information on pages 26-27 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by Governmental Auditing Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Office of the State Treasurer's basic financial statements. The supplemental schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The expenditures by class-funding – budgetary basis schedule has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the expenditures by class-funding – budgetary basis schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

December 31, 2012

OFFICE OF THE STATE TREASURER
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2012

ASSETS	
Cash	\$ 7,219,725
Due from other agencies	316,173
Capital assets, net of accumulated depreciation	
Furniture, fixtures, and equipment	43,297
Capital assets – development in progress	<u>1,038,519</u>
Total Assets	<u>8,617,714</u>
LIABILITIES	
Accounts payable	265,648
Compensated absences:	
Payable within one year	223,007
Payable after one year	<u>15,357</u>
Total Liabilities	<u>504,012</u>
NET ASSETS	
Invested in capital assets	1,081,816
Unrestricted	<u>7,031,886</u>
Total Net Assets	\$ <u><u>8,113,702</u></u>

The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE STATE TREASURER
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Expenses

Governmental Activities - General Government:

Personnel services	\$ 5,408,259
Travel	38,430
Administrative expenses	159,326
Building renovation	155,662
Contracted services	137,770
Equipment	38,488
Other	2,536
Bank service charges	301,512
Payments to counties	93,000
Depreciation	<u>35,202</u>
Total Expenses	<u>6,370,185</u>

General Revenues

Appropriations	3,629,873
Unclaimed property	3,545,466
Service charges	59,996
Administrative charges	601,597
Securities lending	410,698
Other income	<u>2,665</u>
Total General Revenues	<u>8,250,295</u>

Transfers (53,178)

Increase (Decrease) in Net Assets 1,826,932

Net Assets, July 1, 2011 6,286,770

Net Assets, June 30, 2012 \$ 8,113,702

The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE STATE TREASURER
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012**

	<u>GENERAL FUND</u>
ASSETS	
Cash	\$ 7,219,726
Due from the agency fund	316,173
Total Assets	<u>\$ 7,535,899</u>
 LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 265,649
Total Liabilities	<u>265,649</u>
 Fund Balance	
Committed to:	
Unclaimed Property Program administration	4,859,297
Banking fees	286,369
Assigned to:	
Systems development	<u>2,124,584</u>
Total Fund Balance	<u>7,270,250</u>
 Total Liabilities and Fund Balance	 <u>\$ 7,535,899</u>

The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE STATE TREASURER
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2012**

Total Fund Balance - Governmental Fund	\$	7,270,250
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund.</p>		
Furniture, fixtures, and equipment		43,297
Development in progress		1,038,519
<p>Long term liabilities are not due and payable in the current period and therefore are not reported in the fund.</p>		
Compensated absences		<u>(238,364)</u>
Net assets of governmental activities	\$	<u><u>8,113,702</u></u>

The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE STATE TREASURER
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	GENERAL FUND
Revenues	
Unclaimed property	\$ 3,545,465
Service charges	59,996
Administrative charges	601,597
Securities lending	410,698
Other income	2,665
Total Revenues	4,620,421
 Expenditures	
Current:	
Personnel services	5,489,646
Travel	38,430
Administrative	159,326
Building renovation	155,662
Contracted services	137,770
Capital outlay – systems development	1,038,519
Equipment	40,115
Other	2,536
Bank service charges	301,512
Payments to counties	93,000
Total Expenditures	7,456,516
 Revenues Over (Under) Expenditures	(2,836,095)
 Other Financing Sources (Uses)	
Appropriations	3,629,873
Transfers	(53,178)
Total Other Financing Sources (Uses)	3,576,695
 Net Change In Fund Balance	740,600
 Fund Balance, July 1, 2011	6,529,650
 Fund Balance, June 30, 2012	\$ 7,270,250

The notes to the financial statements are an integral part of this statement.

OFFICE OF THE STATE TREASURER
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
June 30, 2012

		<u>Agency Fund</u>
ASSETS		
Cash		
Cash on hand	\$	540,205
Cash in banks		34,524,370
Total Cash		<u>35,064,575</u>
Investments		
Treasurer's portfolio		
OKinvest		6,166,089,456
General revenue		74,800,000
State agency portfolio		1,850,748
Securities lending investments		253,486,125
Total Investments		<u>6,496,226,329</u>
Interest Receivable		
OKinvest portfolio		23,704,100
General revenue portfolio		178,203
Agency directed portfolio		1,541
Total Interest Receivable		<u>23,883,844</u>
Total Assets	\$	<u>6,555,174,748</u>
LIABILITIES		
Balance due depositors		
State government entities	\$	6,299,519,766
State government entities investments		1,852,684
Payable under securities lending agreements		253,486,125
Total Due Depositors		<u>6,554,858,575</u>
Due to the General Fund		<u>316,173</u>
Total Liabilities	\$	<u>6,555,174,748</u>

The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE STATE TREASURER
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Office of the State Treasurer (the Office) is established under authority of the Constitution of Oklahoma as an agency of the state. The State Treasurer performs duties as designated by the Constitution or prescribed by law. The Office is a part of the primary government of the State of Oklahoma.

The State Treasurer is elected every four years and takes office the second Monday in January following the election for the position in November. On January 10, 2011 the Honorable Ken Miller assumed the position of State Treasurer.

The primary functions of the Office are the maintenance of bank accounts for the receipt and disbursement of state funds, the prudent investment of certain state funds, the recording and servicing of the long-term debt of the state, and the administration of the state's Unclaimed Property Program. Additionally, the Office performs safekeeping and investment functions for state agencies, and other entities as authorized by state statute. Various activities of the Office include receipt of warrants, vouchers, and debt instruments, management of cash and investments, and the reconciliation of account balances and transactions with the various state agencies. The Treasurer's office is also responsible for accounting functions associated with the Tobacco Settlement Endowment Trust Fund and the Economic Development Generating Excellence Trust Fund.

B. Basis of Presentation, Measurement Focus and Basis of Accounting – Government-wide Financial Statements

The government-wide financial statements are presented using the accrual basis of accounting and the economic resources measurement focus. All of the functions available to finance the Office are presented together as general government activities. Financial information for funds that are not available to finance these activities is not included; consequently, the government-wide financial statements exclude fiduciary assets and liabilities.

Using the economic resources measurement focus, all assets and liabilities, both current and long-term, associated with the operation of the Office activities are presented in the statement of net assets. Under the accrual basis of accounting, revenues are recognized as they are earned and expenses are recognized as they are incurred. General revenues include charges for banking services rendered by this Office to individual state agencies. Additionally, the Office receives reimbursement for certain costs incurred in connection with the recovery, advertisement, and sale of unclaimed property. The Office also receives up to 4% of unclaimed property receipts to offset certain capital and administrative costs incurred in connection with the administration of the state's Unclaimed Property Program.

Fund Financial Statements

The fund financial statements report the detailed activities of the Office by fund type for governmental and fiduciary funds as described below.

Governmental Fund

General Fund - The general fund is the primary operating fund of the Office. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. The general fund financial statements are presented using the modified accrual basis of accounting and the current financial resources measurement focus. Using the current financial resources measurement focus, only current assets and current liabilities are included on the balance sheet in the general fund financial statements. The modified accrual basis of accounting provides for the recognition of revenues when they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the state considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. The Office is entitled to reimbursement for certain costs incurred in connection with administration of the Unclaimed Property Program. These revenues are recognized when the related expenditures are incurred. The Office also receives 4% of the monies accruing to the state according to state statute as service charges. Revenues for these service charges are recognized based on the monies that are remitted to the state. Expenditures are generally recognized when the related liability is incurred except for compensated absences where vested annual leave is recorded as expenditure when utilized.

Since the general fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund and government-wide presentations.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statement presents fund balance in the categories defined by GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions. The Office fund balance does not contain any nonspendable or restricted amounts. Committed fund balance is presented for each respective function of the Office as directed by Oklahoma law. Pursuant to Title 60 Section 668 of the Oklahoma Statutes, the Office receives 4% of the funds accruing to the state under the Uniform Unclaimed Property Act to be used to defray the administrative costs of the program. Pursuant to Title 62 Section 90 of the Oklahoma Statutes the Office receives funds from the securities lending program to pay banking fees.

Along with ratification by the Governor, the Senate and the House of Representatives write, prepare and approve legislative bills to allocate the state's available resources each fiscal year. The Office receives an appropriation from this legislative process over which the Treasurer is authorized to assign amounts to specific purposes. The Office is in the midst of several multi-year projects to replace outdated unsupported systems and to consolidate office operations for better management and greater efficiency. It is expected that the costs of these ongoing efforts will exceed the Office's remaining fund balance as of June 30, 2012, accordingly, the entire amount has been reflected as assigned.

The committed and assigned fund balances are considered to be unrestricted fund balance. Generally when the Office has both restricted and unrestricted resources available, the restricted

balances will be used first as expenditures are incurred as long as conditions that created the restriction are met. When unrestricted fund balance is used, the order of use would generally be committed and then assigned.

Fiduciary Fund

Agency Fund - This fund is used to account for assets held by the Office in a trustee or agency capacity. The Office is the official depository for all agencies of the state and, accordingly, receives and disburses all monies of the state. The agency fund is accounted for using the accrual basis of accounting.

C. Investment Holdings and Basis

Investments are generally stated at fair value, except for investments in SEC-registered money market mutual funds and in nonparticipating interest-earning investment contracts (e.g. nonnegotiable certificates of deposit and repurchase agreements) which are stated at cost, or amortized cost which approximates market value. Investments held by the SEC-registered money market mutual funds may include U.S. government securities that have variable or floating rates that are based on money market indices and that reset frequently at par.

D. Capital Assets

All furniture, fixtures, and equipment costing more than \$2,500 and information systems equipment costing more than \$500, that may be used repeatedly without material impairment of physical condition and that have a calculable period of service of more than one year, are recorded as capital assets. Capital assets are recorded at cost when purchased, or estimated cost as determined by available records maintained by the Office. Donated capital assets are recorded at their fair value on the date of donation.

Depreciation is recorded on capital assets in the government-wide financial statements. Depreciation is calculated on a straight line basis over the following estimated useful lives.

	<u>Years</u>
Information systems	4 - 7
Office furniture, fixtures and equipment	6 - 12

No provision for depreciation is recorded in the general fund financial statements as expenditures for capital assets are recorded as period costs when the capital assets are purchased.

E. Compensated Absences

Employees of the Office entering state service earn annual vacation leave at the rate of 10 hours per month for the first 5 years of service, 12 hours per month for service of 5 to 10 years, 13.3 hours per month for service of 10 to 20 years, and 16.66 hours per month for over 20 years of service. Unused annual leave may be accumulated to a maximum of 240 hours for those with service of up to 5 years. After 5 years of service the maximum number of hours that can be accumulated and carried into the next year is 480 hours. All accrued annual leave is payable upon termination, resignation, retirement, or death. The following is a summary of the changes in compensated absences for the year ended June 30, 2011.

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Compensated Absences	\$ 319,754	166,745	248,133	\$ 238,366

2. Deposits

The **custodial credit risk** for deposits is the risk that in the event of a bank failure, the state's deposits may not be recovered. In accordance with Title 62 O.S. § 72.4, the State Treasurer minimizes custodial credit risk by requiring financial institutions to pledge collateral securities and/or provide collateral instruments in an amount not less than the deposits of the state in each such institution. The amount of collateral securities to be pledged and/or coverage to be provided by collateral instruments is established by rules promulgated by the State Treasurer. In accordance with the rules established by the State Treasurer, the market value of collateral securities pledged by financial institutions combined with the coverage provided by additional collateral instruments, if any, is equal to or greater than 110% of the amount on deposit, less any federal insurance coverage. If only collateral instruments are provided, the coverage is equal to or greater than the amount on deposit, less any federal insurance coverage. Collateral securities are held in a restricted account by an agent of the State Treasurer (i.e., a Federal Reserve Bank, a Federal Home Loan Bank, or a third-party safekeeping bank approved by the State Treasurer).

3. Investments and Securities Lending

Investments

The Office maintains two investment portfolios as follows: Treasurer's Portfolio -- for the investments of all state monies that are under the control of the Treasurer for which the earnings accrue to the general fund of the state or state agencies; and State Agency Portfolio -- for the investments of a limited number of state agencies which are specifically authorized by statute to direct the investment activities of certain funds and accounts for which the investment earnings accrue to those funds and accounts.

The Treasurer or his investment officer is authorized to invest the state monies under his control in the types of securities specified in Title 62 O.S. § 89.2. The Treasurer's Portfolio investments during the year have included U.S. Treasury bills, notes and bonds, U.S. agency and instrumentality obligations, repurchase agreements, SEC-registered money market mutual funds, certificates of deposit and foreign bonds.

The types of investments in which specific state agencies are authorized to invest are established by law or by their boards or commissions. Generally, the investments of the state agencies are the same types as the Treasurer's investments, except for one agency which invests in equity mutual funds.

The State Treasurer operates an internal investment pool, OK Invest, for state funds and state agencies. Only those agencies and funds that are considered to be part of the state's reporting entity in the state's comprehensive annual financial report and who have funds deposited with the State Treasurer may participate in OK Invest.

Investment Policy

The State Treasurer has a formal investment policy which was updated in June 2012. This policy applies to all funds of the state entrusted to the Treasurer by specific statutory investment

authority as delineated in Title 62 O.S. § 89.2. This policy also applies to the investments of state agencies when they request that the Treasurer act as their agent. Only investment transactions relating to the following are covered by this policy: U.S. Treasury Bills, Notes and Bonds, U.S. Government Agency Securities, collateralized or insured Certificates of Deposit and other evidences of deposit, negotiable Certificates of Deposit, Banker's acceptances, Commercial paper, obligations of state and local governments, including obligations of Oklahoma State public trusts, repurchase agreements and tri-party repurchase agreements, money market mutual funds, short term bond funds and foreign government bonds.

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the state's investing activities are managed under the custody of the State Treasurer. The following table details credit ratings that are set by the State Treasurer's Investment Policy to mitigate this risk.

Custodial Credit Risk is the risk that in the event of the failure of counterparty, the state will not be able to recover the value of its investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, not registered in the name of the state, or held by the counterparty or its trust department but not in the state's name.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the Treasurer's investments in a single issuer. As the following table depicts, the State Treasurer's investment policy places limits on the total dollar amount that may be invested in each investment type as well as a limit on the amount placed with each issuer or counterparty.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. Investments made by the State Treasurer are covered by the State Treasurer's investment policy. This policy dictates that the Treasurer's portfolio will not have an average maturity greater than four (4) years. Investments are made based upon prevailing market conditions at the time of the transaction with the intent to hold the instrument until maturity. In accordance with the Treasurer's investment policy, interest rate risk is managed by imposing maturity limitations by investment types.

The State Treasurer's investment policy uses diversification as a means to reduce overall portfolio risk. Investments are diversified by security type, institution and maturity. With the exception of U.S. Treasury securities, no more than 50% of the state's total funds available for investment will be invested in a single security type or with a single financial institution. The Treasurer's portfolio will not have an average maturity greater than four (4) years, unless specifically otherwise designated by the Treasurer. Individual security type limits are shown in the following table. All investments held by the State Treasurer's office are insured, registered, or held in the name of the State Treasurer of Oklahoma.

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The following table outlines the diversification limits to control different types of risk placed on the Treasurer's portfolio as detailed in the State Treasurer's investment policy:

<u>Investment Type Limitations</u>	<u>Percentage of Total Invested</u>	<u>By Issuer</u>	<u>Maturity Limit</u>	<u>Rating</u>
U.S. Government Agency Securities	50%	35%	10 years	AAA
U.S. Government Agency Mortgage Backed Securities – Passthroughs (as a % of U.S. Government Agency)	45% of U.S. Government Agency Securities		(7)	AAA
Collateralized or Insured Certificates of Deposit	Limit of \$35,000,000 per financial institution		365 days (1) (4)	
Negotiable Certificates of Deposit	7.5%	2.5%	180 days (1)	A-1 & P-1
Banker's Acceptance	7.5%	2.5%	270 days	A-1 & P-1
Commercial Paper	7.5%	2.5%	180 days	A-1 & P-1
State & Local Government Obligations	10%	5%	30 years	(2) (6)
Repurchase Agreements and Tri-party Repurchase Agreements	30%	10% (per counterparty)	14 days (1) (4)	(3)
Money Market Mutual Funds	30%	10%	(1) (5)	AAA
Foreign Government Bonds	2.5%	2.5%	5 years	A-/A3 or better

- (1) Excluding weekends and holidays
- (2) Must possess the highest rating from at least one nationally recognized statistical rating organization.
- (3) Counterparties must have a minimum short-term debt rating of A-1, A-1+, or the equivalent by Moody's Investor Service and Standard and Poor's.
- (4) Collateralized according to Title 62 O.S. § 72.5.
- (5) Investments made by Money Market Mutual Funds which consist of repurchase agreements are collateralized by obligations of U.S. government and its agencies and instrumentalities.
- (6) Interest rate of variable rate securities must be tied to one of the following indices: LIBOR, Fed Funds, Treasury Bills or Commercial Paper and must reset no less frequently than quarterly.
- (7) Average life not to exceed seven (7) years based on Bloomberg Prepayment Speed using street consensus at the time of purchase.

Securities Lending

The Treasurer is authorized by state statutes to participate in securities lending transactions. The Treasurer has authorized the custodial bank to act as a securities lending agent, lending securities to approved broker-dealers and banks. There are no restrictions regarding the amount of securities

that may be lent. Securities under loan are maintained in the state's financial records. Corresponding liabilities are recorded at fair value.

During the fiscal year ended June 30, 2012, the securities lending agent lent U.S. government securities it held on behalf of the Treasurer and received U.S. government securities and cash as collateral. Borrowers were required to deliver and maintain collateral for each loan with a market value that is not less than 100 percent of the market value of the loaned security. All securities loans can be terminated on demand by either the Treasurer or the borrower. At June 30, 2012, the maturity of these loans was one day. All loans are contracted on an open basis resetting daily. Cash collateral is invested in instruments of the same type the Treasurer is allowed to invest in by statute. Interest rate sensitivity for the cash collateral was twenty one (21) days. The Treasurer did not have the ability to pledge or sell collateral securities absent a borrower default. The securities lending agent provides indemnification if the borrowers fail to return the underlying securities (and if the collateral is inadequate to replace the securities lent) or fails to pay the Treasurer for income distributions by the securities' issuers while the securities are on loan. There were no failures by any borrowers to return loaned securities or pay related income distributions during the fiscal year.

At year-end, the Treasurer has no credit risk exposure to borrowers because the amounts the Treasurer owes the borrowers exceed the amounts the borrowers owe the Treasurer.

At year-end, the fair value of the underlying securities was \$247,613,196.

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The following schedule compares the cost or amortized cost to the fair value of investments held in the fiduciary funds at June 30, 2012:

TYPE OF INVESTMENT	FAIR VALUE	AMORTIZED COST	AVERAGE CREDIT QUALITY RATING (1)	WEIGHTED AVERAGE MATURITY (DAYS) (2)
TREASURER'S PORTFOLIO				
<u>POOLED INVESTMENTS</u>				
U.S. TREASURY NOTES	\$ -	\$ -	AAA	
U.S. TREASURY TIPS	96,061,300	76,998,698	AAA	1,764
SECURITIES LENDING COLLATERAL POOL	253,486,125	253,486,125	NR	
U.S. AGENCIES	2,113,921,680	2,107,726,459	AAA	625
MORTGAGE BACKED AGENCIES	2,795,705,422	2,631,356,495	AA+ (5)	1,724
FOREIGN BONDS	29,822,500	30,000,000	NR	407
MUNICIPAL BONDS	121,997,499	106,932,335	(6)	2,681
CERTIFICATES OF DEPOSIT	192,556,000	192,556,000	NR	68
MONEY MARKET MUTUAL FUND	816,025,054	816,025,054	AAAm	1
	<u>\$ 6,419,575,581</u>	<u>\$ 6,215,081,167</u>		
<u>NON-POOLED INVESTMENTS</u>				
STATE BOND ISSUE	74,800,000	74,800,000	(4)	58
	<u>\$ 74,800,000</u>	<u>\$ 74,800,000</u>		
TOTAL TREASURER'S INVESTMENTS	<u>\$ 6,494,375,581</u>	<u>\$ 6,289,881,167</u>		
STATE AGENCY PORTFOLIO				
U.S. TREASURY	\$ 213,190	\$ 171,580	AAA (3)	207
MUTUAL FUND	1,637,558	1,108,894	N/A (3)	N/A
TOTAL STATE AGENCY PORTFOLIO	<u>\$ 1,850,748</u>	<u>\$ 1,280,474</u>		

	FAIR VALUE	AMORTIZED COST
INVESTMENTS SUMMARY		
U.S. TREASURY		\$ 77,170,278
NOT ON SECURITIES LOAN	\$ 52,735,076	
ON SECURITIES LOAN - BONDS BORROWED		
ON SECURITIES LOAN - CASH COLLATERAL	43,539,415	
U.S. AGENCIES		4,739,082,954
NOT ON SECURITIES LOAN	4,707,143,804	
ON SECURITIES LOAN - BONDS BORROWED		
ON SECURITIES LOAN - CASH COLLATERAL	202,483,298	
COMMERCIAL PAPER		
INVESTMENTS		
PURCHASED W/CASH COLLATERAL	253,486,125	253,486,125
REPURCHASE AGREEMENTS	0	0
CERTIFICATES OF DEPOSIT	192,556,000	192,556,000
FOREIGN BONDS	29,822,500	30,000,000
STATE BOND ISSUE	74,800,000	74,800,000
MUNICIPAL BONDS	121,997,499	106,932,335
MUTUAL FUND	1,637,558	1,108,894
MONEY MARKET MUTUAL FUND	816,025,054	816,025,054
TOTAL INVESTMENTS	\$ 6,496,226,329	\$ 6,291,161,640

(1) Ratings are provided where applicable to indicate associated Credit Risk. N/A indicates not applicable.

(2) Interest Rate Risk is estimated using weighted average days to maturity.

(3) These agency directed investments are not covered by the State Treasurer's Investment Policy.

(4) State Bond issues are comprised of \$34,800,000 Oklahoma Student Loan Authority municipal bond with a credit rating of AAA. The interest rate resets quarterly and is tied to the average bond equivalent rates of the quotes of the 3-month commercial paper rate. Also included is \$40,000,000 Oklahoma Industrial Finance Authority State of Oklahoma Taxable General Obligation Refunding Bonds. These rates, adjusted quarterly, are tied to the 3 month LIBOR rate and are private placement.

(5) These ratings are implicitly or explicitly guaranteed by the U.S. Government and currently a rating is not provided by the nationally recognized statistical rating organization. GASB rating provided JPM, Custodian was AA+.

(6) All Municipal Bonds possessed a AAA rating when purchased. As of June 30, 2012, 12% had a rating of AAA, 25% were rated AA+, 25% were rated AA, 31% were rated AA-, and 7% were not rated.

4. Interfund Accounts

Due from Other Agencies / Due from the Agency Fund

Various charges are applied to individual state agencies for certain banking services rendered by this office. Additionally, the Office receives reimbursement for certain costs incurred in connection with the recovery, advertisement, custody, and sale of unclaimed property. The Office also receives up to 4% of unclaimed property receipts to offset certain capital and administrative costs incurred in connection with the administration of the state's Unclaimed Property Program. The balance of unpaid service charges and unclaimed property revenues at year end are reflected as Due from Other Agencies /Due from the Agency Fund.

5. Capital Assets

Capital assets accounted for in the government-wide financial statements are recorded at cost net of accumulated depreciation using the straight line method. The following is a summary of the changes in capital assets for the year ended June 30, 2012. Capital Assets increased with the purchase and development of a cash management and web based disbursement and deposit processing application. These systems replace COBOL based systems that had reached the end of their product life cycle and were no longer supported by the application software vendors.

	Balance June 30, 2011	Capital Acquisitions	Sales or Other Dispositions	Balance June 30, 2012
Capital assets not being depreciated				
Development in progress	\$ -	1,038,519	-	\$1,038,519
Capital assets being depreciated				
Furniture, fixtures, and office equipment	988,637	1,627	5,478	984,785
Less accumulated depreciation	<u>911,765</u>	35,202	5,478	<u>941,488</u>
Total	<u>\$76,872</u>			<u>\$1,081,816</u>

6. Bank Service Fees

During the year, the Office incurred fees for services rendered by various financial institutions. Service charges of \$301,512 were paid, as reflected in the financial statements; other charges were off-set by earnings calculated on the compensating cash balances maintained in various banks. The current interest rate environment where overnight rates at times were zero percent and the decline in securities lending revenue caused the Treasurer's Office to use earnings credit to offset bank service fees. The totals of bank fees off set in the current year were approximately \$355,000.

7. **Risk Management**

The Risk Management Division of the state's Division of Capital Asset Management is responsible for the acquisition and administration of all insurance purchased by the state and for administration of self-insurance plans and programs adopted for use by the state.

The Risk Management Division is authorized to settle claims of the state and oversee the dispensation and/or settlement of claims against a political subdivision. In no event shall self-insurance coverage provided to the state, an agency or other covered entity exceed the limitations on the maximum dollar amount of liability specified by the Oklahoma Governmental Tort Claims Act. The Risk Management Division oversees the collection of liability claims owed to the state incurred as the result of a loss through the wrongful or negligent act of a private person or other entity. The Risk Management Division is also charged with the responsibility to immediately notify the Attorney General of any claims against the state presented to the Risk Management Division.

8. **Pension Plan**

Plan Description. The Office contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a multiple employer, cost sharing public employee retirement plan, which is a defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and can be amended by the Oklahoma legislature. The Plan provides retirement, disability, and death benefits. Title 74 of the Oklahoma Statutes, Sections 901 through 943, as amended, provides more complete information about the Plan. OPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73152 or by calling 1-800-733-9008.

Funding Policy. The contribution rates for each member category of the Plan are established by and can be amended by the Oklahoma legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates. The contribution rates applied to each participating state employee's salary for the fiscal year ended June 30, 2012, are listed below: Elected officials must select an employee contribution rate of 4.5%, 6.0%, 7.5%, 8.5%, 9.0% or 10%.

<u>State Employee Contribution</u>	<u>State Agencies' Contribution</u>
<u>All Salaries</u>	<u>All Salaries</u>
3.5%	16.5%

The Office's contributions to the Plan for the years June 30, 2012 - \$389,146; June 30, 2011- \$434,384.64; June 30, 2010 - \$461,031.81; were equal to the established required contributions for each year.

9. **Other Post Employment Benefits (OPEB)**

In addition to the pension benefits described in Note 9, employees of the Office are provided post-retirement health care benefits through their membership in the Oklahoma Public Employees Retirement System. OPERS pays the Medicare supplement premium or \$105 per month,

whichever is less, for all retirees who elect coverage at time of retirement through the Oklahoma State and Education Employee Group Insurance.

OPERS funds post employment health care benefits as part of the overall retirement requirement. OPEB expenditure and participant information is available for the state as a whole; however, information specific to the Oklahoma State Treasurer is not available or reasonably estimable.

10. Interagency Services Agreement

Effective August 1, 2011, the Office entered into an agreement with the Office of Management and Enterprise Services (OMES) to obtain all information technology and telecommunication services. Pursuant to this agreement the Office transferred all information technology personnel and related obligations for salaries and benefits in exchange for monthly compensation not to exceed \$36,334.58. Subsequent to the execution of this agreement the Office transferred all information technology and telecommunications assets, including ongoing implementation projects. The Office reimburses OMES for other expenses, primarily associated with systems maintenance and ongoing development and implementation efforts.

REQUIRED SUPPLEMENTARY INFORMATION

**OFFICE OF THE STATE TREASURER
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Unclaimed Property	\$ 3,800,000	\$ 3,950,000	\$ 3,601,490	\$ (348,510)
Service Charges	43,400	43,400	62,535	19,135
Administrative Charges	273,079	273,079	513,520	240,441
Securities Lending	400,000	400,000	410,698	10,698
Other Income	7,600	7,600	2,665	(4,935)
Total Revenues	<u>4,524,079</u>	<u>4,674,079</u>	<u>4,590,908</u>	<u>(83,171)</u>
Expenditures				
Personnel Services	6,837,568	8,455,947	5,580,695	2,875,252
Travel	67,000	67,000	38,430	28,570
Administrative Expenses	202,380	202,380	153,813	48,567
Building Renovation	0	0	169,064	(169,064)
Contracted Services	424,600	424,600	137,300	287,300
Capital Outlay - Systems Development	0	0	1,038,519	(1,038,519)
Equipment	214,500	214,500	37,680	176,820
Other	1,000	1,000	2,332	(1,332)
Bank Service Charges	615,000	615,000	336,170	278,830
Payment to Counties		93,000	93,000	0
Total Expenditures	<u>8,362,048</u>	<u>10,073,427</u>	<u>7,587,003</u>	<u>2,486,424</u>
Excess of revenues over (under) expenditures	<u>(3,837,969)</u>	<u>(5,399,348)</u>	<u>(2,996,095)</u>	<u>2,403,253</u>
Other financing sources (uses)				
Appropriations	3,629,873	3,629,873	3,629,873	-
Transfers	300,000	300,000	(53,178)	(353,178)
Total other financing sources (uses)	<u>3,929,873</u>	<u>3,929,873</u>	<u>3,576,695</u>	<u>(353,178)</u>
Net change in fund balance	91,904	(1,469,475)	580,599	2,050,074
Fund balance, July 1, 2011	<u>6,305,257</u>	<u>6,305,257</u>	<u>6,305,257</u>	<u>-</u>
Fund balance, June 30, 2012	<u>\$ 6,397,161</u>	<u>\$ 4,835,782</u>	<u>\$ 6,885,856</u>	<u>\$ 2,050,074</u>

The notes to the financial statements are an integral part of this statement.

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTES TO RSI

The Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis) presents comparisons of the legally adopted budget with actual data on a budgetary basis. This statement includes all funds, both appropriated and non-budgeted.

The legal level of control is established by the legislature in its annual appropriation bills. The appropriation bills are deemed to be the legal level of control as this level is statutory. Certain funds are not appropriated annually by the legislature, and are subject to administrative budgetary controls only.

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of resulting differences in the excess of revenues over (under) expenditures and other financing sources (uses) between budgetary and GAAP presentations for the year ended June 30, 2012, is presented as follows:

General Fund Balance, Budgetary Basis	\$ 6,885,856
Basis Differences:	
Add: Net Service and Administrative Charges	85,538
Net Unclaimed Property	(56,026)
Encumbrances recognized as expenses	203,893
 Difference in July 1, 2011 GAAP basis fund balance, compared to budget basis fund balance	 224,393
Subtract: Prior years Encumbrances	(73,404)
 Total General Fund Balance - GAAP Basis	 \$ <u>7,270,250</u>

**OFFICE OF THE STATE TREASURER
SUPPLEMENTAL SCHEDULE
EXPENDITURES BY OBJECT CODE-(BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED June 30, 2012**

OBJECT CODE	CATEGORY	AMOUNT
1100	Salary Expense	\$ 2,503,008
1200	Insurance	548,341
1300	FICA & Retirement	587,419
1500	Professional Services	1,939,283
1900	Inter/Intra Agency Payments Professional Services	2,644
2100	Travel-Reimbursement	14,619
2200	Travel-Direct Expense	23,811
3100	Miscellaneous Administrative Expense	108,327
3100	Bank Service Charges	336,170
3200	Rent Expense	76,359
3300	Maintenance and Repair Expense	60,941
3600	Office Expense	45,486
4100	Office Furniture and Equipment	37,680
4600	Building Renovation	169,064
5200	Employee Recognition Awards	1,527
5300	Refunds, Indemnities and Restitution	773
5400	Capital Outlay – System Development	1,038,519
6100	Employee Reimbursements	32
6200	County Treasurers	93,000
Total		<u>\$ 7,587,003</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS**



Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO THE HONORABLE KEN MILLER STATE TREASURER OF OKLAHOMA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the State Treasurer, as of and for the year ended June 30, 2012, which collectively comprise the Office of the State Treasurer's basic financial statements and have issued our report thereon dated December 31, 2012, which includes an explanatory paragraph stating that the financial statements of the Office of the State Treasurer are intended to present the financial position and results of daily operations of only that portion of the State of Oklahoma attributable to the transactions of the Office of the State Treasurer. Our report also contains an explanatory paragraph which disclaimed an opinion on required supplementary information. 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

Management of the Office of the State Treasurer is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Office of the State Treasurer's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office of the State Treasurer's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Office of the State Treasurer's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over

financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office of the State Treasurer's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 solely for the information and use of management, the Office of the State Treasurer, and is not intended to be and should not be used by anyone other than these specified parties. This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S., § 24A.1 et seq.), and shall be open to any person for inspection and copying.

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at the end.

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

December 31, 2012



OFFICE OF THE STATE AUDITOR AND INSPECTOR

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