A Report to the Montana Legislature

Financial-Compliance Audit

Secretary of State

For the Two Fiscal Years Ended June 30, 2024

December 2025

Legislative Audit Division

24-19

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Financial-Compliance Audits

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The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2023, was issued August 19, 2024. The submission deadline for the Single Audit Report for the two fiscal years ended June 30, 2025, is March 31, 2026.

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LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
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December 2025

The Legislative Audit Committee
of the Montana State Legislature:

We have completed our financial-compliance audit report for the Office of the Secretary of State (office) for the two fiscal years ended June 30, 2024. Audit work included review of select internal controls and tests over:

- Revenues and expenditures related to the office's computer software (intangible assets),
- Revenues received as charges for services and under the federal Help America Vote Act grant, and
- The information in the note disclosures.

We make four accounting recommendations to the office. The recommendations relate to the recording of capitalized software, expense classification, the note disclosures accompanying the financial schedules, and unrecorded liabilities stemming from investment earnings on federal grant money.

The report contains an adverse opinion on the fiscal year 2023 financial schedules and a qualified opinion on the fiscal year 2024 financial schedules. These modified opinions are due to the material nature of misstatements related to intangible asset accounting and note disclosures, which were pervasive on the 2023 schedules, but more limited on the 2024 schedules. This means the financial schedules should not be used for decision-making purposes.

The office's written response to these recommendations is included in the audit report on page C-1. We thank the Secretary of State and her staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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Elected and Administrative Officials

Office of the Secretary of State	Christi Jacobsen, Secretary of State
Administrative Officials	Angela Nunn, Chief Deputy Secretary of State Julie Lake, Human Resources Director Richie Melby, Communications Director Austin James, Elections Director/Chief Legal Counsel Brandi Pierson, Chief Fiscal Officer Andy Ritter, Operations Manager

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Montana Legislative Audit Division

Financial-Compliance Audit
Office of the Secretary of State
For the Two Fiscal Years Ended June 30, 2024

A report to the Montana Legislature

Background

The Secretary of State is constitutionally established as an officer of the executive branch of state government. The Secretary of State's duties are diverse, including functions such as election administration, publishing administrative rules, and business registration for entities operating in the State of Montana.

The office also interprets state election law and oversees state and federal elections.

The office's main source of revenue is fees, recorded as charges for services in the Enterprise Fund. During the audit period, the office also received federal funding through its Help America Vote Act (HAVA) grant.

Although the Office of the Secretary of State saw record-high business registration volumes during the audit period, revenues decreased in fiscal year 2024. This is because the office reduced certain filing fees and waived the 2024 annual report fee. Fees were waived or reduced to support the office's effort to align fees with actual operating costs.

The office made several accounting entries to correct intangible asset misstatements. The note disclosures explaining these corrections contain material misstatements and omissions. New and continuing issues with the accounting for the office's intangible assets also resulted in material misstatements on the financial schedules, leading to adverse and qualified opinions.

AUDITOR'S OPINION (page A-1):
FY2023: ADVERSE
FY2024: QUALIFIED

In **fiscal year 2023**, we issued an adverse opinion on the office's financial schedules due to material and pervasive misstatements. This means the reader should not rely on the information presented and the underlying financial records.

In **fiscal year 2024**, we issued a qualified opinion on the office's financial schedules due to misstatements. This means the reader should understand the misstatements outlined in the opinion when using the information presented.

The financial schedules and notes begin on page A-6.

RECOMMENDATIONS:
In this report, we issued the following recommendations:
To the office: 4
To the legislature: 0

(continued on back)

For the full report or more information, contact the Legislative Audit Division.

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In this report, we determined the implementation status of recommendations in the prior audit:
Fully Implemented: 0
Partially Implemented: 2
Not Implemented: 2

Recommendation #1 (page 10):
Financial Reporting and Internal Controls
We recommend the Office of the Secretary of State:

A. Adequately document and support management decisions for selected accounting treatments.
B. Enhance internal controls to ensure capital assets are recorded on the accounting records according to state accounting policy.
C. Record split-funded capital assets as prescribed in state accounting policy.
D. Select amortization values for capital assets that are adequately supported, as required by state accounting policy.

Office response: Partially Concur

Recommendation #2 (page 11):
Internal Controls
We recommend the Office of the Secretary of State enhance controls to ensure that expenses paid are recorded to proper account classification.

Office response: Concur

Recommendation #3 (page 12):
Financial Reporting and Internal Controls
We recommend the Office of the Secretary of State enhance internal controls over the preparation and review of the financial schedule notes to ensure they are accurate, relevant, and include all required disclosures.

Office response: Concur

Recommendation #4 (page 14):
Internal Controls
We recommend the Office of the Secretary of State:

A. Enhance internal controls to ensure all grant liabilities are recorded on the accounting records, and
B. Record investment earnings on unexpended federal grant revenues as unearned revenue until expended.

Office response: Concur

REPORT ON INTERNAL CONTROL AND COMPLIANCE (page B-1):

In this report, we identified the following:
Material Weaknesses in Internal Control: 2
Significant Deficiencies in Internal Control: 2
Material Non-Compliance: 0
Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

Chapter I – Introduction and Background

Introduction

We performed a financial-compliance audit of the Office of the Secretary of State (office) for the two fiscal years ended June 30, 2024. The objectives of this audit were to:

1. Determine whether the office's financial schedules present fairly the results of operations and changes in fund equity.
2. Obtain an understanding of the office's internal control systems to the extent necessary to support our audit of the office's financial schedules and, if appropriate, make recommendations for improvement in internal and management controls of the office.
3. Determine whether the office complied with certain applicable state laws and regulations.
4. Determine the implementation status of prior audit recommendations.

Our focus was on the office's financial activity related to charges for services, federal revenues, and recording information system assets (intangible assets). We audited activity by reviewing transactions, performing analytics over revenues and expenditures, and testing significant internal controls. We also performed testing on laws and regulations that have a direct and material effect on the office's financial activity.

Background

The office operates through three divisions:

Business Services Division: is responsible for filing and tracking business registrations and cancellations, articles of incorporation, business names, trademarks, and annual reports. Business filings are processed in the office's software, SOS Enterprise. The Business Services Division is also responsible for filing and maintaining Uniform Commercial Code records. The fees collected by the Business Services Division fund the other operations of the office and are required to be commensurate with actual expenses.

Elections and Voter Services Division: interprets state election laws, oversees state and federal elections, and assists voters, candidates, and election officials with voter registration and election issues. The office receives Federal assistance from the Help America Vote Act (HAVA) to improve the administration of elections, enhance election technology, and make election security improvements. The Elections and Voter Services Division also provides election night updates and results, as reported by precincts to the office on election night. In 2023, the office completed development on a new elections management software, ElectMT.

Operations Division: serves office staff through the human resources, communications, fiscal, and information technology and security functions, and serves the public through the records management, notary, and administrative rules functions.

- The records management function is responsible for storing, accessing, scanning, preserving, and disposing of public documents generated by state and local governments.

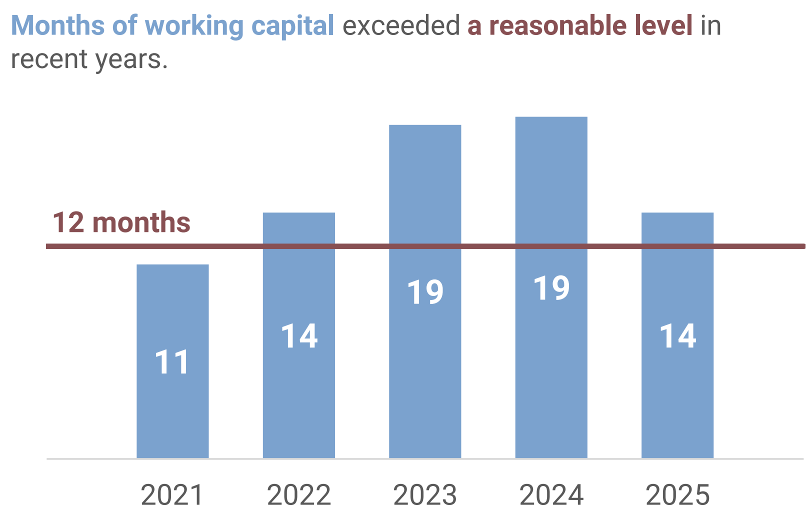
- The notary function is the primary resource for commissioning, informing, and educating notaries public and providing authentication services for those needing documents certified for use in foreign countries.
- The Administrative Rules of Montana are administrative rules issued by state agencies that carry the force of law. Agencies are required to notify the public when proposing to adopt, amend, or repeal a rule.

Prior Audit Recommendations

We followed up on four recommendations from the prior audit report (22-19). Two recommendations related to the accounting for intangible assets. We concluded they were partially implemented and have made an additional recommendation in this report (Recommendation #1).

Our prior audit also recommended that the office obtain and review an independent service organization audit report on the SOS Enterprise system. We concluded the recommendation was not implemented because the office was unable to obtain such a report during the audit period. However, office management has taken steps to enforce the contract terms that require the service organization to obtain an independent audit report. The service organization provided a service organization controls (SOC) report after the audit period. As such, we make no further recommendations.

Figure 1
Working Capital for Fiscal Years 2021–2025



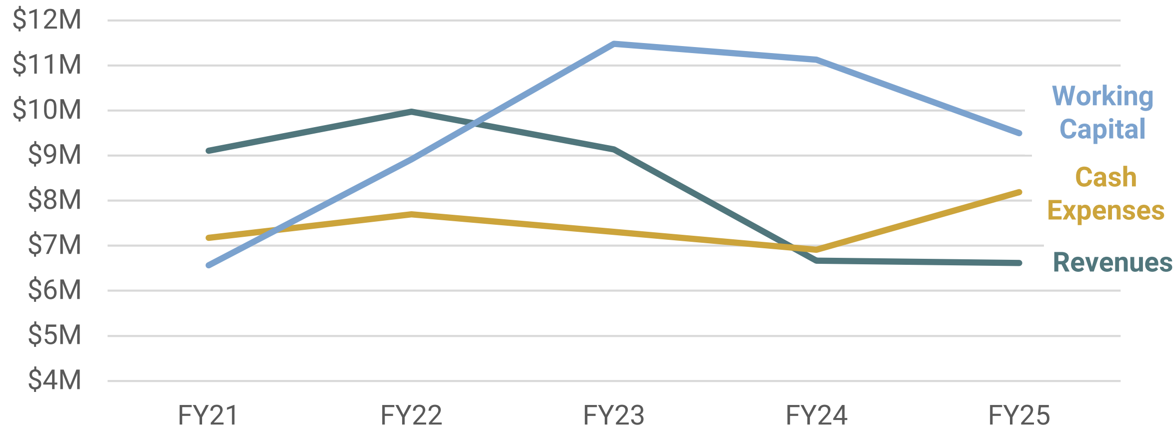
Source: Compiled by the Legislative Audit Division.

The final prior audit recommendation related to fees charged by the office that were not commensurate with costs, contrary to state law (§2-15-405, MCA). Because statute does not define "commensurate with costs," we evaluated working capital using the office's business cycle. Annual report fees are typically the office's largest source of revenue, so we consider 12 months of working capital to be reasonable. Twelve months of working capital provides sufficient resources to operate until the next annual report period. Since the office collects other fees throughout the year, more than 12 months of working capital is not needed to continue operations at its current expenditure rate. We found the office held more than 19 months of working capital in each fiscal year of the audit period.

Although working capital is not at a reasonable level yet, the office has taken steps to reduce fees and working capital. The office lowered some fees and waived annual report fees for 2024. The office has also waived the 2025, 2026, and 2027 annual report filing fees.

Figure 2
Working Capital Factors for Fiscal Years 2021–2025

Although cash expenses exceeded revenues in fiscal year 2024, working capital was not significantly reduced until fiscal year 2025, when expenses increased.



Source: Compiled by the Legislative Audit Division.

Since the office has taken action and working capital trended down in fiscal year 2025, we make no further audit recommendations at this time, but will continue to monitor working capital in the future.

Chapter II - Findings and Recommendations

Management's Responsibilities

The office's management team oversees daily operations to meet its organizational goals. Management is responsible for recording all necessary transactions on the primary accounting records. Management is also responsible for the design, implementation, and maintenance of an effective internal control structure for the office. These responsibilities are assigned by state policy, and management affirms them during the audit.

Management cannot delegate these responsibilities. While service organizations, contractors, and oversight agencies may assist management in achieving their responsibilities, using external assistance does not transfer accountability. Management remains fully responsible for all outcomes related to the office.

During the audit, we found instances where office management did not maintain responsibility for outcomes when external parties were engaged. We also found that weak controls and misapplied policies have undermined the accuracy and reliability of the office's financial reporting.

Intangible Asset Accounting and Error Corrections

Office controls were not adequate to ensure capital assets adhered to state accounting policy and accounting errors were not detected and corrected timely.

The office uses software to help perform its duties. ElectMT, the office's election management system, was completed in January 2023 for a total cost of $3.9 million. SOS Enterprise, the office's business licensing system, was completed in 2021. Major software systems such as these are recorded on the accounting record as capital intangible assets.

Policy Interpretation Records ElectMT Transfer Incorrectly

The office initially recorded ElectMT incorrectly. As a split-funded asset, which is one asset paid for by multiple accounts, state accounting policy requires the expense to be recorded in a single account with cash transfers between the co-paying accounts made accordingly. The office originally recorded the asset and the expense in each of the co-paying accounts. See Figure 3 (page 6) for more information.

To correct the error, the office consulted the State Financial Services Division (SFSD) at the Department of Administration. SFSD advised using a policy provision designed for assets paid entirely by one account and then transferred, rather than the policy for split-funded assets established at the time. The office chose to follow SFSD's guidance.

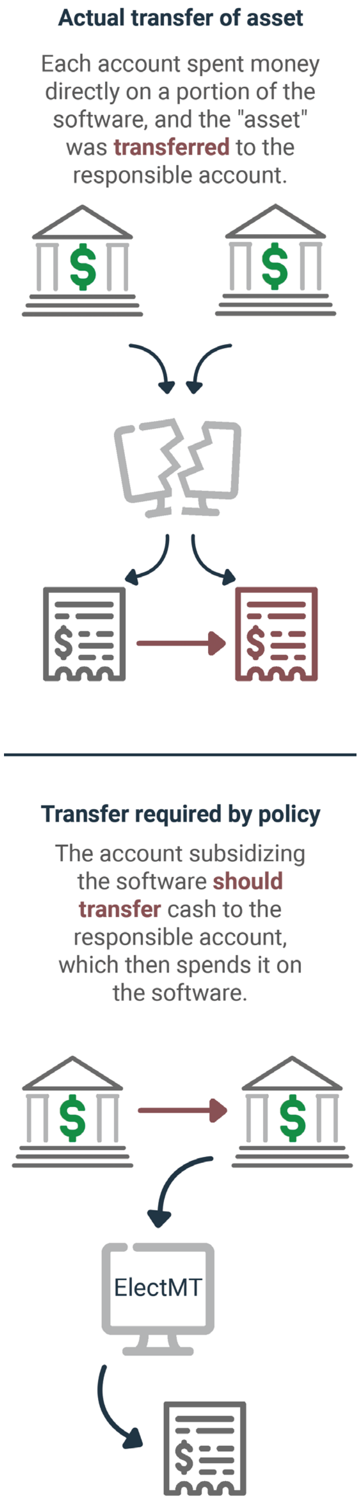
After reviewing both provisions, we determined that the office did not apply the policy correctly. The selected provision applies to assets paid for by one account but moved to another account after completion. Because ElectMT should not have been recorded in multiple accounts to begin with, the substance of the transfer is the correction of an error, not the contribution of a capital asset. The selected treatment also contradicts the recommendation provided in our prior audit report (22-19), which described the initial error.

During the audit, we discussed the policies with SFSD, which stated that the office's budget dictates the applicable provision. Because state agencies must operate within legislatively approved budgets, this can create a conflict between legal requirements and Generally Accepted Accounting Principles (GAAP). In these situations, it is acceptable to adhere to the legal framework and make adjustments for financial reporting purposes. The state capital asset accounting policy did not convey this information when the office transferred ElectMT.

After the completion of our audit, SFSD revised the policy to clarify its position. We reviewed the revised policy draft and believe it is reasonable to address the disconnect between the policy and how SFSD applied it. As a result, we are not issuing a recommendation to the Department of Administration. We also evaluated the ElectMT facts and circumstances with the new policy draft. Our conclusion about the proper accounting treatment did not change.

We found that the office has no conflict between legal budget requirements and GAAP. The HAVA grant budget allows flexibility in spending categories and the office dictates the aspects of the budget that may conflict with GAAP. State accounting policy also requires the office to attempt to resolve conflicts to conform to GAAP. Therefore, the office should set a budget that allows them to record activity in the most appropriate expense category.

Figure 3
The ElectMT Asset Was Transferred Using the Wrong Policy



Source: Compiled by the Legislative Audit Division.

It is unclear whether SFSD received this critical context during discussions with the office. The meetings were conducted online, and the office did not document the factors that led to its decisions. As a result, there is no record of the topics discussed.

Recording the account transfer contrary to state accounting policy contributed to the misstatements listed in the Independent Auditor's Report on page A-1.

Table 1
Misstatements From Incorrect Account Transfers

	Fiscal Year 2023 *Over (Under)stated*
Schedule of Changes in Fund Equity	
Enterprise Fund	
Direct Entries to Fund Equity	($994,463)
Schedule of Total Revenues & Transfers-In	
Enterprise Fund	
Capital Contributions	$2,466,290
Transfers-In	($1,471,827)
Prior Year Revenues & Transfers-In Adjustments	($746,100)
Schedule of Total Expenditures & Transfers-Out	
Intangible Assets	$1,471,827
Transfers-Out	($1,471,827)
Nonbudgeted Expenditures & Transfers-Out	$725,727
Budgeted Expenditures & Transfers-Out	($725,727)

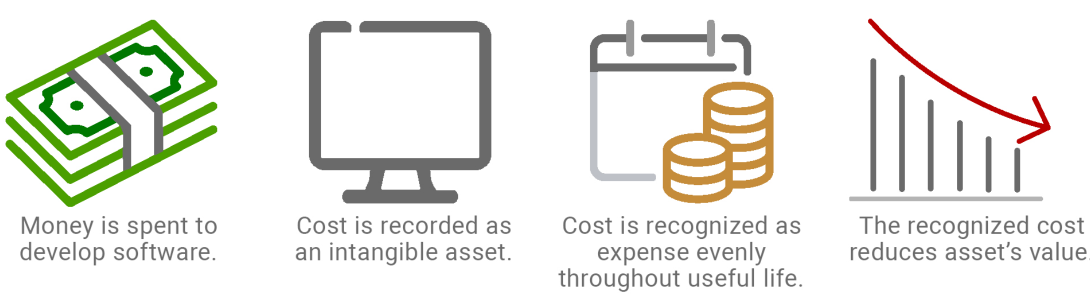
Source: Compiled by the Legislative Audit Division from Secretary of State records.

Unsupported ElectMT Useful Life Estimate Misstates Software's Value

The cost of a capital asset is not recorded as an immediate expense. Instead, it is allocated over the asset's useful life through amortization. "Useful life" is an accounting estimate of the period during which an asset, without upgrades or enhancements, is expected to support an organization's objectives.

State accounting policy assigns a default useful life of four years to all software, and requires it to be used unless a different useful life estimate can be supported by documentation, such as the actual performance of similar assets. Policy requires the office to maintain documentation supporting the use of any estimate other than the default.

Figure 4
Capitalization Process



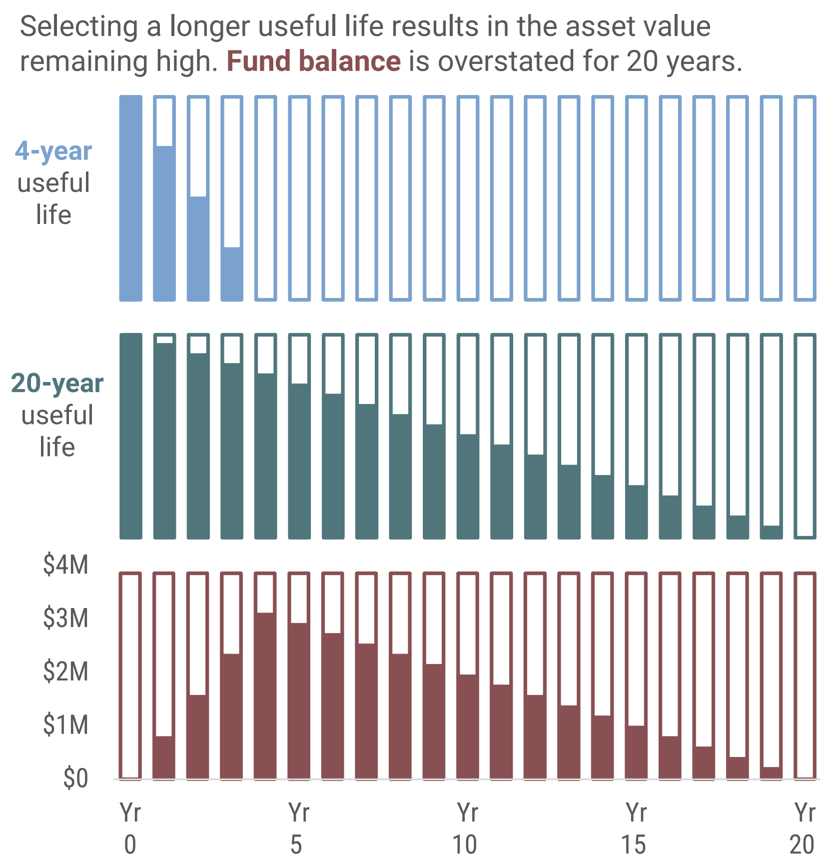
Source: Compiled by the Legislative Audit Division.

The office implemented ElectMT in fiscal year 2023 and assigned it a 20-year useful life, suggesting the system will remain functional and effective for two decades without any upgrades. The office did not document its rationale for the change. As a result, the only evidence we have to assess the reasonableness of the estimate comes from two former IT systems used by the office. The office's former IT systems were in use for three and 17 years, which does not provide a sufficient basis for a 20-year estimate.

Since the office did not maintain documentation supporting the change in useful life, state accounting policy allows only a four-year useful life. As a result, the software's value will be overstated for 20 years. The office could correct this error by modifying the useful life to four years or documenting a sufficient basis for a change and modifying the useful life to a value that is adequately supported.

Figure 5

Effect of Different Useful Life Estimates on Fund Balance



Source: Compiled by the Legislative Audit Division.

Basis for the Useful Life Estimate

The estimate was developed by an office employee with extensive knowledge of state IT systems. While adept at IT, the employee lacks an accounting background or training. We discussed the estimate with the IT expert to understand the basis for it.

The IT expert said legislators are reluctant to accept that the useful life for this type of software is limited to four years and a 20-year estimate establishes that the office intends to use the system far longer. While 20 years may reflect the software's full operational life from implementation to retirement, it differs from an accounting estimate of useful life. Operational life cycle estimates help with planning, but long-term use requires upgrades and enhancements to the software or its environment, which are excluded from useful life estimates.

We received a list of IT systems maintained by other agencies that the IT expert believed supported a 20-year operational life. The office did not document, and does not maintain, any information about these systems or their subsequent upgrades. We sought documentation maintained by other state agencies regarding these systems and found that the actual records supported an eight-year useful life estimate, not 20.

However, these systems were selected because they were considered long-lasting. The office did not consider shorter-lived systems, which are an equally valid basis for the estimate. The office searched for data to support their estimate instead of deriving an objective estimate from supporting data.

By using an operational estimate of ElectMT's life cycle rather than a documented, supported estimate of useful life, the office's financial schedules will be misstated for 20 years. This could result in modification of opinions in future financial schedule audits.

This contributed to the misstatements listed in the Independent Auditor's Report on page A-1.

Table 2
Misstatements From Selecting a 20-Year Useful Life

	Fiscal Year 2023 *Over (Under)stated*	**Fiscal Year 2024** *Over (Under)stated*
Schedule of Changes in Fund Equity		
Enterprise Fund		
Beginning Fund Equity	$0	$323,314
Ending Fund Equity	$323,314	$1,055,022
Schedule of Total Expenditures & Transfers-Out		
Other Expenses	($323,314)	($731,708)
Nonbudgeted Expenditures & Transfers-Out	($323,314)	($731,708)

Source: Compiled by the Legislative Audit Division from Secretary of State records.

Incomplete and Erroneous Corrections Leave SOS Enterprise Misstatements Unresolved

Our previous audit identified errors in how the office recorded its SOS Enterprise software. The office attempted to correct them in fiscal year 2023, but some entries required approval from SFSD. Submitted during fiscal year-end close, SFSD was unable to review and approve the entries prior to the books closing, and they were not processed until fiscal year 2024. However, we evaluated the correcting entries and found that they were not adequate to fully correct the errors, and misstatements would have persisted even if the entries had been processed in fiscal year 2023. This contributed to the misstatements listed in the Independent Auditor's Report on page A-1.

Table 3

Misstatements From Inaccurate and Incomplete Correcting Entries

	Fiscal Year 2023 *Over (Under)stated*
Schedule of Changes in Fund Equity	
Enterprise Fund	
Ending Fund Equity	($499,009)
Direct Entries to Fund Equity	$742,951
Schedule of Total Expenditures & Transfers-Out	
Other Expenses	$4,462,173
Intangible Assets	($2,477,261)
Nonbudgeted Expenditures & Transfers-Out	$1,984,912

Source: Compiled by the Legislative Audit Division from Secretary of State records.

The combined effect of the errors can be found in the auditor's opinion, starting on page A-1.

Management Decisions Require Supporting Documentation

In the situations described, management attributed misstatements to external parties and denied internal control deficiencies. Office management was unable to provide documentation to support policy interpretations or accounting treatment decisions. Without adequate documentation, the office may be unable to demonstrate accountability for its decisions. We view this as a material weakness in the office's internal controls, as noted in our Report on Internal Control and Compliance on page B-1.

Recommendation #1

We recommend the Office of the Secretary of State:

A. Adequately document and support management decisions for selected accounting treatments.

B. Enhance internal controls to ensure capital assets are recorded on the accounting records according to state accounting policy.

C. Record split-funded capital assets as prescribed in state accounting policy.

D. Select amortization values for capital assets that are adequately supported, as required by state accounting policy.

Misclassifications Expose Ineffective Controls

Office expenses were misclassified, and reviews were not adequate to detect and correct the resulting errors.

The SOS Enterprise software is maintained by its original vendor, submitting regular invoices to the office for payment. During the audit period, several maintenance invoices were recorded as development expenses. While programmatic knowledge was required to catch some errors, many invoices clearly described the work as maintenance. Review and approval of the payments did not identify the incorrect expense classification. Distinguishing between development costs and the cost of maintenance is important because it differentiates the upfront costs of an asset from the ongoing or reoccurring costs.

We also found errors in ElectMT's fiscal year 2023 correcting entries, including a mistyped account number. Although the office corrected it in 2024 as a prior year adjustment, the underlying activity occurred in fiscal years 2021 and 2022. Under state accounting policy, such corrections should be made directly to fund balance. Since the net impact to fund balance was zero, no adjustment was necessary.

These classification errors ranged from $40K to $327K. We view this as a significant deficiency in the office's internal controls, as noted in our Report on Internal Control and Compliance on page B-1.

Recommendation #2

We recommend the Office of the Secretary of State enhance controls to ensure that expenses paid are recorded to proper account classification.

Improperly Applied Standards Result in Disclosure Omissions and Misstatements

The office's controls were not adequate to ensure the notes to the financial schedules were complete, accurate, and relevant to the financial schedules.

Montana implemented Governmental Accounting Standards Board (GASB) Statement 100 in fiscal year 2024, which prescribes required financial schedule note disclosures when errors on a previously issued financial schedule are corrected. Errors are defined as a mathematical mistake or a misapplication of accounting principles.

Since there were prior audit recommendations and errors in fiscal year 2023, as described in recommendations #1 and #2, GASB statement 100 requires note disclosures that describe each error and its correction individually, including the periods affected, specific schedule lines, and the impact on fund balance if the errors had not occurred.

When management first submitted draft note disclosures to auditors, many required elements were missing and corrections were presented in the aggregate. Management said it used professional judgment to decide what information was necessary for readers. However, they were unsuccessful in meeting the office's responsibility to provide complete financial information. GASB Statement 100 specifies what must be included, leaving little room for discretion. By not providing complete and accurate disclosures, management limited readers ability to fully understand the office's financial activities.

Additionally, the first draft of the notes was written with a focus on taxpayers rather than the office's operations and financial schedules, as GAAP requires. This approach omitted critical context about how activities related to the office's finances and produced a tone more suited to public relations than to financial disclosure.

We informed management of the errors in the first draft, and the office revised the notes three more times. Material misstatements persisted in each subsequent draft. The final note disclosures, beginning on page A-13, omit information material to understanding the financial schedules, as described in the Independent Auditor's Report on page A-1. These omissions contributed to the adverse opinion on the fiscal year 2023 financial schedules and the qualified opinion on the fiscal year 2024 financial schedules. We also view this as a material weakness in internal controls, as noted in our Report on Internal Control and Compliance on page B-1.

Recommendation #3

We recommend the Office of the Secretary of State enhance internal controls over the preparation and review of the financial schedule notes to ensure they are accurate, relevant, and include all required disclosures.

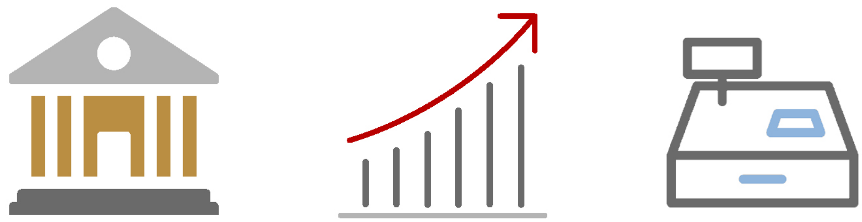
Unrecorded Liability for Investment Income Overstates Fund Balance

The office's controls were insufficient to recognize liabilities associated with investment earning on federal grants.

From 2003 through 2024, the office received federal HAVA grants to support elections and election security statewide. The grant money is provided upfront and invested with the Board of Investments (BOI) until spent. Grant terms require that investment earnings are spent under the same terms as the initial grant.

Figure 6

HAVA Grant Money Is Received in Advance of Expenses



The office receives grant funds in advance, but the money isn't considered earned until it is spent on eligible activities.

The money is invested until needed, and any investment gains must also be used for eligible activities.

By recording investment gains as revenue, the office indicates all grant requirements have been met and has an unconditional right to the funds.

Source: Compiled by the Legislative Audit Division.

Governmental accounting standards require that advance grant funds be recorded as liabilities until spent. Once used, they may be recognized as revenues. The same rule applies to interest earned on those funds.

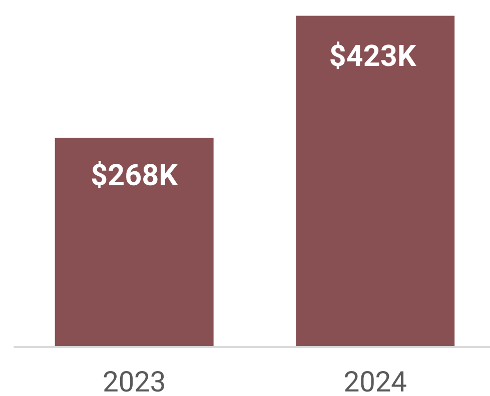
When BOI investments generate interest, the revenue is recorded in the state accounting system on behalf of all state agencies. Because HAVA funds must be handled differently, the office is responsible for adjusting those entries. Prior to this audit, no such adjustments were made, causing premature recognition of revenue on the financial schedules.

Earning interest on federal grants is uncommon, making adjustments to BOI accounting entries unusual. Until fiscal year 2023, the resulting misstatements were minor. But with higher interest during the audit period, the federal special revenue fund's ending balance was significantly overstated.

Figure 7

HAVA Fund Balance Misstatements for Fiscal Years 2023–2024

Investment income was not recorded as a liability, accumulating to **fund balance misstatements**.



Source: Compiled by the Legislative Audit Division.

By omitting the associated liability, management did not meet its responsibility to record all necessary accounting transactions. We consider this a significant deficiency in internal controls of the office in our Report on Internal Control and Compliance on page B-1.

Recommendation #4

We recommend the Office of the Secretary of State:

A. Enhance internal controls to ensure all grant liabilities are recorded on the accounting records, and

B. Record investment earnings on unexpended federal grant revenues as unearned revenue until expended.

Independent Auditor's Report and Office of the Secretary of State's Financial Schedules

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Kenneth E. Varns, Legal Counsel

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Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Report on the Audit of Financial Schedules

Opinions
We have audited the financial schedules of the Office of the Secretary of State (office), which are comprised of the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out for each of the fiscal years ended June 30, 2024, and 2023, and the related notes to the financial schedules.

Adverse Opinion on Regulatory Basis of Accounting
In our opinion, because of the significance of the matters discussed in the "Basis for Adverse Opinion on Regulatory Basis of Accounting" section of our report, the accompanying financial schedules for the fiscal year ended June 30, 2023, do not present fairly the results of operations and changes in fund equity for the fiscal year ended June 30, 2023, in conformity with the basis of accounting described in Note 1.

Qualified Opinion on Regulatory Basis of Accounting
In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion on Regulatory Basis of Accounting" section of our report, the accompanying financial schedules for the fiscal year ended June 30, 2024, present fairly, in all material respects, the results of operations and changes in fund equity for the fiscal year ended June 30, 2024, in conformity with the basis of accounting described in Note 1.

Adverse Opinions on U.S. Generally Accepted Accounting Principles
In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" section of our report, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the office as of June 30, 2023, and June 30, 2024, or changes in financial position and cash flows for the years then ended.

Basis for Adverse Opinion on Regulatory Basis of Accounting
As described in recommendation #1, the office's financial schedules contained multiple misstatements related to intangible assets accounting, including those outlined below:

- The office attempted to correct misstatements that existed on prior period financial schedules. Some entries were input incorrectly, doubling losses and reducing asset values. Other entries were not processed until fiscal year 2024. This resulted in an understatement of fund equity and intangible asset expenditures and an overstatement of other expenses and direct entries to fund balance.

- The office transferred a split-funded intangible asset using the incorrect accounting policy. State accounting policy requires capital assets to be recorded in only one fund classification. Using a less applicable accounting policy, the office recorded capital contribution revenue rather than an entry directly to fund balance. This resulted in an overstatement of total revenues and a misclassification of transfers.
- The office chose a 20-year useful life for an intangible asset based on the office's other intangible assets. The life of the office's other intangible assets ranged from three to 17 years, which does not support a 20-year estimate. State accounting policy requires a four-year useful life to be used unless a different value is supported by the documentation of the office's actual experience with similar assets. This understates amortization (Other Expenses) and overstates fund equity.

We consider the resulting misstatements on the fiscal year 2023 financial schedules to be material and pervasive. See the tables below for a summary of the resulting errors.

Schedule of Changes in Fund Equity

	Enterprise Fund	
	Reported	Over (under)statement
Budgeted Revenues & Transfers-In	$12,183,318	$1,740,563
Prior Year Revenues & Transfers-In Adjustments	$14,467	($746,100)
Direct Entries to Fund Equity	($122,330)	($251,512)
Budgeted Expenditures & Transfers-Out	$7,178,304	($725,727)
Nonbudgeted Expenditures & Transfers-Out	$2,342,126	$2,387,325
Fund Equity: June 30, 2023	$11,883,701	($918,377)

Schedule of Total Revenues & Transfers-In

	Enterprise Fund	
	Reported	Over (under)statement
Capital Contributions	$2,466,290	$2,466,290
Transfers-In	$110	($1,471,827)
Prior Year Revenues & Transfers-In Adjustments	$14,467	($746,100)
Actual Budgeted Revenues & Transfers-In	$12,183,318	$1,740,563

Schedule of Total Expenditures & Transfers-Out

	Business & Government Services Program	
	Reported	Over (under)statement
Other Expenses	$5,432,147	$4,138,859
Intangible Assets	($1,751,534)	($1,005,434)
Transfers-Out	$0	($1,471,827)
Nonbudgeted Expenditures & Transfers-Out	$2,342,236	$2,387,325
Actual Budgeted Expenditures & Transfers-Out	$8,275,406	($725,727)

As described in recommendation #3, the notes to the financial schedules contain material misstatements. Note 6 misstates the effect of journals required in fiscal year 2023 to change capitalization from one intangible asset to three separate intangible assets. The journals were not processed until fiscal year 2024. See the table below for the effect of the error and its correction, as well as the effect reported in the notes to the financial schedules.

Notes to the Financial Schedules

	Reported	Actual Effect	Difference
Intangible Assets Expenditures	($2,477,261)	($2,477,261)	$0*
Other Expenses Expenditures	$0	$788,039	$788,039
Prior Year Expenditures & Transfers-Out	($2,477,261)	($619,315)	$1,857,946
Direct Entries to Fund Equity	($2,477,261)	($1,689,222)	$788,039

*This is provided for context and is not a basis for the modified opinion.

Basis for Qualified Opinion on Regulatory Basis of Accounting

As described in recommendation #1, the office chose a 20-year useful life for an intangible asset based on the office's other intangible assets. The life of the office's other intangible assets ranged from three to 17 years, which does not support a 20-year estimate. State accounting policy requires a four-year useful life to be used unless a different value is supported by the documentation of the office's actual experience with similar assets. This understates amortization (Other Expenses) and overstates fund equity. The following tables summarize misstatements identified on the fiscal year 2024 financial schedules.

Schedule of Changes in Fund Equity

	Enterprise Fund	
	Reported	Over (under)statement
Fund Equity: July 1, 2023	$11,883,701	$323,314**
Nonbudgeted Expenditures	$841,451	($731,708)
Fund Equity: June 30, 2024	$12,220,910	$1,055,022

**This is the portion of the ending fund equity misstatement in the "Basis for Adverse Opinion on Regulatory Basis of Accounting" section of our report that is the basis for opinion modification on the 2024 financial schedules. See information regarding financial schedule adjustments after the tables.

Schedule of Total Expenditures & Transfers-Out

	Business & Government Services Program	
	Reported	Over (under)statement
Other Expenses	($3,588,614)	($731,708)
Nonbudgeted Expenditures & Transfers-Out	$841,451	($731,708)

As described in recommendation #3, the notes to the financial schedules contain material misstatements regarding the correction of fiscal year 2023 errors in fiscal year 2024. This information is necessary for a reader to understand the impact of the error corrections on the fiscal year 2024 financial schedules. The effect of the error and its correction can be found in the section "Basis for Adverse Opinion on Regulatory Basis of Accounting" section of our report.

Under the regulatory basis, the financial schedules cannot be adjusted and therefore errors identified after fiscal year 2023 closed could not be corrected on the state's accounting records until fiscal year 2024. The opinion qualification is the result of corrections not made and note disclosures that do not clearly describe corrections that were made, not the correcting entries made in accordance with state accounting policy.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Schedules" section of our report. We are required to be independent of the office and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial schedules, the financial schedules are prepared by the Office of the Secretary of State from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, deferred outflows of resources, liabilities, deferred inflows of resources, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

In preparing the financial schedules, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the office's ability to continue as a going concern for twelve months beyond the financial schedule date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Schedules

Our objectives are to obtain reasonable assurance about whether the financial schedules as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial schedules.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial schedules, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial schedules.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the office's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial schedules.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the office's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Other Legal and Regulatory Requirements

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2025, 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 solely 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the office's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Alexa O'Dell

Alexa O'Dell, CPA
Deputy Legislative Auditor
Helena, MT

November 14, 2025

SECRETARY OF STATE'S OFFICE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

	Federal Special Revenue Fund	Enterprise Fund
FUND EQUITY: July 1, 2023	$ 269,855	$ 11,883,701
ADDITIONS		
Budgeted Revenues & Transfers-In	1,453,157	6,966,348
Nonbudgeted Revenues & Transfers-In	(892)	(3,644)
Prior Year Revenues & Transfers-In Adjustments	1,845	6,585
Direct Entries to Fund Equity		(741,286)
Total Additions	1,454,109	6,228,003
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	1,297,336	7,038,018
Nonbudgeted Expenditures & Transfers-Out		841,451
Prior Year Expenditures & Transfers-Out Adjustments		(1,988,675)
Total Reductions	1,297,336	5,890,793
FUND EQUITY: June 30, 2024	$ 426,629	$ 12,220,910

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-13.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	Federal Special Revenue Fund	Enterprise Fund
FUND EQUITY: July 1, 2022	$ 138,239	$ 9,550,712
ADDITIONS		
Budgeted Revenues & Transfers-In	1,226,477	12,183,318
Nonbudgeted Revenues & Transfers-In	(1,845)	(5,944)
Prior Year Revenues & Transfers-In Adjustments	4,196	14,467
Direct Entries to Fund Equity		(122,330)
Total Additions	1,228,828	12,069,511
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	1,097,102	7,178,304
Nonbudgeted Expenditures & Transfers-Out	110	2,342,126
Prior Year Expenditures & Transfers-Out Adjustments		216,092
Total Reductions	1,097,212	9,736,522
FUND EQUITY: June 30, 2023	$ 269,855	$ 11,883,701

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-13.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

	Federal Special Revenue Fund	Enterprise Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Charges for Services		$ 5,752,240	$ 5,752,240
Investment Earnings	$ 156,773	598,618	755,392
Capital Contributions		302,113	302,113
Sale of Documents, Merchandise and Property		109,260	109,260
Federal Indirect Cost Recoveries		184,817	184,817
Miscellaneous		22,241	22,241
Federal	1,297,336		1,297,336
Total Revenues & Transfers-In	1,454,109	6,969,289	8,423,398
Less: Nonbudgeted Revenues & Transfers-In	(892)	(3,644)	(4,536)
Prior Year Revenues & Transfers-In Adjustments	1,845	6,585	8,429
Actual Budgeted Revenues & Transfers-In	$ 1,453,157	$ 6,966,348	$ 8,419,504

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-13.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	Federal Special Revenue Fund	Enterprise Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Charges for Services		$ 9,135,606	$ 9,135,606
Investment Earnings	$ 131,727	361,274	493,001
Capital Contributions		2,466,290	2,466,290
Sale of Documents, Merchandise and Property		67,170	67,170
Transfers-in		110	110
Federal Indirect Cost Recoveries		158,828	158,828
Miscellaneous		2,563	2,563
Federal	1,097,102		1,097,102
Total Revenues & Transfers-In	1,228,828	12,191,841	13,420,669
Less: Nonbudgeted Revenues & Transfers-In	(1,845)	(5,944)	(7,789)
Prior Year Revenues & Transfers-In Adjustments	4,196	14,467	18,663
Actual Budgeted Revenues & Transfers-In	$ 1,226,477	$ 12,183,318	$ 13,409,795

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-13.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

	BUSINESS & GOVERNMENT SERVICES	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	$ 2,835,250	$ 2,835,250
Employee Benefits	722,217	722,217
Personal Services-Other	138,219	138,219
Total	3,695,686	3,695,686
Operating Expenses		
Other Services	1,354,022	1,354,022
Supplies & Materials	338,726	338,726
Communications	437,819	437,819
Travel	62,191	62,191
Rent	91,526	91,526
Utilities	208	208
Repair & Maintenance	1,299,858	1,299,858
Other Expenses	(3,588,614)	(3,588,614)
Total	(4,264)	(4,264)
Equipment & Intangible Assets		
Intangible Assets	2,779,374	2,779,374
Total	2,779,374	2,779,374
Grants		
From Federal Sources	246,406	246,406
Total	246,406	246,406
Transfers-out		
Fund transfers	106,840	106,840
Total	106,840	106,840
Post Employment Benefits		
Other Post Employment Benefits	2,684	2,684
Employer Pension Expense	361,404	361,404
Total	364,088	364,088
Total Expenditures & Transfers-Out	$ 7,188,129	$ 7,188,129
EXPENDITURES & TRANSFERS-OUT BY FUND		
Federal Special Revenue Fund	$ 1,297,336	$ 1,297,336
Enterprise Fund	5,890,793	5,890,793
Total Expenditures & Transfers-Out	7,188,129	7,188,129
Less: Nonbudgeted Expenditures & Transfers-Out	841,451	841,451
Prior Year Expenditures & Transfers-Out Adjustments	(1,988,675)	(1,988,675)
Actual Budgeted Expenditures & Transfers-Out	8,335,354	8,335,354
Budget Authority	11,683,791	11,683,791
Unspent Budget Authority	$ 3,348,437	$ 3,348,437
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	$ 1,000	$ 1,000
Federal Special Revenue Fund	2,930,508	2,930,508
Enterprise Fund	416,929	416,929
Unspent Budget Authority	$ 3,348,437	$ 3,348,437

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-13.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	BUSINESS & GOVERNMENT SERVICES	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	$ 2,316,268	$ 2,316,268
Employee Benefits	626,025	626,025
Personal Services-Other	4,712	4,712
Total	2,947,005	2,947,005
Operating Expenses		
Other Services	2,874,524	2,874,524
Supplies & Materials	635,598	635,598
Communications	305,731	305,731
Travel	29,276	29,276
Rent	89,432	89,432
Utilities	342	342
Repair & Maintenance	403,836	403,836
Other Expenses	5,432,147	5,432,147
Total	9,770,886	9,770,886
Equipment & Intangible Assets		
Intangible Assets	(1,751,534)	(1,751,534)
Total	(1,751,534)	(1,751,534)
Grants		
From Federal Sources	3,706	3,706
Total	3,706	3,706
Transfers-out		
Fund transfers	110	110
Total	110	110
Post Employment Benefits		
Other Post Employment Benefits	(6,917)	(6,917)
Employer Pension Expense	(129,522)	(129,522)
Total	(136,439)	(136,439)
Total Expenditures & Transfers-Out	$ 10,833,734	$ 10,833,734
EXPENDITURES & TRANSFERS-OUT BY FUND		
Federal Special Revenue Fund	$ 1,097,212	$ 1,097,212
Enterprise Fund	9,736,522	9,736,522
Total Expenditures & Transfers-Out	10,833,734	10,833,734
Less: Nonbudgeted Expenditures & Transfers-Out	2,342,236	2,342,236
Prior Year Expenditures & Transfers-Out Adjustments	216,092	216,092
Actual Budgeted Expenditures & Transfers-Out	8,275,406	8,275,406
Budget Authority	11,650,845	11,650,845
Unspent Budget Authority	$ 3,375,439	$ 3,375,439
UNSPENT BUDGET AUTHORITY BY FUND		
Federal Special Revenue Fund	$ 3,227,844	$ 3,227,844
Enterprise Fund	147,596	147,596
Unspent Budget Authority	$ 3,375,439	$ 3,375,439

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-13.

Office of the Secretary of State
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2024

1. Summary of Significant Accounting Policies

Basis of Accounting

The office uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (Federal Special Revenue). In applying the modified accrual basis, the office records:

- Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- Expenditures for valid obligations when the office incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the office to record the cost of employees' annual and sick leave when used or paid.

The office uses the accrual basis of accounting for its Proprietary (Enterprise) fund category. Under the accrual basis, as defined by state accounting policy, the office records:

- Revenues in the accounting period when realizable, measurable, and earned.
- Expenses in the period incurred when measurable.

Expenditures may include entire budgeted service contracts even though the office receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, deferred inflows and outflows of resources, liabilities, and cash flows.

The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The office uses the following funds:

Governmental Fund Category

Federal Special Revenue Fund – to account for activities funded by federal revenue received from the U.S. Election Assistance Commission.

Proprietary Fund Category

Enterprise Fund – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The Office of the Secretary of State provides elections administration, registration and document filing of Montana businesses and publication of administrative rules, ensures the proper management and safeguarding of public records, notary, and certification services, and provides operational support for the office.

2. Direct Entries to Fund Equity

- **Fiscal Year 2023**
  - Enterprise Fund
    - Direct entry to fund equity of $1,410 was made in accordance with the Montana Operations Manual Policy 311, Section VIII for corrections to transactions that occurred in a previous period that occurred at least two fiscal years prior to the current fiscal year.
    - A direct entry to fund equity of $120,920 was made in accordance with the Montana Operations Manual Policy 311, Section VIII for corrections to transactions that occurred in a previous period that occurred at least two fiscal years prior to the current fiscal year. The direct entry was performed to capitalize only the costs contributed to software development.
- **Fiscal Year 2024**
  - Enterprise Fund
    - Direct entries to fund equity of ($2,477,261) and $2,483,922 were made in accordance with the Montana Operations Manual Policy 335, Section VII(B)5 for corrections to transactions that occurred in a previous period that occurred at least two fiscal years prior to the current fiscal year. The direct entries were performed to capitalize the SOS Enterprise System as multiple modules separately instead of as one intangible asset.
    - Direct entries to fund equity of $734,625 were made in accordance with the Montana Operations Manual Policy 335, Section VII(B)5 for corrections to transactions that occurred in a previous period that occurred at least two fiscal years prior to the current fiscal year. The direct entries were performed to adjust the amortization related to capitalizing the multiple modules of the SOS Enterprise system individually.

3. Unspent Budget Authority

The Schedule of Total Expenditures presents unspent budget authority for the Federal Special Revenue and Enterprise Funds.

- **Federal Special Revenue Fund**
    - The schedule presents unspent budget authority in the amount of $3,227,844 in FY2023 and $2,930,508 in FY2024, which is comprised of recent grant awards that were only partially spent during each of the fiscal years. The unspent budget authority for each grant is included in the table below.

	Original Award Amount	Unspent Award at End of Fiscal Year 2023	Unspent Award at End of Fiscal Year 2024
Fiscal Year 2018 U.S. Election Assistance Commission Grant	$3,000,000	$444,136	$90,064
Fiscal Year 2020 U.S. Election Assistance Commission Grant	$3,100,000	$933,929	$873,221
Fiscal Year 2022 U.S. Election Assistance Commission Grant	$1,000,000	$954,651	$603,847
Fiscal Year 2023 U.S. Election Assistance Commission Grant	$1,000,000	$895,128	$363,376
Fiscal Year 2024 U.S. Election Assistance Commission Grant	$1,000,000	$ -	$1,000,000
		$3,227,844	**$2,930,508**

- **Enterprise Fund**
    - The schedule presents unspent budget authority in the amount of $147,596 for Fiscal Year 2023. The unspent authority is the result of operational efficiencies and personal services savings. The Office of the Secretary of State has realized savings in operating expenses and personal services by modernizing and streamlining our systems and processes and finding and implementing efficiencies and innovative solutions.
    - The schedule presents unspent budget authority of $416,929 for Fiscal Year 2024. The unspent authority results from not incurring anticipated expenses related to SOS's software projects and systems during Fiscal Year 2024.

4. Expenditures

- Fiscal Year 2023
    - The Secretary of State's Office performed adjustments to record intangible assets in accordance with State Policy. These adjustments resulted in an increase of $2,011,941 in Nonbudgeted Expenditures & Transfers-Out on the Enterprise Fund's Schedule of Changes in Fund Equity and a decrease of $1,751,534 in Intangible Assets on the Schedule of Total Expenditures & Transfers-Out Schedule.

- Fiscal Year 2024
  - The Secretary of State's Office performed adjustments to record intangible assets in accordance with State Policy. These adjustments resulted in a decrease of ($1,983,247) in Prior Year Expenditures & Transfers-Out on the Enterprise Fund's Schedule of Changes in Fund Equity. These adjustments also impacted the Schedule of Total Expenditures & Transfers-Out as an increase of $2,477,261 in Intangible Assets and a decrease in Other Expenses Operating Expenses of ($4,460,508).

5. <u>Revenues</u>

- Fiscal Year 2023
  - In January 2023, the Secretary of State's Office launched the new voter registration management system. As a result, in Fiscal Year 2023, a Capital Contribution of $2,466,290 was made from the Federal Special Revenue Fund to the Enterprise Fund to properly record the multiple funding source intangible asset in the Enterprise Fund.
  - The Secretary of State's Office amended administrative rules (in MAR Notice No. 44-2-257) to reduce new business filing fees by 50.0% effective July 1, 2022. In Fiscal Year 2023, an estimated 38,300 small businesses had their fees reduced, which resulted in a revenue decrease to the Secretary of State's Office of approximately $1,330,000.
  - In addition, the Secretary of State amended other administrative rules (in MAR Notice No. 44-2-260) to reduce several additional business filing fees. These rule changes were adopted on September 9, 2022, and became effective on September 10, 2022. These rule changes are estimated to result in savings for 5,000 businesses and a revenue decrease of approximately $124,000 to the Secretary of State's office.
- Fiscal Year 2024
  - In January 2023, the Secretary of State's Office launched the new voter registration management system. In Fiscal Year 2024, additional capital expenditures were incurred for the new voter registration management system. As a result, in Fiscal Year 2024, a Capital Contribution of $302,113 was made from the Federal Special Revenue Fund to the Enterprise Fund to properly record the multiple funding source intangible assets in the Enterprise Fund.
  - In Fiscal Year 2024, the Enterprise fund realized a revenue decrease of $3,787,145 due to the Secretary of State adopting a new administrative rule (in MAR Notice No. 44-2-264) on June 9, 2023, to provide a one-time fee waiver for Business Services 2024 annual report filing fees.

6. <u>Accounting and Reporting Changes</u>

For the year ended June 30, 2024, the State of Montana adopted the following new standards issued by the Governmental Accounting Standards Board (GASB): Statement No. 100, Accounting Changes and Error Corrections (GASB 100), defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes, and addresses corrections of errors in previously issued financial statements.

Under this statement, the accounting and financial reporting for each type of accounting change and error correction are prescribed. No specified financial line item is affected by the application of this statement. Implementing GASB 100 itself does not require restating beginning balances for the cumulative effect.

- In Fiscal Year 2023, it was discovered that a cumulative $380,974 in operating expenses for Fiscal Year 2021 and 2022 were erroneously capitalized as software development costs, resulting in the Budgeted Expenditures & Transfers-Out line item on the Schedule of Changes in Fund Equity and the Program Other Services Operating Expenses line item on the Schedule of Total Expenditures &Transfers-Out being understated by $380,974. The error overstated the beginning Fiscal Year 2023 fund equity by $380,974. The asset book values were corrected in Fiscal Year 2023. The effect of fixing the error is shown in Error Correction Column A of the table below.
- It was determined in Fiscal Year 2023 that a split-funded intangible asset should not have been recorded in multiple funds. The asset was corrected in Fiscal Year 2023, and a capital contribution of $1,740,563 was made from the Federal Special Revenue Fund to the Enterprise Fund. The Enterprise Fund Capital Contributions line item on the Schedule of Total Revenues & Transfers-In and the Budgeted Revenues & Transfers-In line item on the Schedule of Changes in Fund Equity were understated from Fiscal Years 2019 to 2022 by a cumulative $1,740,563. This error understated the beginning Fiscal Year 2023 fund equity by $1,740,563. The effect of fixing the error is shown in Error Correction Column B of the table below.
- In Fiscal Year 2023, it was found that an intangible asset was erroneously capitalized as one module instead of three separate modules as they were implemented. The asset book values were corrected in Fiscal Year 2023. The cumulative effect was an understatement of amortization expenses from Fiscal Years 2020 to 2022 of $734,625. Therefore, the Nonbudgeted Expenditures & Transfers Out-line on the Schedule of Changes in Fund Equity and the Program Other Expenses Operating Expenses line on the Schedule of Total Expenditures & Transfers-Out were understated from Fiscal Years 2020 to 2022. The error overstates Fiscal Year 2023 beginning fund equity by $734,625. The effect of correcting the error is shown in Error Correction Column C of the table below.

	Total Fund Net Position July 1, 2022 as reported	Error Correction (A)	Error Correction (B)	Error Correction (C)	Total Fund Net Position July 1, 2022 as restated
Fund Equity:					
Enterprise Fund	9,550,712	(380,974)	1,740,563	(734,625)	10,175,676

- As part of the change in capitalization from one intangible asset to three separate intangible assets, an entry of $2,477,261 to correct improperly capitalized expenses for Fiscal Years 2019-2021 was necessary. Due to the nature of this correction, the Department of Administration was required to manually post the journal. Although this entry was required in Fiscal Year 2023, when the asset book values were corrected, the Department of Administration did not process the entry until Fiscal Year 2024. The result was that the Intangible Assets Expenses Line on the Schedule of Total Expenditures & Transfers-Out was understated by $2,477,261. On the Schedule of Changes in Fund Equity, the Direct Entries to Fund Equity line was understated by $2,477,261, along with an understatement of $2,477,261 to the Prior Year Expenditures & Transfers-Out Adjustments line. This error does not affect the fund equity.
- In Fiscal Year 2024, an error correction was made due to an incorrect account classification in Fiscal Year 2023. As part of the capitalized software development costs adjustments, a Fiscal Year 2023 entry of $260,054 was erroneously coded as an operating expense instead of a nonbudgeted expenditure. As a result, the Nonbudgeted Expenditures & Transfers-Out line on the Schedule of Changes in Fund Equity was understated by $260,054, and the Budgeted Expenditures & Transfers-Out line was overstated by $260,054. On the Schedule of Total Expenditures &Transfers-Out, the Program Other Services Operating Expenses line was understated by $260,054, while the Program Supplies & Materials Operating Expenses line was overstated by $260,054. This error correction does not affect the fund equity.
- In Fiscal Year 2023, an incorrect adjusting journal was entered as part of the change in capitalization from one intangible asset to three separate assets. As a result, the Nonbudgeted Expenditure & Transfers-Out line on the Schedule of Changes in Fund Equity was overstated by $2,483,922. On the Schedule of Total Expenditures & Transfers-Out, the Program Other Expenses Operating Expenses were overstated by $2,483,922.

Also, as part of the change in capitalization, a correcting journal entry related to amortization was required. Due to the nature of this correction, the Department of Administration is required to manually post the journal. Although this entry was required in Fiscal Year 2023, the Department of Administration did not process it until Fiscal Year 2024. As a result, the Nonbudgeted Expenditures & Transfers-Out line on the Schedule of Changes in Fund Equity was overstated by $1,190,213. On the Schedule of Total Expenditures & Transfers-Out, Program Other Expenses Operating Expenses were overstated by $1,190,213. As part of the change in capitalization of the intangible asset, direct entries to fund balance were required for the prior period adjustments. The cumulative effect of the adjusting journals and direct entries to fund equity was an overstatement of Fiscal Year 2024 beginning fund equity of $1,190,213.

The effect of fixing the errors is shown in Error Correction Column A of the table below.

	Total Fund Net Position July 1, 2023 as reported	Error Correction (A)	Total Fund Net Position July 1, 2023 as restated
Fund Equity:			
Enterprise Fund	11,883,701	(1,190,213)	10,693,488

7. Subsequent Events

- On June 21, 2024, the Secretary of State adopted a new administrative rule (in MAR Notice No. 44-2-275) providing an extension of the waiver for State of Montana agencies' administrative rulemaking activities for Fiscal Year 2025. The Secretary of State's Office estimated that there were approximately $100,000 in taxpayer savings for 21 state agencies in Fiscal Year 2025, resulting in a decrease in revenue of approximately $100,000 for the Secretary of State's Office.
- On July 26, 2024, the Secretary of State amended an administrative rule (in MAR Notice No. 44-2-276) to provide an additional one-time fee waiver for Business Services annual report filing fees in 2025. The Secretary of State's Office estimates that approximately 236,700 businesses had their annual report fee waived, resulting in an estimated forgone revenue of $4,734,400 to the Secretary of State's Office in Fiscal Year 2025.
- On May 9, 2025, the Secretary of State amended an administrative rule (in MAR Notice No. 2025-24.1) providing an extension of the waiver for State of Montana agencies' administrative rulemaking activities for Fiscal Year 2026. The Secretary of State's Office estimates that there will be taxpayer savings for 21 state agencies, resulting in forgone revenue of approximately $100,000 for the Secretary of State's Office in Fiscal Year 2026.
- On June 6, 2025, the Secretary of State amended an administrative rule (in MAR Notice No. 2025-33.1) to provide additional fee waivers for Business Services annual report filing fees in 2026 and 2027. The Secretary of State's Office estimates that approximately 281,700 businesses will have their annual report fee waived, resulting in an estimated forgone revenue of $5,634,400 to the Secretary of State's Office in Fiscal Year 2026 and $5,634,400 in Fiscal Year 2027.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Kenneth E. Varns, Legal Counsel

Deputy Legislative Auditors:
Alexa O'Dell
William Soller
Miki Cestnik

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance With *Government Auditing Standards*

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Office of Secretary of State for each of the fiscal years ended June 30, 2024, and 2023, and the related notes to the financial schedules, and have issued our report thereon dated November 14, 2025. Our report includes an adverse opinion on the financial schedules for the fiscal year ended June 30, 2023, and a qualified opinion on the financial schedules for the fiscal year ended June 30, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the Office of the Secretary of State's (office) internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the office's internal control. Accordingly, we do not express an opinion on the effectiveness of the office's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described below to be material weaknesses:

- As described in Recommendation #1, the office's internal controls were not sufficient to ensure capital assets were recorded on the accounting records according to state accounting policy.
- As described in Recommendation #3, the office's internal controls were not sufficient to ensure the notes to the financial schedules were complete, accurate, and relevant to the financial schedules.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance. We consider the deficiencies described below to be significant deficiencies.

- As described in Recommendation #2, the office's internal controls were not sufficient to record all expenditures in the correct account classification.
- As described in Recommendation #4, the office's internal controls were not sufficient to ensure that investment earnings on federal grants are only recognized when earned.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the office's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial schedules. 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*.

The Office of the Secretary of State's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the office's response to the findings identified in our audit and described on page C-1 of this report. The office's response was not subjected to the auditing procedures applied in the audit of the financial schedules and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the office's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Alexa O'Dell

Alexa O'Dell, CPA
Deputy Legislative Auditor
Helena, MT

November 14, 2025

Office of the Secretary of State

Office Response

CHRISTI JACOBSEN
MONTANA SECRETARY OF STATE

December 3, 2025

Mr. Angus Maciver, Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, MT 59620-1705

RECEIVED
December 4, 2025
LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver,

Re: Response to Financial-Compliance Audit 23-24

Thank you for the opportunity to respond to the Financial-Compliance audit report for the Secretary of State's Office for the two fiscal years ending June 30, 2024. The four recommendations included in the audit report were reviewed, with responses provided below.

Recommendation #1

We recommend the Office of the Secretary of State:

A. Adequately document and support management decisions for selected accounting treatments.
B. Enhance internal controls to ensure capital assets are recorded on the accounting records according to state accounting policy.
C. Record split-funded capital assets as prescribed in state accounting policy.
D. Select amortization values for capital assets that are adequately supported, as required by state accounting policy.

SOS Response: Partially Concur

The Secretary of State's Office is dedicated to maintaining excellence in fiscal management. While the Office does not agree with all aspects of the report's findings which serve as the basis for Recommendation #1, we recognize that the recommendations support sound management practices. We are committed to implementing or reinforcing these recommendations.

Recommendation #2
We recommend the Office of the Secretary of State enhance internal controls to ensure that expenses paid are recorded to proper account classification.

SOS Response: Concur
The Secretary of State's Office agrees and has implemented enhanced controls related to account classification for maintenance and development invoices.

Recommendation #3
We recommend the Office of the Secretary of State enhance its internal controls over the preparation and review of the financial schedule notes to ensure that they are accurate, relevant, and include all required disclosures.

SOS Response: Concur
The Secretary of State's Office maintains an extensive Internal Control Evaluation and Monitoring Plan. As mentioned in the audit report, Montana just recently implemented the new GASB Statement 100 requirements. SOS will utilize the Auditor's feedback to enhance the Internal Control Evaluation and Monitoring Plan related to the financial schedule notes, in particular, ensuring that the new requirements are adequately addressed.

Recommendation #4
We recommend the Office of the Secretary of State:

A. Enhance internal controls to ensure all grant liabilities are recorded on the accounting records, and
B. Record investment earnings on unexpended federal grant revenues as unearned revenue until expended.

SOS Response: Concur
The Secretary of State's Office agrees and implemented the necessary changes as soon as they were identified.

Thank you and your staff for the professional work and interactions during the audit process. We appreciate the auditors' willingness to discuss their recommendations and respond to our questions. The Secretary of State's Office views the audit process as an opportunity to enhance the agency's operations and performance, and we are grateful for your valuable suggestions.

Regards,

Christi Jacobsen

Christi Jacobsen
Secretary of State

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