



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Public Service Regulation

*For the Two Fiscal Years Ended
June 30, 2024*

AUGUST 2025

LEGISLATIVE AUDIT
DIVISION

24-26

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting and many staff members hold Certified Public Accountant (CPA) certificates.

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
Kenneth E. Varns, Legal Counsel



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

August 2025

The Legislative Audit Committee
of the Montana State Legislature:

It is a pleasure to provide our financial-compliance audit report on the Department of Public Service Regulation (department) for the two fiscal years ended June 30, 2024. This report contains no new recommendations to the department but does address recommendations made in previous audits that the department is in the process of implementing.

One of the prior audit recommendations was regarding the rate setting at the department. During the audit period, rate setting continued to result in excess cash for the department. However, cash balances have gone down from the prior years, and we will continue to evaluate the new rate setting methodology in the next audit.

The department's written response to the audit is included in this report on page C-1. We thank the Public Service Commissioners and staff of the department for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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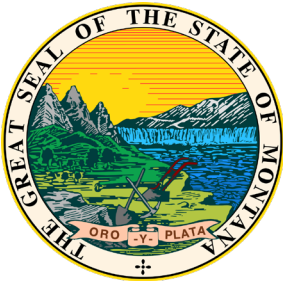
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ELECTED, APPOINTED, AND ADMINISTRATIVE OFFICIALS

	<u>Name</u>	<u>Term Expires</u>
Public Service Commission	Brad Molnar, President	January 2029
	Jennifer Fielder, Vice President	January 2029
	Annie Bukacek	January 2027
	Randy Pinocci	January 2027
	Jeff Welborn	January 2029
	James Brown, President	Through January 2025
	Tony O'Donnell	Through January 2025
Administrative Officials	Alana Lake, Executive Director (effective March 2025)	
	David Sanders, Executive Director (November 2023 through January 2025)	
	Brad Tschida, Executive Director (through October 2023)	
	Tina Limesand, Business Manager	
	Will Rosquist, Chief Regulator	
	Lucas Hamilton, Chief Legal (effective December 2022)	
	Ben Reed, Chief Legal (through November 2022)	

For additional information concerning the Department of Public Service Regulation, contact:

Jennifer Fielder, Vice President
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(406) 444-6167
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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT Department of Public Service Regulation FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2024

A report to the Montana Legislature

BACKGROUND

The Department of Public Service Regulation (department) is responsible for ensuring the public has safe, reliable, and satisfactory utility and transportation services at fair and reasonable rates. The department is responsible for regulating certain public utilities, motor carriers, railroads, and pipelines within the state. Additionally, staff perform safety inspections of regulated activities under the direction of the Public Service Commission.

Public Service Commissioners are elected by district and serve 4-year terms. Most of the department's funding comes from a tax on the gross operating revenue of regulated companies collected by the Montana Department of Revenue. The tax is presented as a Direct Entry to Fund Equity on the state special revenue fund on the department's financial schedules. In fiscal years 2023 and 2024, the fees levied were approximately \$4.8 million and \$6.0 million, respectively. The department also receives federal grant funding related to pipeline safety and underground natural gas storage.

During fiscal years 2023 and 2024, the Department of Public Service Regulation (department) launched a new case management system, incurring roughly \$2.6 million in system-related expenditures. Additionally, the department continued its effort to address recommendations made in prior audits. While progress has been made, opportunities remain to strengthen the department's organizational culture and enhance controls over funding activities. Based on our audit, we are not issuing new recommendations at this time.

AUDITOR'S OPINION (page A-1): **UNMODIFIED**

We found the department's financial schedules present fairly the activity of the department in all material respects and issued unmodified opinions on the regulatory basis of accounting under which the financial schedules are presented. This means a reader can rely on the information presented and the underlying financial records.

For the full context of the department's financial activity, see the financial schedules and notes beginning on page A-4.

RECOMMENDATIONS:

In this report, we issued the following recommendations:

To the department: 0

To the legislature: 0

In this report, we determined the implementation status of recommendations in prior audits:

Fully Implemented: 1

Partially Implemented: 2

Not Implemented: 0

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

leg.mt.gov/lad

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The mission of the Legislative Audit Division is to increase public trust in state government by reporting timely and accurate information about agency operations, technology, and finances to the Legislature and the citizens of Montana.

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SUMMARY OF AUDIT WORK:

Our audit efforts focused primarily on the department’s financial activity related to budget authority, direct entries, operating expenditures, and the department’s notes to the financial schedules. Our work included:

- Understanding internal controls
- Completing analytical procedures
- Reviewing supporting documentation
- Interviewing agency personnel
- Reviewing appropriation activity
- Determining the implementation status of prior audit recommendations

In addition, we reviewed financial schedules and note disclosures to determine if they were presented accurately in accordance with state accounting policy.

As part of the 2019-2020 audit (#20-26), we made five recommendations to the department. As reported in the prior audit (#22-26), three recommendations were not fully implemented. The subject matter and current implementation status for those three recommendations are outlined in the table below. Further detail regarding the partially implemented recommendations is included in the following paragraphs.

Implementation Status of Audit Recommendations Continuing from Prior Audits	
Description	Status
Organizational Challenges	Partially Implemented
Controls Over the Department’s Funding Activity	Partially Implemented
Controls Over Drafting the Financial Schedule Notes	Implemented

Organizational Challenges

In audit (#20-26), we recommended that department leadership comply with internal policies and create a comprehensive plan to improve department culture. This recommendation was partially implemented, as shown in audit (#22-26).

In the current audit, we noted further efforts, including the adoption of an Internal Policy Manual (IPM) by the commissioners in August 2024. Since then, newly elected commissioners have begun discussing the manual’s requirements. Because the final content and impact of the IPM on policy compliance and department culture remain unclear, the recommendation on organizational challenges remains partially implemented.

Controls Over the Department's Funding Activity

The last four audits of the department have included some form of recommendation for the department to establish internal controls over monitoring the fee charged to regulated companies by the Department of Revenue to fund department operations. The cash collections from this fee are moved to the department's accounting records at fiscal year-end through a direct entry to fund equity. This entry is material to the department's financial schedules, totaling approximately \$4.8 million and \$6.0 million in fiscal years 2023 and 2024, respectively.

State law dictates how the fee to be paid by regulated companies is determined. Specifically, §69-1-224, MCA, requires the rate be built to "ensure that sufficient funds are generated to meet the appropriation and that excess funds are not generated or retained." The statute also outlines how the department responds if excess funds are collected. In response to the audit recommendation, the department revised its rate methodology in 2020 to better manage cash flow in its state special revenue fund account. After the end of fiscal year 2025, the department plans to assess whether the new methodology fully addresses the previous cash flow issues.

In the current audit, we compared revenues generated to appropriations. We also compared available cash (cash less expenditure accruals) to unspent appropriations. Our analysis shows the following:

- For fiscal year 2023, the rate setting resulted in revenues in excess of appropriations, and available cash in excess of unspent appropriations at fiscal year-end.
- For fiscal year 2024, the rate setting resulted in revenues less than appropriations, but the available cash remained in excess of unspent appropriations at fiscal year-end.

Table 1				
	Total Fund Appropriation	Total Fee Revenues	Unspent Appropriation Authority	Cash (less Accruals)
FY23	\$4,995,504	\$5,107,123	\$220,544	\$1,659,195
FY24	\$6,814,213	\$6,314,189	\$789,060	\$1,846,048

Source: Compiled by the Legislative Audit Division.

Collectively, these indicate that excess funds are being generated and retained in the department's state special revenue fund account during the current audit period. While there is a cash balance, department staff indicate the balance is needed to cover costs for the first quarter of the next fiscal year. Additionally, we noted concerns with a specific appropriation-related item considered during the rate-setting process. Together, these items indicate the department should continue to enhance internal controls over the rate-setting process, and the recommendation has been partially implemented.

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REPORT ON INTERNAL CONTROL AND COMPLIANCE

(page B-1):

In this report, we identified the following:

Material Weaknesses in Internal Control: 0

Significant Deficiencies in Internal Control: 0

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.

Independent Auditor's Report and Department Financial Schedules

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



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

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 Department of Public Service Regulation, 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.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial schedules, present fairly, in all material respects, the results of operations and changes in fund equity for each of the fiscal years ended June 30, 2024, and 2023, 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 department as of June 30, 2024, and June 30, 2023, or changes in financial position for the year then ended.

Basis for Opinions

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 department 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 opinion.

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 Department of Public Service Regulation 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, and deferred inflows of resources.

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 department'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 department'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 department'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 May 9, 2025, on our consideration of the department'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 department's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Alexa O'Dell

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

May 9, 2025

PUBLIC SERVICE REGULATION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

	State Special Revenue Fund	Federal Special Revenue Fund
FUND EQUITY: July 1, 2023	\$ 1,742,908	(0)
ADDITIONS		
Budgeted Revenues & Transfers-In	73,460	151,911
Nonbudgeted Revenues & Transfers-In	65	
Prior Year Revenues & Transfers-In Adjustments		(2,879)
Direct Entries to Fund Equity	6,012,127	
Total Additions	6,085,652	149,032
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	5,862,679	148,462
Nonbudgeted Expenditures & Transfers-Out	(2,619)	
Prior Year Expenditures & Transfers-Out Adjustments	(570)	570
Total Reductions	5,859,490	149,032
FUND EQUITY: June 30, 2024	\$ 1,969,070	\$ 0

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-11.

PUBLIC SERVICE REGULATION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	State Special Revenue Fund	Federal Special Revenue Fund
FUND EQUITY: July 1, 2022	\$ 1,764,103	59
ADDITIONS		
Budgeted Revenues & Transfers-In	21,136	173,773
Nonbudgeted Revenues & Transfers-In	14	63
Prior Year Revenues & Transfers-In Adjustments	787	(5,490)
Direct Entries to Fund Equity	4,820,107	
Total Additions	4,842,044	168,346
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	4,871,626	161,645
Nonbudgeted Expenditures & Transfers-Out	304,865	
Prior Year Expenditures & Transfers-Out Adjustments	(313,252)	6,760
Total Reductions	4,863,239.20	168,404.55
FUND EQUITY: June 30, 2023	\$ 1,742,908	(0)

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-11.

PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

TOTAL REVENUES & TRANSFERS-IN BY CLASS	State Special Revenue Fund	Federal Special Revenue Fund	Total
Licenses and Permits	\$ 12,555		12,555
Charges for Services	60,970		60,970
Federal		149,032	149,032
Total Revenues & Transfers-In	73,525	149,032	222,557
Less: Nonbudgeted Revenues & Transfers-In	65		65
Prior Year Revenues & Transfers-In Adjustments		(2,879)	(2,879)
Actual Budgeted Revenues & Transfers-In	\$ 73,460	\$ 151,911	\$ 225,371

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-11.

PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	State Special Revenue Fund	Federal Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Licenses and Permits	\$ 4,985		4,985
Taxes		63	63
Charges for Services	16,952		16,952
Federal		168,283	168,283
Total Revenues & Transfers-In	21,937	168,346	190,283
Less: Nonbudgeted Revenues & Transfers-In	14	63	77
Prior Year Revenues & Transfers-In Adjustments	787	(5,490)	(4,703)
Actual Budgeted Revenues & Transfers-In	\$ 21,136	\$ 173,773	\$ 194,909

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-11.

PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

	<u>PUBLIC SERVICE REGULATION</u> <u>PROG</u>	<u>Total</u>
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	\$ 2,917,833	\$ 2,917,833
Employee Benefits	967,290	967,290
Total	<u>3,885,124</u>	<u>3,885,124</u>
Operating Expenses		
Other Services	207,287	207,287
Supplies & Materials	108,771	108,771
Communications	421,496	421,496
Travel	68,834	68,834
Rent	22,024	22,024
Repair & Maintenance	149	149
Other Expenses	69,955	69,955
Total	<u>898,515</u>	<u>898,515</u>
Equipment & Intangible Assets		
Intangible Assets	939,468	939,468
Total	<u>939,468</u>	<u>939,468</u>
Debt Service		
Lease Liability	285,415	285,415
Total	<u>285,415</u>	<u>285,415</u>
Total Expenditures & Transfers-Out	\$ <u>6,008,522</u>	\$ <u>6,008,522</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
State Special Revenue Fund	\$ 5,859,490	\$ 5,859,490
Federal Special Revenue Fund	149,032	149,032
Total Expenditures & Transfers-Out	6,008,522	6,008,522
Less: Nonbudgeted Expenditures & Transfers-Out	(2,619)	(2,619)
Prior Year Expenditures & Transfers-Out Adjustments		
Actual Budgeted Expenditures & Transfers-Out	6,011,141	6,011,141
Budget Authority	7,025,837	7,025,837
Unspent Budget Authority	\$ <u>1,014,696</u>	\$ <u>1,014,696</u>
UNSPENT BUDGET AUTHORITY BY FUND		
State Special Revenue Fund	\$ 789,060	\$ 789,060
Federal Special Revenue Fund	225,636	225,636
Unspent Budget Authority	\$ <u>1,014,696</u>	\$ <u>1,014,696</u>

PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	<u>PUBLIC SERVICE REGULATION</u> <u>PROG</u>	<u>Total</u>
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	\$ 2,645,199	\$ 2,645,199
Employee Benefits	873,529	873,529
Total	<u>3,518,728</u>	<u>3,518,728</u>
Operating Expenses		
Other Services	302,348	302,348
Supplies & Materials	57,894	57,894
Communications	(487,368)	(487,368)
Travel	79,443	79,443
Rent	19,696	19,696
Repair & Maintenance	1,324	1,324
Other Expenses	61,353	61,353
Total	<u>34,691</u>	<u>34,691</u>
Equipment & Intangible Assets		
Intangible Assets	1,227,845	1,227,845
Total	<u>1,227,845</u>	<u>1,227,845</u>
Debt Service		
Lease Liability	250,380	250,380
Total	<u>250,380</u>	<u>250,380</u>
Total Expenditures & Transfers-Out	<u>\$ 5,031,644</u>	<u>\$ 5,031,644</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
State Special Revenue Fund	\$ 4,863,239	\$ 4,863,239
Federal Special Revenue Fund	168,405	168,405
Total Expenditures & Transfers-Out	5,031,644	5,031,644
Less: Nonbudgeted Expenditures & Transfers-Out	304,865	304,865
Prior Year Expenditures & Transfers-Out Adjustments	(306,492)	(306,492)
Actual Budgeted Expenditures & Transfers-Out	5,033,271	5,033,271
Budget Authority	5,453,948	5,453,948
Unspent Budget Authority	<u>\$ 420,676</u>	<u>\$ 420,676</u>
UNSPENT BUDGET AUTHORITY BY FUND		
State Special Revenue Fund	\$ 220,544	\$ 220,544
Federal Special Revenue Fund	200,132	200,132
Unspent Budget Authority	<u>\$ 420,676</u>	<u>\$ 420,676</u>

Department of Public Service Regulation

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2024

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified-accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (State Special Revenue and Federal Special Revenue funds). In applying the modified-accrual basis, the department 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 department incurs the related liability and it is measurable, except for the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

Expenditures may include entire budgeted service contracts even though the department 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. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

- **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. The department's State Special Revenue Fund accounts for the department's general operating revenues and expenditures.
- **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. The department's Federal Special Revenue Funds include funds to account for pipeline safety and underground natural gas storage.

2. Direct Entries to Fund Equity

Direct entries to fund equity in the State Special Revenue fund include entries generated by SABHRS to reflect the flow of resources within an individual fund shared by the department and the Department of Revenue. Throughout the fiscal year, the Department of Revenue assesses and collects the regulated company tax on behalf of the department. At the close of Fiscal Years 2023 and 2024, the direct entries to equity to reclassify the regulated company tax collections from the Department of Revenue's business unit to the department's business unit were \$4,820,107 and \$6,017,470, respectively.

In Fiscal Year 2024, adjustments totaling \$5,343 were made to Fund Equity, and the net amount of Direct Entries to Fund Equity for that fiscal year totaled \$6,012,127.

3. REDDI Case Management Project

During Fiscal Years 2023 and 2024, the agency carried out a contract to implement the Replacement Electronic Database for Docket Information (REDDI), a highly-configurable case management system that efficiently and securely facilitates tracking, organization, public interaction, and automation of documents, data, workflows, reports, and communications associated with the Department of Public Service Regulation's supervision and regulation of entities within the Commission's jurisdiction. The system facilitates the department's work in investigating and resolving conflicts between consumers and regulated companies; performing railway and pipeline safety inspections; managing administrative rules and public policy; and issuing notices and orders regarding the licensure, rates, service quality, and conduct of regulated companies. REDDI includes a reliable online customer portal capable of handling substantial uploads of data associated with public utility rate cases, Certificates of Public Convenience and Necessity, and other filings.

The contracted REDDI implementation work commenced on July 1, 2022, and was substantially completed by December 31, 2023. The ensuing enablement period to transition complete administration of the project to the agency's in-house technology staff was completed on June 30, 2024.

State accounting policy requires the capitalization of internally generated software when the cost is greater than \$500,000 and meets the required criteria such as Application Development Stage. Costs of the Preliminary Project and Post-Implementation Stages are excluded from the cost of the intangible asset. On the Schedule of Total Expenditures & Transfers-Out, the agency reported the work in process in Fiscal Year 2023 as an intangible asset of \$1,227,845 (cell d121) and in Fiscal Year 2024 reported costs of \$939,468 (cell d112) for a total intangible asset cost of \$2,167,313.

The project was completed on time and within budget. Specifically, the project-related expenditures in Fiscal Year 2023 were \$1,184,110 versus budget of \$1,211,145, and in Fiscal Year 2024 expenditures were \$1,378,524 versus budget of \$1,666,436. The under-budget savings for both Fiscal Years combined totaled \$314,947.

4. State Special Revenue Expenditure Accrual and Reversals

At the end of Fiscal Year 2022, the agency encumbered \$378,882 of continuing appropriation authority based on contracted amounts for the REDDI Project. Because the appropriation authority continued into Fiscal Year 2023, encumbering the amount in Fiscal Year 2022 decreased the appropriation authority to a zero balance in Fiscal Year 2023. To re-establish the authority in the appropriate year, an encumbrance reversal was made to Fiscal Year 2023 expenditures, increasing the budget authority balance to the original amount. This decreased Communications expenditures by the same amount. In addition, other expenditures related to this project were reversed as required by state accounting policies. These reversals resulted in a total negative balance of \$487,368 in the Fiscal Year 2023 Schedule of Total Expenditures & Transfers-Out Operating Expenses – Communications category.

5. Unspent Budget Authority

The Schedule of Total Expenditures and Transfers-Out for Fiscal Years 2023 and 2024 reflects unspent budget authority of \$420,676 and \$1,014,696 respectively.

In Fiscal Year 2023, the unspent State Special Revenue fund authority included biennial carryforward of \$50,187, restricted, one-time-only Hearing Examiner of \$97,910, restricted State IT of \$10,771, software fixed costs of \$22,941 and Public Service Commission of \$38,735. Unspent Federal Special Revenue fund authority included biennial carryforward of \$76,454 and other federal authority of \$123,678.

In Fiscal Year 2024, the unspent State Special Revenue fund authority included biennial carryforward of \$51,107, restricted, one-time-only retirement payout of \$79,980, restricted State IT of \$45,981, HB10 IT REDDI system of \$46,795, IT REDDI licensing of \$27,518, restricted biennial Financial Audit of \$35,249, and Public Service Commission of \$502,430. The unspent Public Service Commission balance is due to personnel shortages resulting in a surplus and a transfer into the base budget for operating costs that remained partially unused. Unspent Federal Special Revenue fund authority included biennial carryforward of \$68,941 and other federal authority of \$156,695.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

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 Department of Public Service Regulation 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 May 9, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the department's 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 department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department's internal control.

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. 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 attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the department'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*.

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 department'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 department'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

May 9, 2025

DEPARTMENT OF
PUBLIC SERVICE
REGULATION

DEPARTMENT RESPONSE

Department of Public Service Regulation



Jennifer Fielder, Vice President
Montana Public Service Commission

**AUDIT #24-26 (Financial-Compliance)
AGENCY RESPONSE**

Mr. Angus Maciver, Legislative Auditor
State of Montana
P.O. Box 201705
Helena, MT 59620-1705

RECEIVED

August 22, 2025

LEGISLATIVE AUDIT DIV.

August 22, 2025

Dear Mr. Maciver:

On behalf of the Department of Public Service Regulation (DPSR), I write in response to Financial-Compliance Audit #24-26.

We are pleased the audit of DPSR activity in fiscal years 2023 and 2024 resulted in an unmodified opinion and no new recommendations to the department or the legislature. This is a testament to great strides the department made in response to past audit recommendations and we appreciate the audit report acknowledges that progress. We are addressing prior audit recommendations as noted below.

STATUS OF PRIOR AUDIT RECOMMENDATIONS:

Audit #20-26 (2019-20) included 5 recommendations. Audit #22-26 (2021-22) reported 3 of these were not fully implemented. Audit #24-26 (2023-24) indicates that two of these three have been partially implemented and one has been fully implemented as follows:

1. Organizational Challenges: Partially Implemented
2. Controls over Department Funding Activity: Partially Implemented
3. Controls over Drafting the Financial Schedules Notes: Implemented

PRIOR RECOMMENDATION #1 - Organizational Challenges: Partially Implemented

DPSR RESPONSE: CONCUR

SUMMARY OF RECOMMENDATION: The 2019-20 audit recommended that dept leadership comply with internal policies and create a comprehensive plan to improve department culture. The 2021-22 audit indicated this was partially implemented due in part to Commission adoption of an Internal Policy Manual (IPM). The 2023-24 audit noted that "newly elected commissioners have begun discussing the manual's requirements and that because the final content and impact of the IPM on policy compliance and department culture remains unclear, the recommendation on organizational challenges remains partially implemented."

DPSR EXPLANATION:

In 2022, the Public Service Commission adopted a Strategic Plan with the deliberate intention of

improving the operations, performance, culture, and reputation of the agency. Subsequently, the Commission overhauled its internal policies which culminated in adoption of twenty-seven new or revised policies comprising the DPSR's Internal Policy Manual (IPM). The various policies were adopted in tranches throughout 2023 and 2024.

Ultimately, the IPM provides each commissioner and staff member with a comprehensive set of written policies to guide their conduct, work, and the overall operations of the department in a manner that is consistent with applicable state and federal laws and the Commission's Strategic Plan. For example, the IPM includes an Administration Policy that establishes an orderly chain of command and defines duties of all areas of operation; a Communications Policy to facilitate effective and orderly public communications, and a Code of Conduct Policy that governs commissioner and staff behavior in the workplace.

Several trainings and individual counseling sessions have been provided to commissioners and staff to assist with clarifying the purpose and statutory authority for the policies. The department strives to comply with policies and with few exceptions has successfully adhered to the new policies. As a result, the department has experienced greatly improved operational effectiveness and positive cultural impacts.

However, adaptation to the new policies remains a work in progress. Three of the five commissioners and all department staff have executed the IPM Acknowledgement Form and are striving to abide by the IPM's requirements. However, in 2025, one newly elected commissioner expressed his belief that the policies adopted by the Commission do not apply to him because he is an elected official. He and one other commissioner have declined to sign the IPM Acknowledgement Form which is required of all commissioners and staff to verify they have received the IPM and agree to abide by it. Failure to recognize the requirements set forth in department policies has presented a unique set of administrative challenges which have not yet fully resolved.

CORRECTIVE ACTION PLAN (CAP):

The department will continue to use appropriate tools including continued training, and a range of processes provided within the Code of Conduct policy to identify, prevent, and remediate misconduct and other policy violations.

PRIOR RECOMMENDATION #2 - Controls over Department Funding Activity: Partially Implemented

DPSR RESPONSE: PARTIALLY CONCUR

SUMMARY OF RECOMMENDATION: The last four audits have included recommendations for the department to establish internal controls over monitoring the fee charged to regulated companies by DOR to fund DPSR operations. MCA 69-1-224 requires the rate to be built to "ensure that sufficient funds are generated to meet the appropriation and that excess funds are not generated or retained." In 2020, DPSR revised its rate methodology to better manage cash flow.

The 2023-24 audit found: a) FY 2023 revenues exceeded appropriations; b) FY 2024 revenues were less than appropriations, but the available cash remained in excess of unspent appropriations at FY End; and c) Collectively this indicates that excess funds were generated and retained during the current audit period (creating a cash balance).

DPSR EXPLANATION:

DPSR prepares a quarterly revenue reconciliation and meets with Department of Revenue (DOR) staff annually to discuss the rate setting methodology. Staff have a comprehensive understanding of the rate setting process and internal controls are strong,

We appreciate that after our exit conference, LAD staff re-addressed this continuing recommendation, but

the substance is the same. They quoted statute “ensure that sufficient funds are generated to meet the appropriation and that excess funds are not generated or retained”, but then added that statute outlines how to respond if excess funds are generated. Since statute states we should generate sufficient funds, we tread a line between not enough and too much. If our rate isn’t high enough, we will be forced to take out a loan from the general fund.

CORRECTIVE ACTION PLAN:

DPSR is in the process of revising the rate methodology that has been in place since 2020 and mentioned during the prior and current legislative audits. The department will change the methodology for FY 2026 and will review the methodology annually to allow for a more fluid approach to the rate setting process. This will ensure that the rate meets current needs while also taking into consideration increases and decreases in regulated company revenues. In addition, DPSR staff will participate in the DOR mid-year review of the annual rate to further strengthen controls over the rate setting process.

In closing, I thank you for the cooperative way in which the Legislative Audit Division continues to work with DPSR. The process is always highly informative and constructively helpful. We appreciate your efforts and expertise, and look forward to making continued progress in full implementation of the two remaining prior recommendations.

Sincerely,



Jennifer Fielder

Vice President, Montana Public Service Commission

cc:

Brad Molnar, PSC President

Alana Lake, DPSR Executive Director

Tina Limesand, DPSR Business Manager

Staci Litschauer, DPSR Financial Accounting Analyst