A Report
to the
Montana
Legislature

Financial-Compliance Audit

Office of the Commissioner of Political Practices

For the Two Fiscal Years Ended June 30, 2018

April 2019

Legislative Audit
Division

18-21

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§5-13-202(2), MCA

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. Most 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, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

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April 2019

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Office of the Commissioner of Political Practices for the two fiscal years ended June 30, 2018. Included in this report are six recommendations. Our recommendations relate to multi-year permit revenue, credit card receipts, timeliness of deposits, unsupported expenditure accruals, preparation of the notes to the financial schedules, and associated internal control deficiencies. We have also issued adverse opinions on the Schedules of Total Revenues and Schedules of Changes in Fund Equity for the two fiscal years ended June 30, 2018; meaning the reader should not rely on the information presented in those schedules and the underlying accounting records for decision-making purposes.

The office's written response to the audit recommendations is included in the audit report at page C-1. We thank the Commissioner and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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Table of Contents

Tables ii
Appointed and Administrative Officials iii
Report Summary S-1

CHAPTER I – INTRODUCTION 1
Introduction 1
Background 1
Prior Audit Recommendations 2

CHAPTER II – FINDINGS AND RECOMMENDATIONS 3
Introduction 3
Revenue 3
Multi-Year Permits Revenue 3
Outside Vendor Collections 5
Deposits 6
Expenditure Accruals 7
Notes to the Financial Schedules 8
Internal Controls 9

INDEPENDENT AUDITOR'S REPORT AND OFFICE FINANCIAL SCHEDULES
Independent Auditor's Report A-1
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2018 ..... A-5
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2017 ..... A-6
Schedule of Total Revenues for the Fiscal Year Ended June 30, 2018 ..... A-7
Schedule of Total Revenues for the Fiscal Year Ended June 30, 2017 ..... A-8
Schedule of Total Expenditures for the Fiscal Year Ended June 30, 2018 ..... A-9
Schedule of Total Expenditures for the Fiscal Year Ended June 30, 2017 ..... A-10
Notes to the Financial Schedules A-11

REPORT ON INTERNAL CONTROL AND COMPLIANCE
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* *B-1*

OFFICE RESPONSE
Office of the Commissioner of Political Practices C-1

TABLES

Tables

Table 1 Multi-Year Licenses and Permits Revenue Misstatements Summary 4
Table 2 Summary of Past Audit Issues and Opinions Rendered 10

Appointed and Administrative Officials

Office of the Commissioner of Political Practices

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Montana Legislative Audit Division

Financial-Compliance Audit
Office of the Commissioner of Political Practices
For the Two Fiscal Years Ended June 30, 2018

April 2019 18-21 Report Summary

We identified a high volume of significant accounting misstatements. Our recommendations relate to multi-year permit revenue, credit card receipts, timeliness of deposits, unsupported expenditure accruals, preparation of the notes to the financial schedules, and associated internal control deficiencies. Many of these issues are recurring, and past audits have identified the same or a similar issue. We also issued adverse opinions on the Schedules of Total Revenues and Schedules of Changes in Fund Equity for the two fiscal years ended June 30, 2018; meaning the reader should not rely on the information presented in those schedules and the underlying accounting records for decision-making purposes.

Context

The Office of the Commissioner of Political Practices (office) is responsible for enforcing campaign and lobbying disclosure laws and code of ethics laws for state officials and employees. The office performs these duties through review of campaign and political committee expenditures reports, investigations of campaign finance and disclosure cases, registration of lobbyists, principal expenditure tracking, and formal ethics complaint proceedings.

The office is funded primarily through General Fund appropriations. General Fund expenditures totaled $687,415 and $622,564 in fiscal years 2017 and 2018, respectively. The office also collects revenue for the registration of lobbyists and for the collection of fines. Total collections were $117,885 and $236,970 in fiscal years 2017 and 2018, respectively.

Our audit work included reviewing support for payments for legal and information system support, considering the reasonableness of personal services amounts, and reviewing payments received for lobbyist permits and fines and forfeitures. We assessed the overall reasonableness of the financial schedules and notes and we considered the office's control systems throughout the audit. Additionally, we evaluated compliance with selected laws and regulations.

Results

The report contains six recommendations. Our recommendations relate to multi-year permit revenue, credit card receipts, timeliness of deposits, unsupported expenditure accruals, preparation of the notes to the financial schedules, and associated internal control deficiencies. We have also issued adverse opinions on the Schedules of Total Revenues and Schedules of Changes in Fund Equity for the two fiscal years ended June 30, 2018; meaning the reader should not rely on the information presented in those schedules and the underlying accounting records for decision-making purposes.

(continued on back)

The prior audit contained two recommendations. The office implemented the recommendation related to conducting examinations of post-election reports as required by state law. However, the office has not implemented the recommendation related to following established procedures for documentation and review of accounting transactions and implementing controls over high risk financial transactions.

Recommendation Concurrence	
Concur	6
Partially Concur	0
Do Not Concur	0

Source: Agency audit response included in final report.

For a complete copy of the report (18-21) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to **lad@mt.gov**; or check the web site at **https://leg.mt.gov/lad/audit-reports**
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail **LADHotline@mt.gov.**

Chapter I – Introduction

Introduction

We performed a financial–compliance audit of the Office of the Commissioner of Political Practices (office) for the two fiscal years ended June 30, 2018. The objectives of the audit were to:

1. Obtain an understanding of the office's internal controls to the extent necessary to support our audit of the financial schedules and, if appropriate, make recommendations for improvements in management and internal controls for the office.
2. Determine the office's compliance with selected state laws and regulations for the two fiscal years ended June 30, 2018.
3. Determine whether the office's financial schedules present fairly the financial position and results of operations as of and for each of the two fiscal years ended June 30, 2018.
4. Determine the implementation status of prior audit recommendations.

To accomplish the objectives, our audit work included reviewing support for payments for legal and information system support, considering the reasonableness of personal services amounts, and performing work over payments received for lobbyist permits and fines and forfeitures. We reviewed the overall reasonableness of the financial schedules and notes and we considered the office's control systems throughout the audit. Additionally, we evaluated compliance with selected laws and regulations.

Background

The Governor appoints the Commissioner of Political Practices to a six-year term, subject to confirmation by the senate. A four-member selection committee submits a list of two to five names of individuals to the Governor for consideration. The selection committee is comprised of: the speaker of the house, the president of the senate, and the minority floor leaders of both houses of the Legislature. The Commissioner can only serve one term. If a vacancy occurs, a successor shall be appointed within 30 days to serve out the unexpired term. The current Commissioner was appointed and confirmed to serve a six-year term in 2017.

The primary duties of the Commissioner include:

1. Facilitating disclosure of financial contributions to, and expenditures of, candidates and political committees.
2. Facilitating registration of lobbyists and monitoring expenditures made by principals. Principals are anyone, including businesses, associations, and government agencies, who pay lobbyists to work on their behalf.

3. Inspection of reports of candidates, political committees, lobbyists, and principals for compliance with Montana laws.
4. Monitoring and enforcing Montana's Code of Ethics for public officers, public employees, and legislators.
5. Investigating legitimate complaints of alleged violations of campaign finance and practice laws, lobbying laws, and ethics laws.

The office had 7.0 full-time employees for the fiscal year ending June 30, 2018.

Prior Audit Recommendations

The prior audit for the two fiscal years ended June 30, 2016, contained two recommendations to the office. The office implemented the recommendation related to conducting examinations of post-election reports as required by state law. However, the office has not implemented the recommendation related to following established procedures for documentation and review of accounting transactions and implementing controls over high risk financial transactions. These issues are addressed in this report as part of Recommendation #6, on page 9.

Chapter II – Findings and Recommendations

Introduction

During this audit, we identified a high volume of significant accounting misstatements. Our recommendations relate to multi-year permit revenue, credit card receipts, timeliness of deposits, unsupported expenditure accruals, preparation of the notes to the financial schedules, and associated internal control deficiencies. This section contains six recommendations.

The first five recommendations address the individual issues identified. Each of these five recommendations also address a material weakness in internal controls. We consider each of these to be a material weakness due to their impact because each resulted in, or had the potential to result in, material misstatements and noncompliance with state law. A material weakness in internal controls is defined as a deficiency 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. These five material weaknesses are also discussed in our report starting on page B-1.

Recommendation #6 addresses the issues identified in aggregate, and makes an overall recommendation related to internal control deficiencies.

Revenue

The Office of the Commissioner of Political Practices (office) issues permits to lobbyists. The permit is valid for two calendar years, and costs $150. One third of this fee, or $50, is recorded in the General Fund for use by the office. The remainder of the fee is recorded to the State Special Revenue Fund for use by the Legislative Branch.

Lobbyists can pay for these fees either by bringing their payment to the office and paying with currency, check or money order, or for the 2017 Legislative Session lobbyists could pay via credit card. An outside vendor processed these credit card payments on behalf of the office for permits issued during the 2017 Legislative Session.

Multi-Year Permits Revenue

In fiscal years 2017 and 2018 the office did not record multi-year permit revenue in accordance with state accounting policy, resulting in material misstatements.

State accounting policy requires revenue for licenses and permits valid for more than one year be recognized evenly over the life of the permit. These permits are valid for

two calendar years, and are usually issued right before a legislative session. Therefore, the revenue from these permits should be recognized over three fiscal years with 25 percent recognized in the fiscal year issued, 50 percent recognized in the next fiscal year, and 25 percent recognized in the third fiscal year. A total of $61,350 and $1,800 was collected for these permits in fiscal years 2017 and 2018, respectively.

The office recorded these fees incorrectly in fiscal years 2017 and 2018. In fiscal year 2017, the office incorrectly recognized the entire amount collected, rather than recognizing the revenue over three fiscal years. In fiscal year 2018, the office attempted to recognize a portion of the revenue from permits issued in prior years, but incorrectly recorded the revenue to a prior program year. This incorrectly shows up as prior year revenue on the fiscal year 2018 Schedule of Total Revenues. These projected misstatements, summarized in Table 1 below, were material in both years of the audit period. As a result, these accounting misstatements contributed to the adverse opinion on page A-2.

Table 1
Multi-Year Licenses and Permits Revenue Misstatements Summary
Fiscal Years 2017 and 2018

Over/(Under) Statement			
		General Fund	State Special Revenue Fund
Fiscal Year 2017	Licenses and Permits	$10,175	$20,350
Fiscal Year 2018	Licenses and Permits	($3,888)	($7,775)

In addition to these misstatements, prior year revenue on the fiscal year 2018 Schedule of Total Revenues is overstated by $5,588 in the General Fund and $10,875 in the State Special Revenue Fund. Deferred Revenue as recorded on the state's accounting system is also misstated as the account was not properly used to record the amount which should be recognized as revenue in future years for the multi-year permits.

There are several procedures the office can use to ensure multi-year licenses are accurately recorded on the accounting records. These include having a second staff member check the accounting entry, using a checklist at fiscal year-end to remind staff to make this entry, and creating detailed written procedures.

RECOMMENDATION #1

We recommend the Office of the Commissioner of Political Practices develop processes to facilitate the recording of multi-year Licenses and Permits revenue in accordance with state accounting policy, and record that revenue in accordance with state accounting policy.

Outside Vendor Collections

The office does not have controls over outside vendor recorded collections to ensure those collections are supported, complete, and accurate.

An outside vendor is used to provide credit card processing services. During the 2017 Legislative Session, the office used this vendor to process credit card payments for lobbyist permits. Approximately $23,000, or one third, of the payments for lobbyist permits issued in fiscal year 2017 were collected by this vendor.

The office has no support for the vendor recorded transactions. If there is no support for transactions the office cannot determine if the correct amount was recorded, and the office cannot confirm all transactions were recorded by the vendor. Currently, when the vendor receives credit card payments for the permits, there is an automatic interface with the state's accounting system to record the payment. The office does not request or receive information from the vendor to match payments with individual lobbyist permits issued.

Additionally, the office does not reconcile the amount recorded on the state's accounting system to what was collected by the vendor to ensure what the vendor records is complete and accurate. If no reconciliation is performed, the transactions recorded by vendors could be incomplete or inaccurate and the office will not identify these errors.

State accounting policy requires all transactions recorded on the state's accounting system be supported, and collections by third parties be reconciled to ensure completeness and accuracy.

We were able to perform work over the amount recorded by the vendor, and determined that no material misstatement was present in the amounts collected by the vendor and recorded on the state's accounting records in fiscal years 2017 or 2018.

Staff indicated they recognize the importance of reconciling the vendor recorded amounts, and they plan to begin these reconciliations.

RECOMMENDATION #2

We recommend the Office of the Commissioner of Political Practices comply with state accounting policy by ensuring revenue collected by third parties is supported, complete, and accurate.

Deposits

The office did not make timely deposits as required by state law.

The office receives checks and money orders for the payment of lobbyist permits as well as for the payment of fines. Most of these payments are received right before, and during, a legislative session. During these times, the office makes daily deposits. However, at other times of the year, and during the year with no legislative session, the office does not make regular deposits. The office's policies and procedures are not specific as to when a deposit is required to be made.

Section 17-6-105, MCA, requires deposits to be made when currency on hand reaches $200, total check and currency collections reach $750, or weekly, whichever is reached first.

We selected 14 deposits to review in fiscal years 2017 and 2018, and identified 6 not made in accordance with this law, either due to the amount on hand or because the deposit was not made weekly. These deposits were made, on average, four days late, and averaged $1,763. We did not review every deposit, and anticipate other deposits are not in compliance with this state law as well.

Due to collections through an outside vendor, deposits are not sequentially numbered. As a result, the office may not be able to identify missing deposits if deposits are not made timely. Additionally, untimely deposits increase the risk cash and currency could be lost or stolen before a deposit is made.

RECOMMENDATION #3

We recommend the Office of the Commissioner of Political Practices revise current deposit policies and procedures to comply with state law.

Expenditure Accruals

The office recorded unsupported accruals in fiscal year 2018, resulting in a material misstatement.

At fiscal year-end, accruals are recorded for goods ordered but not received and services of legally binding contracts that are not performed at fiscal year-end. State accounting policy requires these accruals be made so expenditures are recorded in the fiscal year services were provided, and to record expenditures that will be paid shortly after fiscal year-end.

In fiscal year 2018 the office recorded accruals related to legal and court costs expected to be paid shortly after fiscal year-end. However, these accruals did not have any support, which is contrary to state accounting policy. As such, it is not clear if these are valid obligations of the state. Because the agency could not demonstrate these accruals were valid obligations at year-end, we consider them to be misstatements. Other Services on the fiscal year 2018 Schedule of Total Expenditures is overstated by $30,000.

Additionally, these accruals were entered, reviewed, and approved by the same staff member in the office, indicating a lack of segregation of duties. State accounting policy requires a separation of responsibilities between the recording and authorizing of transactions.

The office also did not record the cost of Information Technology services in the correct fiscal year because they inconsistently recorded accruals. In fiscal year 2017 the office recorded 13 months of services due to recording an accrual. However, in fiscal year 2018 the office recorded 10 months of services because one month's service had been accrued in the prior year, and they did not accrue an amount at fiscal year-end.

These accounting misstatements contributed to the adverse opinion on page A-2.

RECOMMENDATION #4

We recommend that the Office of the Commissioner of Political Practices comply with state accounting policy by ensuring expenditure accruals are supported, and that segregation of duties exists when these transactions are recorded.

Notes to the Financial Schedules

The office does not have controls over the preparation of the notes to the financial schedules, which resulted in the omission of material disclosures.

State agencies are required to prepare notes to the financial schedules. These notes should include informative disclosures that help a user of the financial schedules understand the activity presented in those schedules. State accounting policy includes items required to be disclosed. The Governmental Accounting Standards Board (GASB) contains additional items that must be considered for disclosure in the notes.

In the initial draft of notes prepared by the office, material note disclosures related to litigation and direct entries were not included. The notes were updated, and these disclosures are included in the updated notes. However, these updates were made after we identified these omissions as part of the audit. The office did not identify these omissions or have controls in place to identify such omissions.

The office should develop procedures to identify items that need disclosed in the notes. This could include, but is not limited to, reviewing state accounting policy to identify required disclosures, reviewing GASB requirements to identify required disclosures, and reviewing the financial schedules to identify significant activity and changes that may require disclosure.

RECOMMENDATION #5

We recommend that the Office of the Commissioner of Political Practices develop policies and procedures over the preparation of the notes to the financial schedules to ensure the notes are complete, accurate, and understandable.

Internal Controls

The office does not have internal controls over significant financial transactions, evidenced by material misstatements and noncompliance with state law and accounting policy.

State accounting policy requires the office to develop internal controls over financial processes. Internal control is a process, effected by management and other staff, that provides reasonable assurance objectives of the entity will be achieved. If internal controls are not developed the office may not be able to meet their statutory requirements and achieve their goals of operation.

The office should develop controls to ensure the completeness, accuracy, and reasonableness of transactions. This includes developing controls to ensure all transactions are supported, as required by state accounting policy. Additionally, internal controls should ensure compliance with all relevant regulations, such as state law and state accounting policy.

While the office has written policies and procedures, those documents only cover financial transactions related to routine deposits and payments. They do not cover any of the other financial transactions the office makes. Additionally, they do not contain detailed policies and procedures that could be used by someone unfamiliar with the process to accurately complete that financial transaction.

These weaknesses in the office's policies and procedures resulted in multiple material misstatements, noncompliance with state law, and material weaknesses in internal controls as discussed in the previous five recommendations.

We reviewed the previous six financial-compliance audit reports issued by the Legislative Audit Division. These audits addressed the same or similar accounting and internal control issues, meaning these are recurring issues for the office. Therefore, for more than a decade the office has not taken appropriate measures to design its internal controls to ensure all financial transactions are appropriately managed. Table 2 (see page 10) summarizes these recurring issues, along with the type of opinion rendered for the office's financial schedules for the last six audit cycles.

Table 2
Summary of Past Audit Issues and Opinions Rendered
Fiscal Years Going Back to 2005

	Audit						
Description of Finding	**#18-21**	**#16-21**	**#14-21**	**#12-21**	**#10-21**	**#08-21**	**#06-21**
Internal Controls over financial reporting need improved	Yes	Yes				Yes	
Misstatement of multi-year Licenses and Permits Revenue and related deferred revenue	Yes		Yes	Yes	Yes	Yes	Yes
Expenditures accruals unsupported or recorded incorrectly	Yes			Yes		Yes	
Lobbyist payment threshold was not set as required by state law				Yes			
No controls are in place over contract monitoring						Yes	
Contribution limit was not set as required by state law						Yes	
Intangible assets were not recorded in accordance with state accounting policy							Yes
Opinion on Financial Schedules	Adverse	Unmodified	Adverse	Qualified	Qualified	Qualified	Unmodified

Source: Compiled from Legislative Audit Division audit reports.

The office has experienced a large amount of turnover in the past two years. This has contributed to the misstatements, noncompliance, and internal control deficiencies described above. However, part of implementing internal controls is developing

detailed written policies and procedures, and developing tools any staff member can use and access, such as checklists. Policies, procedures and tools should be designed in the detail necessary for correct financial reporting, even when turnover in staff occurs. The detailed procedures, and tools, should ensure all required entries are recorded on the state's accounting system, including those that are only made once a year.

Additionally, the office does not have staff with accounting expertise. The Department of Administration State Financial Services Division provides guidance to state agencies on accounting matters as needed. When complex accounting matters arise, such as recording multi-year permits revenue, the office should seek the assistance of State Financial Services Division if they do not have the expertise and experience to appropriately record a transaction on the state's accounting system.

Developing internal controls should not involve a significant investment of resources by the office. We believe the office can complete the development of controls with currently available resources.

RECOMMENDATION #6

We recommend the Office of the Commissioner of Political Practices:

A. *Develop comprehensive internal controls to ensure transactions are recorded in accordance with state accounting policy and comply with applicable laws and regulations.*

B. *Seek assistance, as necessary, from the Department of Administration State Financial Services Division on accounting matters.*

Independent Auditor's Report and Office Financial Schedules

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity, Schedules of Total Revenues, and Schedules of Total Expenditures of the Office of the Commissioner of Political Practices for each of the fiscal years ended June 30, 2018, and 2017, and the related notes to the financial schedules.

Management's Responsibility 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the office's preparation and fair presentation of the financial schedules 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, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

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, the financial schedules are prepared 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 and liabilities.

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.

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" paragraph, 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, 2018, and June 30, 2017, or changes in financial position for the years then ended.

Basis for Adverse Opinions on Regulatory Basis of Accounting

The office issues permits to lobbyists that are valid for two years. The revenue for multi-year permits is required to be recognized evenly over the life of the permit. However, the office did not record the revenue over the life of the permit in fiscal years 2017 or 2018.

The office recorded accruals in fiscal year 2018 for legal and court costs that were not valid obligations.

The cost of services provided to the office is required to be recorded in the year the services are provided. However, the office did not record the cost of information technology services in the correct year. In fiscal year 2017 the office recorded 13 months of services, and in fiscal year 2018 the office recorded 10 months of services.

The cumulative impact of these misstatements is summarized in the following table:

Schedule and Accounts	Over/(Under) Statement	
	General Fund	State Special Revenue Fund
Schedule of Total Revenues for the Fiscal Year Ended June 30, 2017		
Total Revenues by Class		
Licenses and Permits	$10,175	$20,350
Total Revenues	$10,175	$20,350
Actual Budgeted Revenues & Transfers-In	$10,175	$20,350
Budgeted Revenues Over (Under) Estimated by Class		
Licenses and Permits	$10,175	$20,350
Budgeted Revenues Over (Under) Estimated	$10,175	$20,350
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2017		
Budgeted Revenues & Transfers-Out	$10,175	$20,350
Total Additions	$10,175	$20,350
Budgeted Expenditures & Transfers-Out	$4,605	-
Total Reductions	$4,605	-
Ending Fund Equity	$5,570	$20,350
Schedule of Total Revenues for the Fiscal Year Ended June 30, 2018		
Total Revenues by Class		
Licenses and Permits	($3,888)	($7,775)
Total Revenues & Transfers-In	($3,888)	($7,775)
Prior Year Revenues & Transfers-In	$5,588	$10,875
Actual Budgeted Revenues & Transfers-In	($9,476)	($18,650)
Budgeted Revenues Over (Under) Estimated by Class		
Licenses and Permits	($9,476)	($18,650)
Budgeted Revenues Over (Under) Estimated	($9,476)	($18,650)
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2018		
Beginning Fund Equity	$5,570	$20,350
Budgeted Revenues & Transfers-In	($9,476)	($18,650)
Prior Year Revenues & Transfer-In	$5,588	$10,875
Total Additions	($3,888)	($7,775)
Budgeted Expenditures & Transfers-Out	$22,235	-
Total Reductions	$22,238	-
Ending Fund Equity	($20,553)	$12,575

Adverse Opinions on Regulatory Basis of Accounting

In our opinion, because of the significance of the matters discussed in the "Basis for Adverse Opinions on Regulatory Basis of Accounting" paragraph, the Schedules of Changes in Fund Equity and Schedules of Total Revenues do not present fairly the results of operations and changes in fund equity of the Office of the Commissioner of Political Practices for each of the fiscal years ended June 30, 2018, and 2017, in conformity with the basis of accounting described in Note 1.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Total Expenditures present fairly, in all material respects, the results of operations of the Office of the Commissioner of Political Practices for each of the fiscal years ended June 30, 2018, and 2017, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2019, on our consideration of the Office of the Commissioner of Political Practices' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

March 15, 2019

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	State Special Revenue Fund
FUND EQUITY: July 1, 2017	$ (46,557)	$ (10,875)
ADDITIONS		
Budgeted Revenues & Transfers-In	235,676	1,200
Prior Year Revenues & Transfers-In Adjustments	5,588	10,875
Direct Entries to Fund Equity	359,610	(1,200)
Total Additions	600,873	10,875
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	624,146	
Nonbudgeted Expenditures & Transfers-Out	(1,582)	
Total Reductions	622,564	0
FUND EQUITY: June 30, 2018	$ (68,248)	$ 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.

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund	State Special Revenue Fund
FUND EQUITY: July 1, 2016	$ (10,538)	$ (10,875)
ADDITIONS		
Budgeted Revenues & Transfers-In	77,142	40,900
Direct Entries to Fund Equity	574,253	(40,900)
Total Additions	651,395	0
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	686,137	
Nonbudgeted Expenditures & Transfers-Out	(415)	
Prior Year Expenditures & Transfers-Out Adjustments	1,693	
Total Reductions	687,415	0
FUND EQUITY: June 30, 2017	$ (46,557)	$ (10,875)

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.

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF TOTAL REVENUES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	State Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Licenses and Permits	$ 6,038	$ 12,075	$ 18,113
Charges for Services	55		55
Fines and Forfeits	235,171		235,171
Total Revenues & Transfers-In	241,263	12,075	253,338
Less: Nonbudgeted Revenues & Transfers-In			0
Prior Year Revenues & Transfers-In Adjustments	5,588	10,875	16,463
Actual Budgeted Revenues & Transfers-In	235,676	1,200	236,876
Estimated Revenues & Transfers-In	25,100	22,950	48,050
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 210,576	$ (21,750)	$ 188,826
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Licenses and Permits	$ (16,400)	$ (21,750)	$ (38,150)
Charges for Services	(45)		(45)
Fines and Forfeits	227,021		227,021
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 210,576	$ (21,750)	$ 188,826

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.

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF TOTAL REVENUES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund	State Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Licenses and Permits	$ 20,450	$ 40,900	$ 61,350
Charges for Services	157		157
Fines and Forfeits	56,535		56,535
Total Revenues & Transfers-In	77,142	40,900	118,042
Less: Nonbudgeted Revenues & Transfers-In			0
Prior Year Revenues & Transfers-In Adjustments			0
Actual Budgeted Revenues & Transfers-In	77,142	40,900	118,042
Estimated Revenues & Transfers-In	25,300	44,000	69,300
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 51,842	$ (3,100)	$ 48,742
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Licenses and Permits	$ 3,450	$ (3,100)	$ 350
Charges for Services	(143)		(143)
Fines and Forfeits	48,535		48,535
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 51,842	$ (3,100)	$ 48,742

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.

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF TOTAL EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Administration	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	$ 312,557	$ 312,557
Employee Benefits	115,922	115,922
Total	428,479	428,479
Operating Expenses		
Other Services	115,428	115,428
Supplies & Materials	25,872	25,872
Communications	12,678	12,678
Travel	2,768	2,768
Rent	35,706	35,706
Other Expenses	1,625	1,625
Goods Purchased For Resale	10	10
Total	194,085	194,085
Total Expenditures & Transfers-Out	$ 622,564	$ 622,564
EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	$ 622,564	$ 622,564
Total Expenditures & Transfers-Out	622,564	622,564
Less: Nonbudgeted Expenditures & Transfers-Out	(1,582)	(1,582)
Prior Year Expenditures & Transfers-Out Adjustments		
Actual Budgeted Expenditures & Transfers-Out	624,146	624,146
Budget Authority	691,184	691,184
Unspent Budget Authority	$ 67,038	$ 67,038
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	$ 45,980	$ 45,980
Capital Projects Fund	21,058	21,058
Unspent Budget Authority	$ 67,038	$ 67,038

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.

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF TOTAL EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Administration	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	$ 346,046	$ 346,046
Employee Benefits	142,486	142,486
Total	488,532	488,532
Operating Expenses		
Other Services	124,608	124,608
Supplies & Materials	10,821	10,821
Communications	14,476	14,476
Travel	1,577	1,577
Rent	38,944	38,944
Other Expenses	7,447	7,447
Goods Purchased For Resale	1,010	1,010
Total	198,883	198,883
Total Expenditures & Transfers-Out	$ 687,415	$ 687,415
EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	$ 687,415	$ 687,415
Total Expenditures & Transfers-Out	687,415	687,415
Less: Nonbudgeted Expenditures & Transfers-Out	(415)	(415)
Prior Year Expenditures & Transfers-Out Adjustments	1,693	1,693
Actual Budgeted Expenditures & Transfers-Out	686,137	686,137
Budget Authority	714,695	714,695
Unspent Budget Authority	$ 28,558	$ 28,558
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	$ 7,500	$ 7,500
Capital Projects Fund	21,058	21,058
Unspent Budget Authority	$ 28,558	$ 28,558

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.

Office of the Commissioner of Political Practices
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2018

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 (General and State 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 department 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.

Expenditures and expenses 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. 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

- **General Fund** – to account for all financial resources except those required to be accounted for in another fund. All appropriation authority of the office is in the General Fund.
- **State Special Revenue Fund** – to account for two thirds of the proceeds of lobbyist licensing revenue collected under provisions of MCA 5-7-103(4)(b).

2. General Fund Equity Balance

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The Commissioner of Political Practices has authority to pay obligations from the statewide General Fund within its appropriation limits. The

office expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2017 and June 30, 2018.

3. Revenue Estimate

The office records revenue estimates at the beginning of each fiscal year. The office has three revenue sources. The main source of revenue for the office is a $150 lobbyist license fee. The lobbyist license fee is split in two different revenue accounts, $100 of the fee is deposited into a state special revenue account established to pay for the Montana Legislative Broadcasting, and the other $50 of the fee is deposited into the general fund. The estimated revenues coming from lobbyist licenses were incorrect for both fiscal years.

Charges for Services (photocopies) only collected $157 in FY 17 and $55 in FY 18

Fines and Forfeits (civil penalties/fines), Due to pending litigation, we bumped the estimate for FY 18 to $25,100. Due to multiple cases being resolved, by a court ruling or settlement agreement. The amount collected in FY 18 was $235,171, this amount is usually not as high and is based on judgements and settlements.

It is difficult to predict how many civil penalties will be collected in a in a given year or what the dollar amount will be.

Licenses and Permits (lobbyist licenses) State Broadcasting fund receives $100 of the lobbying licensing fees. The estimates are based on an average of the number of licenses issued in the previous three session years, with approximately 450 registered lobbyists. Based on that number x the $100, we estimated that $45,00 would be collected in FY 17. The estimates are split between fiscal years. A portion of the funds that should have been allocated to FY 19 did not get transferred. This is getting corrected to reflect the correct revenue for each year.

General Fund receives $50 of the licensing fee. the estimate was 450 registered lobbyists x the $50, for and estimate of $22,500 to be collected in FY 17.

The bulk of lobbying revenue is collected in the session year. FY 17 includes the busiest period for those collections (Dec 2016 – March 2017).

4. Direct Entries to Fund Equity

Direct entries to fund equity in the General and Special Revenue fund(s) include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

5. Changes in Financial Schedules

Unspent Budget Authority: was $28,558, for FY 17 and $67,038 for FY 18. In FY 18 we anticipated 2 cases going to trial, however we ended up settling them. We also reclassified our Investigator position, taking it to a different pay band. This was to keep Personal Service expenses down.

Accruals: The office accrued $37,000 from FY 18. $30,000 of that is for Legal services work being done on pending litigation. The remaining $7,000 used for, a Lobbying/Principal document system. This system is being built and maintained by SITSD department. The system makes all submitted, Lobbying/Principal documents available, on our website.

6. Contingencies

There are four pending cases in which the agency is the defendant and in which there is a "reasonable possibility", as defined in GASB Statement 62, of monetary judgments against the agency.

- National Association for Gun Rights v. COPP and AG – (9th Cir. Cause No.18-35010) The case is a challenge to the 2015 Disclose Act, brought under 42 U.S.C. § 1983 for violations of the First Amendment. Case is fully briefed, set for oral argument on March 5, 2019 in Portland. In previous years the Attorney General's office has been responsible for payment of attorney fees and costs in ligation challenging the constitutionality of Montana's statutes. At this time the agency cannot specify an anticipated amount.
- Tschida v. Mangan – (9th Cir Cause No. 18-35115) This case is a First Amendment challenge to the constitutionality of the confidentiality of public official and employee complaints in the Ethics process. The case is fully briefed, oral argument was held on December 7, 2018, awaiting court determination. In previous years the Attorney Generals' office has been responsible for payment of attorney fees and costs in ligation challenging the constitutionality of Montana's statutes, the Commissioner and County Attorney's may also be responsible. At this time the agency cannot specify an anticipated amount.
- Sheehy v. COPP – (13th Judicial District, Cause No DV 18-0844) This case is a mixed judicial review and declaratory judgment action in which the District Court entered an order finding for the Plaintiff on Feb 12, 2019. The Petitioner may move for attorney fees and costs, but at this time the agency cannot specify an anticipated amount.

- Lawrence, et al. v. COPP – (19th Judicial District, Cause No. DV 16-16) This case is a mixed judicial review and declaratory judgment action on a City's use of public resources to intervene against a candidate's election. This case is in the pretrial motions phase, with a pending Motion to Dismiss for lack of subject matter jurisdiction. The Petitioners have plead that they are entitled to attorney fees and costs, but at this time the agency cannot specify an anticipated amount.

Report on Internal Control and Compliance

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

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, and Schedules of Total Expenditures of the Office of the Commissioner of Political Practices for each of the fiscal years ended June 30, 2018, and 2017, and the related notes to the financial schedules, and have issued our report thereon dated March 15, 2019. Our report includes adverse opinions on the Schedules of Changes in Fund Equity and Schedules of Total Revenues for the fiscal years ended June 30, 2018, and 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the Office of the Commissioner of Political Practices' internal control over financial reporting to determine the 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.

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 the attention by those charged with governance.

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. As described below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

As described in Recommendations #1 through #5, beginning on page 3, we identified the following material weaknesses in internal controls:

- No controls are in place over the recording of the multi-year permits revenue. As a result, revenue is materially misstated in fiscal years 2017 and 2018.
- The office does not have controls in place over credit card transactions recorded by an outside vendor to ensure all vendor recorded transactions are supported, accurate, and complete.
- Policies and procedures related to deposits do not comply with state law. If deposits are not made timely it increases the risk that a deposit may not be made, and cash and currency could be lost or stolen before a deposit is made.
- The office does not have controls in place to ensure expenditure accruals are supported, reviewed, and approved by a second staff member. As a result, accruals are misstated in fiscal year 2018.
- Controls over the preparation of the notes to the financial schedules are not adequate to ensure that the notes are complete, accurate, and understandable. In the initial draft of notes prepared by the office material disclosures were missing, and the omissions would not have been identified by the office.

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

Office of the Commissioner of Political Practices' Response to Findings

The office's response to the findings identified in our audit are 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/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

March 15, 2019

Office Response

COMMISSIONER OF POLITICAL PRACTICES

STATE OF MONTANA

JEFFREY A. MANGAN
COMMISSIONER
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LEGISLATIVE AUDIT DIV.

April 22, 2019

Angus Maciver, Legislative Auditor and Division Director

Montana Legislative Audit Division

Montana State Capitol

PO Box 201705

Helena, MT 59620-1705

Dear Mr. Maciver,

We are in receipt of the most recent audit conducted by the staff of the Legislative Audit Division. I appreciate the professionalism and courtesy displayed by your staff, it was a pleasure working with them through the process.

Recommendation #1

We recommend the Office develop processes to facilitate the recording of multi-year Licenses and Permits revenue in accordance with state accounting policy, and record that revenue in accordance with state accounting policy

We concur with the findings and recommendations of the audit as presented. Upon learning of the error, the COPP has updated the process for proper recording of the licensing revenue.

Recommendation #2

We recommend the Office comply with state accounting policy by ensuring revenue collected by third parties is supported, complete, and accurate

We concur with the findings and recommendations of the audit as presented. The COPP will contact the vendor and ensure all requirements are in place.

Recommendation #3

We recommend the Office revise current deposit policies and procedures to comply with state law.

We concur with the findings and recommendations of the audit as presented. The COPP has taken steps to ensure all deposits are made in a timely fashion.

Recommendation #4

We recommend that the Office comply with state accounting policy by ensuring expenditure accruals are supported, and that segregation of duties exists when these transactions are recorded.

We concur with the findings and recommendations of the audit as presented. The COPP will continue to work with the Department of Administration and the Budget Office to ensure the agency corrects identified deficiencies and meet all statutory and financial obligations in the future.

Recommendation #5

We recommend that the Office develop policies and procedures over preparation of the notes to the financial schedules to ensure the notes are complete, accurate, and understandable.

We concur with the findings and recommendations of the audit as presented.

Recommendation # 6

We recommend the Office:

A. *Develop comprehensive internal controls to ensure transactions are recorded in accordance with state accounting policy and comply with applicable laws and regulations*
B. *Seek assistance, as necessary, from the Department of Administration State Financial Services Division on accounting matters*

We concur with the findings and recommendations of the audit as presented. The COPP will continue to work with the Department of Administration and the Budget Office to ensure the agency corrects identified deficiencies and meet all statutory and financial obligations in the future.

Respectfully,

Jeff Mangan

Commissioner