

Legislative Audit Division

State of Montana



Report to the Legislature

March 2003

Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 2002

Office of the Secretary of State

The report contains three recommendations related to:

- › Recognition of fee revenue.
- › Compliance with state law.

Direct comments/inquiries to:
Legislative Audit Division
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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 General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. 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, 2003, will be issued by March 31, 2004. The Single Audit Report for the two fiscal years ended June 30, 2001, was issued on March 26, 2002. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 160, State Capitol
PO Box 201705
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Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

March 2003

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Office of the Secretary of State for the two fiscal years ended June 30, 2002. Included in this report are recommendations concerning compliance with state deposit laws, duplicate recognition of revenue, and unrecognized revenue. The office's written response to the audit recommendations is included in the back of the audit report.

We thank the Secretary of State and his staff for their assistance and cooperation.

Respectfully submitted,

(Signature on File)

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2002

Office of the Secretary of State

Members of the audit staff involved in this audit were Emlyn Neuman-Javornik, Laura L. Norris, Sonia Powell, and Jeff Tamblyn.

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Elected and Administrative Officials

**Office of the Secretary of
State**

Bob Brown	Secretary of State
Jason Thielman	Chief Deputy
Janice Doggett	Chief Legal Counsel
Pat Haffey	Deputy for Business Services
Kathy Lubke	Deputy for Administrative Rules
Elaine Gravely	Deputy for Elections
Lynn Keller	State Records Manager

For additional information concerning the Office of the Secretary of State, contact Bob Brown, Secretary of State, at:

PO Box 202801
Helena MT 59620-2801
(406) 444-2034

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Office of the Secretary of State

This financial-compliance audit report documents the results of our audit of the Office of the Secretary of State (office) for the two fiscal years ended June 30, 2002. We issued a qualified opinion on the financial schedules of the office for fiscal years 2000-2001 and 2001-2002. This means the reader should use caution when relying on the information presented on the schedules. This report contains three recommendations for improving office internal controls and compliance with state laws and regulations

The prior audit report contained five recommendations addressed to the office. The office partially implemented two and implemented three of the recommendations. The recommendations partially implemented are discussed in recommendations #1 and #3 of this report.

The listing below serves as a means of summarizing the recommendations contained in the report, the office's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend that the office:

- A. Document the actual date of receipt for all monies received.
- B. Deposit all fees in compliance with section 17-6-105(6), MCAPage 3

Office Response: Concur. See page B-4.

Recommendation #2

We recommend that the office record all activity on the state's accounting records in accordance with section 17-1-102, MCA.Page 4

Office Response: Concur. See page B-4.

Report Summary

Recommendation #3

We recommend the office:

- A. Return incomplete filings in compliance with section 35-2-1109(3), MCA
- B. Provide a complete list of corporations in accordance with section 15-31-603, MCA.Page 5

Office Response: Concur. See page B-4.

Introduction

Introduction

We performed a financial-compliance audit of the Office of the Secretary of State (office) for the two fiscal years ended June 30, 2002. The audit objectives were to:

1. Determine office compliance with applicable laws and regulations.
2. Make recommendations for improvements in the management and internal controls of the office.
3. Determine the implementation status of prior audit recommendations.
4. Determine if the financial schedules present fairly the results of operations of the office for the two fiscal years ended June 30, 2002.

This report contains three recommendations to the office. Areas of concern not having a significant effect on the successful operations of the office are not included in this report but have been discussed with management.

Background

The office was established by Article VI, Section 1, of the Montana Constitution. Title 2, chapter 15, part 4, of the Montana Code Annotated (MCA) sets forth the Secretary of State's duties. The office has 45.5 FTE in six bureaus. The office files, stores, maintains, and preserves permanent records of the state and certain public interest records of private citizens. The office publishes the Montana Administrative Register (MAR) and the Administrative Rules of Montana (ARM).

The Secretary of State serves as chief election officer for the state, maintaining uniformity in the application of the election laws and retaining election records through the Elections Bureau. In addition, the Secretary of State serves as a member of the Board of Land Commissioners and the Board of Examiners.

Prior Audit Recommendations

We performed the prior audit of the office for the two fiscal years ended June 30, 2000. The report contained five recommendations.

Introduction

The office partially implemented two and fully implemented three of the recommendations. The recommendations partially implemented relate to untimely deposits and untimely delivery of incomplete filings (discussed on pages 3 and 4).

Findings and Recommendations

Untimely Deposits

During the prior audit, we noted that the office was not depositing filing fees in accordance with state law. Section 17-6-105 (6), MCA, requires agencies to deposit funds when the accumulated amount of coin and currency exceeds \$100 or total collections exceed \$500. All money must be deposited at least weekly.

For the 12 deposits we reviewed, we noted 5 that were either not deposited in accordance with state law or we were unable to determine compliance. Of the 5 deposits not in compliance, 2 deposits related to notary filings and 3 related to records management activity. Office personnel stated staff do not process notary fees on a daily basis and the 3 deposits related to records management did not contain documentation of the actual receipt date. Therefore, we were not able to determine if the office deposited these checks in compliance with state law.

Recommendation #1

We recommend that the office:

- A. Document the actual date of receipt for all monies received.**
- B. Deposit all fees in compliance with section 17-6-105(6), MCA.**

Accounting Issues

Section 17-1-102, MCA, requires each agency to record the transactions necessary to ensure the state's accounting records present the receipt, use, and disposition of all property for which it is accountable in accordance with generally accepted accounting principles (GAAP) by fiscal year end.

Prepaid Accounts

The office has customers who routinely file documents with the office. As a service to these customers the office allows them to utilize prepaid accounts. Upon receipt of these funds, the office records this activity on the state's accounting records as Property Held in Trust (PHIT). Monthly, an entry is made to recognize the revenue related to this activity.

Findings and Recommendations

During fiscal year 2000-2001, the office erroneously recorded the May revenue related to the prepaid accounts twice on the state's accounting records. When we brought this issue to the attention of office personnel, we were told reconciliations between the state's accounting system and the subsidiary prepaid account system were not performed. Had a reconciliation been done, this error could have been detected and corrected prior to fiscal year-end.

Unrecognized Revenue

Daily, cash and checks come into the office for Uniform Commercial Code and business filings. Office personnel enter the information onto a tracking system and record the money as PHIT. As of July 11, 2001, the office initiated a no-refund policy. This new policy provides that when the office receives fees, the fees are revenue.

According to GAAP, proprietary fund type revenue is to be recognized when it is earned and measurable. As soon as the department receives the funds they are earned and measurable and therefore should be recorded as revenue. By recording transactions as PHIT rather than revenue, the office understated revenue by \$17,590 in fiscal year 2001-2002.

Recommendation #2

We recommend that the office record all activity on the state's accounting records in accordance with section 17-1-102, MCA.

Untimely Delivery of Incomplete Filings and Corporate Reports

Section 35-2-1109 (3), MCA, requires the office to return incomplete filings within ten days after the document was delivered to the office. The prior audit noted that the office was not in compliance with this statute. During this audit we looked at ten filings that were returned. Of the ten filings we reviewed, six exceeded the 10-day limit.

Section 15-31-603, MCA, requires the office, on or before December 31st of each calendar year, to provide to the Department of Revenue (DOR) a list of all corporations, foreign and domestic, subject to the terms of Title 35, chapter 1, MCA.

Findings and Recommendations

On a monthly basis, the office forwards to DOR a list of all new foreign and domestic corporations. The office does not forward a complete list of all of the corporations to DOR. Office personnel stated they did not think it was necessary to forward a list of all active corporations to DOR because they believed DOR would be aware of all new corporations from the monthly lists.

Recommendation #3

We recommend the office:

- A. Return incomplete filings in compliance with section 35-2-1109(3), MCA.**
- B. Provide a complete list of corporations in accordance with section 15-31-603, MCA.**

Independent Auditor's Report & Office Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Office of the Secretary of State for each of the fiscal years ended June 30, 2002, and 2001. The information contained in these financial schedules is the responsibility of the office's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the office's assets, liabilities and cash flows.

The office made errors in recording the intangible assets and related amortization entries for fiscal year 2001 affecting the Schedule of Total Expenditures & Transfers-Out and the Schedule of Changes in Fund Balances for that year. This issue resulted in an overstatement of \$186,925 in the "Other Services" category, and an overstatement of \$100,494 in the "Other Expenses" category on the Schedule of Total Expenditures & Transfers-Out. The Schedule of Changes in Fund Balances effects include an overstatement of "Direct Entries to Fund Balance" of \$133,450, an overstatement of "Budgeted Expenditures & Transfers-Out" of \$186,925, an overstatement of "Nonbudgeted Expenditures & Transfers-Out" of \$100,494, and an overstatement of "Prior Year Expenditures & Transfers-Out Adjustments" of \$86,544. In fiscal year 2002 the errors resulted in an overstatement of \$87,732 in "Direct Entries to Fund Balance" and an overstatement of \$120,556 in "Prior Year Expenditures & Transfers-Out Adjustments" on the Schedule of Changes in Fund Balances.

The fiscal year 2001 "Charges for Services" class on the Schedule of Total Revenues & Transfers-In and the "Budgeted Revenues & Transfers-In" on the Schedule of Changes in Fund Balances reflect an overstatement of \$63,981 for budgeted revenue that was recognized twice during the fiscal year in the enterprise fund.

In our opinion, except for the issues discussed in the preceding two paragraphs, the Schedules of Changes in Fund Balances, the Schedules of Total Revenues & Transfers-In and the Schedules of Total Expenditures & Transfers-Out referred to above present fairly, in all material respects, the results of operations of the Office of the Secretary of State for each of the fiscal years ended June 30, 2002, and 2001, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

December 2, 2002

SECRETARY OF STATE'S OFFICE
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
FUND BALANCE: July 1, 2001	\$ <u>1,740,519</u>	\$ <u>(51,547)</u>
ADDITIONS		
Budgeted Revenues & Transfers-In	2,958,359	373,333
NonBudgeted Revenues & Transfers-In	769	92
Prior Year Revenues & Transfers-In Adjustments	(63,291)	(700)
Direct Entries to Fund Balance	<u>(157,999)</u>	
Total Additions	<u>2,737,838</u>	<u>372,725</u>
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	2,438,707	412,358
NonBudgeted Expenditures & Transfers-Out	108,890	2,044
Prior Year Expenditures & Transfers-Out Adjustments	<u>(153,197)</u>	<u>1,537</u>
Total Reductions	<u>2,394,400</u>	<u>415,939</u>
FUND BALANCE: June 30, 2002	\$ <u><u>2,083,957</u></u>	\$ <u><u>(94,761)</u></u>

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.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Enterprise Fund	Internal Service Fund
FUND BALANCE: July 1, 2000	\$ <u>930,368</u>	\$ <u>(42,780)</u>
ADDITIONS		
Budgeted Revenues & Transfers-In	2,296,728	514,517
NonBudgeted Revenues & Transfers-In	394	76
Direct Entries to Fund Balance	<u>1,107,789</u>	<u>(10)</u>
Total Additions	<u>3,404,911</u>	<u>514,583</u>
REDUCTIONS		
Budgeted Expenditure & Transfers-Out	2,252,292	526,877
NonBudgeted Expenditure & Transfers-Out	208,393	(8,139)
Prior Year Expenditure & Transfers-Out Adjustments	<u>134,075</u>	<u>4,612</u>
Total Reductions	<u>2,594,760</u>	<u>523,350</u>
FUND BALANCE: June 30, 2001	\$ <u><u>1,740,519</u></u>	\$ <u><u>(51,547)</u></u>

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.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Taxes	\$ 155		\$ 155
Charges for Services	2,700,651	\$ 340,307	3,040,958
Investment Earnings	27,332		27,332
Sale of Documents, Merchandise and Property	131,851		131,851
Miscellaneous	35,848	32,418	68,266
Total Revenues & Transfers-In	<u>2,895,837</u>	<u>372,725</u>	<u>3,268,562</u>
Less: Nonbudgeted Revenues & Transfers-In	769	92	861
Prior Year Revenues & Transfers-In Adjustments	<u>(63,291)</u>	<u>(700)</u>	<u>(63,991)</u>
Actual Budgeted Revenues & Transfers-In	2,958,359	373,333	3,331,692
Estimated Revenues & Transfers-In	2,766,500	420,000	3,186,500
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 191,859</u>	<u>\$ (46,667)</u>	<u>\$ 145,192</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Charges for Services	\$ 182,584	\$ (36,493)	146,091
Investment Earnings	(32,719)		(32,719)
Sale of Documents, Merchandise and Property	10,710		10,710
Miscellaneous	31,284	(10,174)	21,110
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 191,859</u>	<u>\$ (46,667)</u>	<u>\$ 145,192</u>

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.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Enterprise Fund	Internal Service Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Taxes	\$ 38	\$	\$ 38
Charges for Services	2,143,072	434,836	2,577,908
Investment Earnings	51,136		51,136
Sale of Documents, Merchandise and Property	97,331	42,670	140,001
Miscellaneous	5,545	37,087	42,632
Total Revenues & Transfers-In	2,297,122	514,593	2,811,715
Less: Nonbudgeted Revenues & Transfers-In	394	76	470
Actual Budgeted Revenues & Transfers-In	2,296,728	514,517	2,811,245
Estimated Revenues & Transfers-In	2,015,283	437,375	2,452,658
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 281,445	\$ 77,142	\$ 358,587
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Charges for Services	\$ 240,630	\$ 81,961	322,591
Investment Earnings	31,125		31,125
Sale of Documents, Merchandise and Property	7,306	670	7,976
Miscellaneous	2,384	(5,489)	(3,105)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 281,445	\$ 77,142	\$ 358,587

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.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT	<u>BUSINESS & GOVERNMENT SERVICES</u>
Personal Services	
Salaries	\$ 1,369,991
Other Compensation	7,861
Employee Benefits	396,231
Personal Services-Other	28,056
Total	<u>1,802,139</u>
Operating Expenses	
Other Services	553,672
Supplies & Materials	106,198
Communications	162,323
Travel	36,294
Rent	125,644
Utilities	314
Repair & Maintenance	18,005
Other Expenses	(5,822)
Goods Purchased For Resale	11,572
Total	<u>1,008,200</u>
 Total Expenditures & Transfers-Out	 \$ <u><u>2,810,339</u></u>
 EXPENDITURES & TRANSFERS-OUT BY FUND	
Enterprise Fund	\$ 2,394,400
Internal Service Fund	415,939
Total Expenditures & Transfers-Out	<u>2,810,339</u>
Less: Nonbudgeted Expenditures & Transfers-Out	110,934
Prior Year Expenditures & Transfers-Out Adjustments	<u>(151,660)</u>
Actual Budgeted Expenditures & Transfers-Out	2,851,065
Budget Authority	3,067,588
Unspent Budget Authority	<u>\$ <u>216,523</u></u>
 UNSPENT BUDGET AUTHORITY BY FUND	
Enterprise Fund	\$ 208,881
Internal Service Fund	7,642
Unspent Budget Authority	<u>\$ <u>216,523</u></u>

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.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	<u>PROGRAM (SUBCLASS) NOT SPECIFIED</u>	<u>BUSINESS & GOVERNMENT SERVICES</u>	<u>Total</u>
PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT			
Personal Services			
Salaries		\$ 1,198,719	\$ 1,198,719
Other Compensation		7,539	7,539
Employee Benefits		336,111	336,111
Personal Services-Other		9,743	9,743
Total	<u>\$ 0</u>	<u>1,552,112</u>	<u>1,552,112</u>
Operating Expenses			
Other Services		772,095	772,095
Supplies & Materials		124,545	124,545
Communications		132,890	132,890
Travel		22,822	22,822
Rent		120,291	120,291
Utilities		805	805
Repair & Maintenance		23,027	23,027
Other Expenses	16,184	343,562	359,746
Goods Purchased For Resale		9,776	9,776
Total	<u>16,184</u>	<u>1,549,813</u>	<u>1,565,997</u>
Total Program Expenditures & Transfers-Out	<u>\$ 16,184</u>	<u>\$ 3,101,925</u>	<u>\$ 3,118,109</u>
PROGRAM EXPENDITURES & TRANSFERS-OUT BY FUND			
Enterprise Fund	\$ 9,259	\$ 2,585,501	\$ 2,594,760
Internal Service Fund	<u>6,925</u>	<u>516,424</u>	<u>523,349</u>
Total Program Expenditures & Transfers-Out	16,184	3,101,925	3,118,109
Less: Nonbudgeted Expenditures & Transfers-Out	11,573	188,681	200,254
Prior Year Expenditures & Transfers-Out Adjustments	<u>4,611</u>	<u>134,075</u>	<u>138,686</u>
Actual Budgeted Expenditures & Transfers-Out	0	2,779,169	2,779,169
Budget Authority		2,894,611	2,894,611
Unspent Budget Authority	<u>\$ 0</u>	<u>\$ 115,442</u>	<u>\$ 115,442</u>
UNSPENT BUDGET AUTHORITY BY FUND			
Enterprise Fund		\$ 63,612	\$ 63,612
Internal Service Fund	\$	<u>51,830</u>	<u>51,830</u>
Unspent Budget Authority	<u>\$ 0</u>	<u>\$ 115,442</u>	<u>\$ 115,442</u>

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 Secretary of State

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2002

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The Office of the Secretary of State (office) uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) fund categories. Under the accrual basis, as defined by state accounting policy, the office records revenues in the accounting period earned when measurable, and records expenses in the period incurred when measurable.

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 is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The 2001 Legislature modified the fund structure established in section 17-2-102, MCA, to implement the changes made to generally accepted accounting principles (GAAP) by Governmental Accounting Standards Board (GASB) Statement 34. These changes were effective July 1, 2001. Office accounts are organized in funds according to state law applicable at the time transactions were recorded. The office uses the following funds:

Proprietary Fund Category

Internal Service Fund - to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. Office Internal Service Funds include the records management program.

Notes to the Financial Schedules

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Office Enterprise Funds include business services, administrative rules activities, and elections filings.

2. Direct Entries to Fund Balance

The direct entries to fund balance in the Enterprise fund are the result of corrections in the amortization of software systems.

3. Administrative Rules

The Administrative Rules program activity was moved from the Internal Service Fund to the Enterprise Fund at the beginning of fiscal year 2001-02. This change is reflected in an approximate \$99,855 difference in revenue between fiscal years in the Internal Service and Enterprise funds.

Office Response

MONTANA SECRETARY OF STATE

Bob Brown



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Scott Seacat, Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
Helena, MT 59620-1705

Dear Mr. Seacat,

The Secretary of State's Office has received and reviewed the Financial-Compliance Audit for the two fiscal years ending June 30, 2002. We are grateful for the time and dedication your staff committed to conducting the audit. We are also grateful for the information and insight you provided us as we continue to work toward a more efficient operation.

We have attached a summary of our response and we understand it will be incorporated into your final report. We appreciate this opportunity for input.

Thank you, again, for the excellent professional work!

Sincerely,

A handwritten signature in cursive script that reads "Bob Brown".

Bob Brown
Secretary of State

Attachment

**Office of the Secretary of State
Response to the Legislative Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 2002**

Recommendation #1

- A. Document the actual date of receipt for all monies received.
- B. Deposit all fees in compliance with section 17-6-105(6), MCA.

Secretary of State's Office Response to #1.

- A. We concur. To resolve this issue, the Records Management Bureau has adjusted its process to write the date the check was received on the report.
- B. We concur. To resolve this issue in the short term, the Notary staff is writing the original date of receipt on the front of the check when it is received. To resolve this issue in the long term, the Notary staff will deposit the checks upon receipt in the Office Wide Accounting System, which is currently being developed.

Recommendation #2

We recommend that the office record all activity on the state's accounting records in accordance with section 17-1-102, MCA.

Secretary of State's Office Response to #2.

We concur. The Secretary of State's Office is pleased to report that we have hired a Fiscal Operations Manager in order to ensure appropriate budget and accounting practices are followed. In addition, the Office is in the process of changing deposits from the Property Held in Trust fund to a Deferred Revenue fund. We expect to complete this change by June 30, 2003.

Recommendation #3

We recommend the office:

- A. Return incomplete filings in compliance with section 35-2-1109(3), MCA.
- B. Provide a complete list of corporations in accordance with section 15-31-603, MCA.

Secretary of State's Office Response to #3.

- A. We concur. The Secretary of State's Office is pleased to report that we have improved processing time for filing corporation documents from more than 15 days to approximately 2 to 4 days. This improvement results from a process reengineering program, and in a full staff training program, both initiated in September, 2001.
- B. We concur. At the request of the Department of Revenue, the Secretary of State's Office currently provides a complete list of new businesses each month. Our automated system provides the Department of Revenue with on-line access to the corporate listings. Current practices provide more utility to the Department of Revenue than the statute requires.