

# **MONTANA MEDICAL LEGAL PANEL**

## **AUDITED FINANCIAL STATEMENTS**

**December 31, 2010 and 2009**

# LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor



Deputy Legislative Auditors:  
Cindy Jorgenson  
Angie Grove

June 2011

The Legislative Audit Committee  
of the Montana State Legislature:

Enclosed is the report on the audit of the Montana Medical-Legal Panel, Montana Supreme Court, for the year ended December 31, 2010.

The audit was conducted by Junkermier, Clark, Campanella, Stevens, P.C., under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in the back of the audit report.

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA  
Legislative Auditor

11C-05

## **MONTANA MEDICAL LEGAL PANEL**

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**MONTANA MEDICAL LEGAL PANEL  
ADMINISTRATIVE OFFICIALS**

Linda Edquest  
Kathleen Stepp

Interim Executive Director  
Associate Director

## INDEPENDENT AUDITORS' REPORT

To the Director  
Montana Medical Legal Panel  
Helena, Montana

We have audited the accompanying statements of assets, liabilities, and surplus - cash basis of Montana Medical Legal Panel, as of December 31, 2010 and 2009, and the related statements of revenues, expenses, and changes in surplus - cash basis for the years then ended. These financial statements are the responsibility of Montana Medical Legal Panel's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As described in Note 1, Montana Medical Legal Panel prepares its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and surplus of the Montana Medical Legal Panel, as of December 31, 2010 and 2009, and its revenue, expenses and changes in surplus for the years then ended, in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 31, 2011, on our consideration of Montana Medical Legal Panel's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Montana Medical Legal Panel taken as a whole. The schedules of revenue collected and expenses paid - budget vs actual for the years ended December 31, 2010 and 2009 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Junkermier, Clark, Campanella, Stevens, P.C.***

Helena, Montana  
May 31, 2011

**MONTANA MEDICAL LEGAL PANEL**  
**STATEMENT OF ASSETS, LIABILITIES, AND SURPLUS - CASH BASIS**  
**December 31, 2010 and 2009**

		<b>December 31</b>	
		<b>2010</b>	<b>2009</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash in bank		\$ 308,166	\$ 353,153
Total assets		<u>\$ 308,166</u>	<u>\$ 353,153</u>
<b>LIABILITIES AND SURPLUS</b>			
<b>SURPLUS</b>			
Surplus		\$ 308,166	\$ 353,153
Total liabilities and surplus		<u>\$ 308,166</u>	<u>\$ 353,153</u>

See the notes to financial statements.

**MONTANA MEDICAL LEGAL PANEL**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN SURPLUS - CASH BASIS**  
**December 31, 2010 and 2009**

	<b>Years ended December 31</b>	
	<b>2010</b>	<b>2009</b>
<b>REVENUES</b>		
Assessment fees	\$ 891,373	\$ 721,246
Interest income	1,317	2,773
Miscellaneous income	6,450	5,832
<b>Total revenues</b>	<b>899,140</b>	<b>729,851</b>
<b>EXPENSES</b>		
Administrative	364,968	318,852
Computer software	56,525	51,013
Panelist travel	68,653	74,455
Panelist hearing time	75,437	76,619
Records reproduction	69,341	48,353
Panelist preparation and travel time	161,367	41,410
Panel legal counsel	42,000	42,100
Medical records and x-rays	28,901	36,900
Postage	13,737	23,373
Temporary personnel	19,085	12,478
Panel consultant	17,941	8,276
Meeting rooms	9,830	11,611
Office supplies	5,504	6,245
Telephone	3,815	3,622
Miscellaneous	1,523	2,132
Liability insurance	500	2,968
Professional services	5,000	10,000
<b>Total expenses</b>	<b>944,127</b>	<b>770,407</b>
<b>CHANGE IN SURPLUS</b>	<b>(44,987)</b>	<b>(40,556)</b>
Surplus, beginning of year	353,153	393,709
<b>SURPLUS, END OF YEAR</b>	<b>\$ 308,166</b>	<b>\$ 353,153</b>

See the notes to financial statements.



**MONTANA MEDICAL LEGAL PANEL  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2010 and 2009**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Nature of Activities***

Montana Medical Legal Panel ("the Panel") was established by the "Montana Medical Legal Panel Act" as authorized by Section 27-6-101 and 104 MCA. The panel is attached to the Montana Supreme Court for administrative purposes only, except that 2-15-121(2) M.C.A. does not apply.

The Montana Medical Legal Panel was created to review all malpractice claims or potential claims against health care providers. The purpose of the Montana Medical Legal Panel is to prevent, whenever possible, the filing of court actions against health care providers and their employees for professional liability situations in which the facts do not permit at least a reasonable inference of malpractice, and to make possible the fair and equitable disposition of such claims against health care providers as are or reasonably may be well founded.

***Reporting Entity***

In accordance with governmental accounting and financial reporting standards there are no component units to be included with the Montana Medical Legal Panel.

***Basis of Accounting***

The accompanying financial statements have been prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Accordingly, revenue is recorded when received rather than when earned and expenses are recognized when paid rather than when the obligation is incurred.

***Assessment Fees***

The Montana Medical Legal Panel is funded by an annual assessment fee levied against licensed physicians, dentists, podiatrists, hospitals, and other health care facilities in an amount sufficient to meet all panel costs. Annual assessments are apportioned among each group of health care providers according to the number of claims brought against each type of provider.

***Cash and Cash Equivalents:***

The Montana Medical Legal Panel considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents. Due to their highly liquid nature, carrying value approximates fair value.

**2. LINE OF CREDIT**

The Panel has available a \$75,000 unsecured line of credit with Valley Bank. Amounts borrowed under this agreement bear interest at 7%, due monthly. The line of credit matures May 24, 2013.

**MONTANA MEDICAL LEGAL PANEL  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2010 and 2009**

**3. CASH DEPOSITS**

Cash in the bank consists of the following deposit accounts as of December 31:

	<u>2010</u>	<u>2009</u>
Valley Bank - checking	\$ 71,425	\$ 27,402
US Bank - money market	10,916	91,745
American Federal Savings Bank - money market	2,120	9,549
First Community Bank - money market	15,515	100,089
First Interstate Bank - money market	7,009	9,253
First Security Bank - money market	96,509	9,542
Mountain West Bank - money market	8,171	9,110
Flint Creek Valley Bank - savings	<u>96,501</u>	<u>96,463</u>
	<u>\$ 308,166</u>	<u>\$ 353,153</u>

Individual accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 and balances throughout the year did not exceed this amount.

**4. RELATED PARTIES**

Linda Edquest is the interim executive director of both the Montana Medical Association and the Montana Medical Legal Panel. Brian Zins, the former executive director retired in October 2010. The Montana Medical Association bills the Montana Medical Legal Panel for services and facilities provided to that organization. This administrative fee is subject to the approval of the Chief Justice of the Montana Supreme Court. The Montana Medical Association was paid administrative fees of \$364,968 and \$318,852 for the years ended December 31, 2010 and 2009, respectively. Actual cost for administrative fees for the year ended December 31, 2010 were \$341,905. The difference of \$23,053 was reimbursed to Montana Medical Association for part of the 2009 administrative fees.

**5. RISK MANAGEMENT**

The Panel is exposed to risk of loss primarily through the possible errors and omissions pertaining to claims filed with the Panel. This risk is transferred through the purchase of a professional liability policy from a private insurance carrier.

**6. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through May 31, 2011, the date on which the financial statements were available to be issued.

**MONTANA MEDICAL LEGAL PANEL  
SCHEDULE OF REVENUES COLLECTED AND EXPENSES PAID - BUDGET VS. ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>TOTAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
<b>REVENUE</b>			
Assessment fees	\$ 891,373	\$ 889,381	\$ 1,992
Interest income	1,317	5,123	(3,806)
Miscellaneous income	<u>6,450</u>	<u>4,113</u>	<u>2,337</u>
	<u>899,140</u>	<u>898,617</u>	<u>523</u>
<b>EXPENSE</b>			
Administrative	364,968	364,962	(6)
Computer software	56,525	50,000	(6,525)
Panelist travel	68,653	90,000	21,347
Panelist hearing time	75,437	85,000	9,563
Records reproduction	69,341	58,000	(11,341)
Panelist prep and travel time	161,367	200,000	38,633
Panel legal counsel	42,000	42,500	500
Medical records and x-rays	28,901	38,000	9,099
Postage	13,737	25,000	11,263
Temporary personnel	19,085	12,500	(6,585)
Panel consultant	17,941	15,000	(2,941)
Meeting rooms	9,830	15,000	5,170
Office supplies	5,504	8,000	2,496
Telephone	3,815	5,000	1,185
Miscellaneous	1,523	7,000	5,477
Liability insurance	500	3,000	2,500
Professional services	5,000	6,000	1,000
Legal defense	<u>-</u>	<u>10,000</u>	<u>10,000</u>
	<u>944,127</u>	<u>1,034,962</u>	<u>90,835</u>
Net Income (Loss)	<u>\$ (44,987)</u>	<u>\$ (136,345)</u>	<u>\$ 91,358</u>

See the accompanying independent auditors' report.

**MONTANA MEDICAL LEGAL PANEL  
SCHEDULE OF REVENUES COLLECTED AND EXPENSES PAID - BUDGET VS. ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>TOTAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
<b>REVENUE</b>			
Assessment fees	\$ 721,246	\$ 710,808	\$ 10,438
Interest income	2,773	6,403	(3,630)
Miscellaneous income	<u>5,832</u>	<u>2,921</u>	<u>2,911</u>
	<u>729,851</u>	<u>720,132</u>	<u>9,719</u>
<b>EXPENSE</b>			
Administrative	318,852	350,000	31,148
Computer software	51,013	50,000	(1,013)
Panelist travel	74,455	90,000	15,545
Panelist hearing time	76,619	85,000	8,381
Records reproduction	48,353	58,000	9,647
Panelist prep and travel time	41,410	50,000	8,590
Panel legal counsel	42,100	42,000	(100)
Medical records and x-rays	36,900	26,000	(10,900)
Postage	23,373	30,000	6,627
Temporary personnel	12,478	10,000	(2,478)
Panel consultant	8,276	25,000	16,724
Meeting rooms	11,611	13,000	1,389
Office supplies	6,245	8,000	1,755
Telephone	3,622	5,000	1,378
Miscellaneous	2,132	5,000	2,868
Liability insurance	2,968	1,000	(1,968)
Professional services	10,000	6,000	(4,000)
Legal defense	<u>-</u>	<u>10,000</u>	<u>10,000</u>
	<u>770,407</u>	<u>864,000</u>	<u>93,593</u>
<b>Net Income (Loss)</b>	<u><u>\$ (40,556)</u></u>	<u><u>\$ (143,868)</u></u>	<u><u>\$ 103,312</u></u>

See the accompanying independent auditors' report.

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

To the Director  
Montana Medical Legal Panel  
Helena, Montana

We have audited the financial statements of Montana Medical Legal Panel as of and for the year ended December 31, 2010, and have issued our report thereon dated May 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Montana Medical Legal Panel's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Montana Medical Legal Panel's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Montana Medical Legal Panel's financial statements are free of 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 of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Montana Medical Legal Panel in a separate letter dated May 31, 2011.

This report is intended solely for the information and use of the Legislative Audit Committee and the Director and is not intended to be and should not be used by anyone other than these specified parties.

***Junkermier, Clark, Campanella, Stevens, P.C.***

Helena, Montana  
May 31, 2011

# **MONTANA MEDICAL LEGAL PANEL**

**2021 Eleventh Avenue, Suite 1, Helena, Montana 59601-4890**

**Telephone (406) 443-1110 • FAX (406) 443-4042**

May 31, 2011  
Tuesday

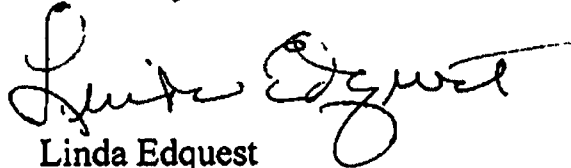
Junkermier, Clark, Campanella, Stevens, PC  
Certified Public Accounts  
P. O. Box 1164  
Helena, Montana 59624-1164

## **Re: Montana Medical Legal Panel**

Dear Junkermier, Clark, Campanella, Stevens, PC

We have reviewed the draft audit report for the Montana Medical Legal Panel. We have responded to your comments and recommendations in this report and our responses are contained in this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Linda Edquest", with a long horizontal flourish extending to the right.

Linda Edquest  
Director

LE:tj