A Report
to the
Montana
Legislature

Financial-Compliance Audit

Office of the Secretary of State

For the Two Fiscal Years Ended June 30, 2012

December 2012

Legislative Audit
Division

12-19

Fraud Hotline
(Statewide)
1-800-222-4446
(in Helena)
444-4446
ladhotline@mt.gov

Financial-Compliance Audits

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether 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) licenses.

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, 2011, was issued March 29, 2012. The Single Audit Report for the two fiscal years ended June 30, 2013, will be issued by March 31, 2014. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, MT 59620-1705

Audit Staff

David Brammer
Delsi Plummer
Maria Rustemeyer
Laura L.N. Toeckes

Reports can be found in electronic format at:
http://leg.mt.gov/audit

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

December 2012

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report for the Office of the Secretary of State for the two fiscal years ended June 30, 2012. This report contains three recommendations related to internal control deficiencies, the unallowable use of reverted appropriation authority, and indirect costs not recovered. The report also includes a disclosure issue related to fees charged by the office. The office's response to the audit recommendations begins on page B-1.

We would like to thank the Secretary and her staff for their assistance and cooperation during the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

Room 160 • State Capitol Building • PO Box 201705 • Helena, MT • 59620-1705
Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

Table of Contents

Figures and Tables....ii
Elected, Appointed and Administrative Officials....iii
Report Summary....S-1

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

CHAPTER II – FINDINGS AND RECOMMENDATIONS....3
Internal Controls....3
Revenue Verification....3
Cash Receipts....3
Capital Assets....4
Testing of Controls....4
Summary....5
Unallowable Use of Reverted Appropriation Authority....5
Indirect Cost Recoveries....6

CHAPTER III – DISCLOSURE ISSUE....9
Fees Charged by the Office....9

INDEPENDENT AUDITOR'S REPORT AND OFFICE FINANCIAL SCHEDULES
Independent Auditor's Report....A-1
Schedule of Changes in Fund Balances & Property Held in Trust for the Fiscal Year Ended June 30, 2012....A-3
Schedule of Changes in Fund Balances & Property Held in Trust for the Fiscal Year Ended June 30, 2011....A-4
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2012....A-5
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2011....A-6
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2012....A-7
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2011....A-8
Notes to the Financial Schedules....A-9

OFFICE RESPONSE
Office of the Secretary of State....B-1

Figures and Tables

Figures

Figure 1 Spendable Fund Balance in the Enterprise Fund 10

Tables

Table 1 Summary of Deficiencies in Internal Control 1
Table 2 Selected Fees for Services 9

Elected, Appointed and Administrative Officials

Office of the Secretary of State	Linda McCulloch, Secretary of State
	Kathy Bramer, Chief of Staff
	Jorge Quintana, Chief Legal Counsel
	Rusty Harper, Deputy for Administrative Rules and Notary
	Tana Gormely, Deputy for Business Services
	Lisa Kimmet, Deputy for Elections
	Patti Borsberry, Deputy for Records and Information Management
	Danielle Vincent, Chief Financial Officer

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

Linda McCulloch
Secretary of State
P.O. Box 202801
Helena, MT 59620-2801
(406) 444-2034

e-mail: sos@mt.gov

Montana Legislative Audit Division

Financial-Compliance Audit
Office of the Secretary of State
For the Two Fiscal Years Ended June 30, 2012

December 2012 12-19 Report Summary

The Office of the Secretary of State (office) provides diverse services to the public and other state agencies. The Secretary of State interprets state election laws and oversees elections. The Secretary also serves on the Board of Land Commissioners, the Board of Examiners, and the Capital Finance Advisory Council.

Context

Services provided by the office include maintaining the official records of the executive branch and the acts of the legislature; reviewing, maintaining, and distributing public-interest records of businesses and nonprofit organizations; filing administrative rules adopted by state departments, boards, and agencies; filing and maintaining records of secured financial transactions, such as liens; and commissioning notaries of public.

The office accounts for its expenditures in its Business and Government Services program. The majority of the office's expenditures are payroll and operating costs. The office's main source of revenue is derived from the fees it charges for the various services it provides. The office received approximately $5.8 and $5 million in fiscal years 2011 and 2012, respectively, for these services.

Results

The office implemented three of the four recommendations made in the prior audit report (10-19) and did not implement one.

Recommendations contained in this report relate to internal control deficiencies, unallowable use of reverted appropriation authority, and no indirect cost recoveries. A disclosure issue discusses fees charged by the office and the resulting fund balance.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0

Source: Agency audit response included in final report.

For a complete copy of the report (12-19) 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 http://leg.mt.gov/audit
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 Secretary of State (office) for the two fiscal years ended June 30, 2012. The objectives of this audit were to:

1. Obtain an understanding of the office's control systems to the extent necessary to support our audit of the office's financial schedules and, if appropriate, make recommendations for improvement in the internal and management controls of the office.
2. Determine if the office has complied with selected laws and regulations.
3. Determine the implementation status of audit recommendations made in the previous audit.
4. Determine whether the office's financial schedules for each of the two fiscal years ended June 30, 2012, fairly present the financial position and results of operations in accordance with state accounting policy.

This report contains three recommendations. In accordance with §5-13-307, MCA, we analyzed the cost to implement the recommendations and believe the costs are not significant to the office.

Auditing standards require us to communicate, in writing, deficiencies in internal control we identified as a result of audit objective #1 above and considered to be significant or material. A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or detect and correct misstatements on a timely basis. A material weakness is one or more 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 one or more deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Table 1 outlines the significant deficiency we identified during this audit.

Table 1
Summary of Deficiencies in Internal Control

Subject	Type of Deficiency	Page
Revenue verification, cash receipts, capital assets, and testing of controls, when aggregated	Significant Deficiency	3

Background

Article VI, Section 1, of the Montana Constitution authorizes the Secretary of State as an officer of the executive branch of state government. Section 2-15-401, MCA, sets forth the Secretary of State's duties. In fiscal year 2012, the office was authorized 57.25 FTE (full-time equivalent employees) in five divisions and an executive office. The office files, stores, maintains, and preserves permanent records of the state. It also registers businesses and files documents for business entities operating in the state of Montana. The office publishes the Montana Administrative Register (MAR) and the Administrative Rules of Montana (ARM). The office is also responsible for the commissioning of notaries public in Montana.

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 and Government Services Division. In addition, the Secretary of State serves as a member of the Board of Land Commissioners, the Board of Examiners, and the Capital Finance Advisory Council.

Prior Audit Recommendations

Our previous audit report, covering the two fiscal years ended June 30, 2010, contained four audit recommendations. The office implemented three and did not implement one of the recommendations. The recommendation not implemented relates to the fund balance existing in the Enterprise Fund. This is discussed further in the disclosure issue beginning on page 9.

Chapter II – Findings and Recommendations

Internal Controls

The office can improve internal controls over its financial operations.

State accounting policy indicates state agencies are responsible for implementing internal control procedures. It further indicates agencies should develop appropriate internal control procedures based upon their business processes. The following paragraphs summarize control deficiencies identified during the audit.

Revenue Verification

The office receives a portion of its revenue from annual report filings by corporations and limited liability companies. These entities have the option of filing their reports online. The office contracts with an outside vendor to process these online transactions and collect the revenue on behalf of the office. Each filed report is also recorded on the office's internal system to show the report was filed. When a report is filed online, the vendor deposits the revenue it collects into the state treasury to the credit of the office. The office then receives notice from the treasury and records the revenue on its accounting records. The office receives annual report revenues of approximately $1.4 million each year through online transactions. Total annual report revenues were $1.7 million and $1.8 million in fiscal years 2011 and 2012, respectively.

The office does not have control procedures in place to verify the amount of revenue received from the vendor is complete. The office receives a report from the vendor that shows what was deposited into the treasury on behalf of the office. The office compares this report to the accounting records but does not verify that the amount of revenue is appropriate for the number of reports filed. Office personnel stated they have had difficulty obtaining information from the vendor that is needed to fully reconcile the online revenue. While the information may be relevant for certain aspects of the reconciliation, it is not needed to determine if the revenue is complete.

During the audit, we obtained reports from the internal system and compared that information to the accounting records. We were able to conclude that the office's online revenue was substantially complete. The office should develop procedures for determining if it received all of the revenue it is owed.

Cash Receipts

The office receives money for services at two locations, the Capitol building and a satellite office. When cash or checks are received at the satellite office, the monies are physically transferred to the main office to be deposited. During the audit, we spoke with employees in both locations regarding control procedures followed to ensure all money received at the satellite office is deposited. The descriptions of the procedures were not consistent. Further inquiries revealed that the inconsistency in information was due to a lack of documented control procedures for personnel to follow. Office personnel stated that because a discrepancy has never been identified, they did not realize there could be a problem with the process. By not designing and documenting control procedures for these receipts, the office is at risk of theft or loss.

Capital Assets

Per state accounting policy, agencies are required to capitalize tangible and intangible assets if an item's unit cost meets or exceeds the capitalization threshold. During the prior audit, we found that the office did not capitalize its Secretary of State Information Management System (SIMS) project. The office has, since that time, capitalized the project in accordance with state accounting policy. During the current audit, however, we found the office has another system, the Electronic Absentee System (EAS), which has not been recorded on the office's accounting records.

The EAS allows military and overseas voters to vote in an election. According to office management, the EAS was developed and paid for by the federal government on behalf of the office for use in the 2010 general election. Per state accounting policy, a capital asset acquired by gift or donation is recorded on the state's accounting records at its estimated fair market value on the date the gift or donation is received. The office did not receive information on the cost of the system from the federal government or estimate the fair market value of the asset to determine if it needed to be capitalized.

Management stated that this was an unusual situation and communication between divisions did not occur. Thus, at the time of receipt, the office did not know it should determine if the asset should be capitalized. The office signed a contract in fiscal year 2012 to upgrade the system; again, there were no procedures in place to prompt management to evaluate the need to capitalize. The office should design control procedures to identify potential capital assets and determine if they should be capitalized on the accounting records.

Testing of Controls

To help ensure the proper operation of controls, state accounting policy requires the office to conduct tests and reviews of controls throughout the year. If any weaknesses are identified, management is expected to execute a plan and schedule for corrective action. The office's internal control manual states that the office will conduct internal control testing on an annual basis, the results of audits and recommendations to improve agency internal controls will be promptly evaluated by office management, and appropriate measures will be implemented on a timely basis.

During the audit, we inquired about the office's testing of controls and found that none had taken place between December 2009 and February 2012. We reviewed the results of the testing completed in February 2012 and noted several potential control weaknesses, such as capitalization of assets and missing deposit support, had been identified. Management stated the results were not communicated to them, so they were not aware any action needed to be taken. The absence of communication limited the office's ability to address control weaknesses, such as those discussed in the previous paragraphs.

Summary

The control deficiencies described in the paragraphs above resulted from a lack of established control procedures, inadequate design and implementation of controls, or insufficient communication. Unless addressed, office management may not be able to prevent, or detect and correct, issues affecting its financial operations in a timely manner.

Recommendation #1

We recommend the office:

A. *Develop and document procedures for verifying the completeness of online revenue, for receiving and depositing cash in the office's satellite location, and for capitalizing information management systems.*

B. *Enhance internal control testing procedures to ensure identified control weaknesses are addressed.*

Unallowable Use of Reverted Appropriation Authority

The office charged current year expenditures to a reverted appropriation.

For the 2011 biennium, the office received appropriation authority to expend the interest earned on Help America Vote Act (HAVA) funds. The general appropriations act identified the appropriation as a biennial, one-time only appropriation. This means that the office could charge expenditures incurred in either fiscal year 2010 or 2011 to the appropriation. Once the 2011 biennium ended, according to §17-7-304(1), MCA, the office could charge only expenditures incurred within the 2011 biennium against any remaining authority. The office improperly charged $226,147 of expenditures incurred in fiscal year 2012 against the 2011 biennium appropriation.

According to office personnel, during the 2011 biennium, the office mistakenly charged expenditures against a continuing appropriation instead of one-time only authority. Continuing appropriations are not limited to specific fiscal years and do not revert until fully expended. Office personnel stated the office was running out of continuing appropriation authority. By using the one-time only authority instead, the office was able to maintain the continuing appropriation and avoid the need to request additional authority from the legislature. However, as discussed, this is specifically prohibited by law.

Recommendation #2

We recommend the office comply with state law governing the use of reverted appropriation authority.

Indirect Cost Recoveries

The office has not recovered indirect costs from its federal grants.

The office administers the Help America Vote Act (HAVA) grants. These grants were provided by the federal government to support States in improving the administration of federal elections, primarily by upgrading systems for casting votes and registering voters in statewide voter registration systems. As of June 30, 2012, the office received, in total, over $18 million in HAVA funds.

Per §17-1-106(1), MCA, an agency receiving federal funds shall recover indirect costs to the fullest extent allowable. Though we brought this to the office's attention during the prior audit, the office has not attempted to recover indirect costs for its HAVA grants. The process of recovering indirect costs begins with an indirect cost rate proposal that must be approved by the federal cognizant agency. Approved rates can vary greatly so we are unable to determine the amount of unrecovered revenue. The office should consult with the federal cognizant agency and seek to recover indirect costs to the extent possible for any current and future federal grants.

Recommendation #3

We recommend the office recover indirect costs from federal grants as required by state law.

Chapter III – Disclosure Issue

Fees Charged by the Office

The office charges fees for services provided to Montana businesses. Section 2-15-405, MCA, states these fees must be commensurate with the overall costs of the office and must reasonably reflect the prevailing rates charged in the public and private sectors for similar services. This law also requires the office to maintain records sufficient to support the fees it has established. In the past three audits, we made recommendations concerning compliance with this statute. Specifically, the reports recommended the fees reflect the costs of providing services to Montana businesses and the resulting excessive fund balance be reduced.

During the current audit, we examined the statute more closely and determined that the intent of the law, in regards to the meaning of "overall costs," is not conclusive. It is not apparent whether the law is referring to the costs of the office in its entirety or only the costs of providing business services activities. In addition, since the office's Enterprise fund is the only Enterprise fund in state government with this restriction, the purpose of this provision is not clear. For this reason, we determined a more in-depth review of rates and fund balance was necessary. We compared rates charged by the office to rates charged by surrounding states for similar services and found that the office's rates are significantly lower. We included some examples in the table below.

Table 2
Selected Fees for Services

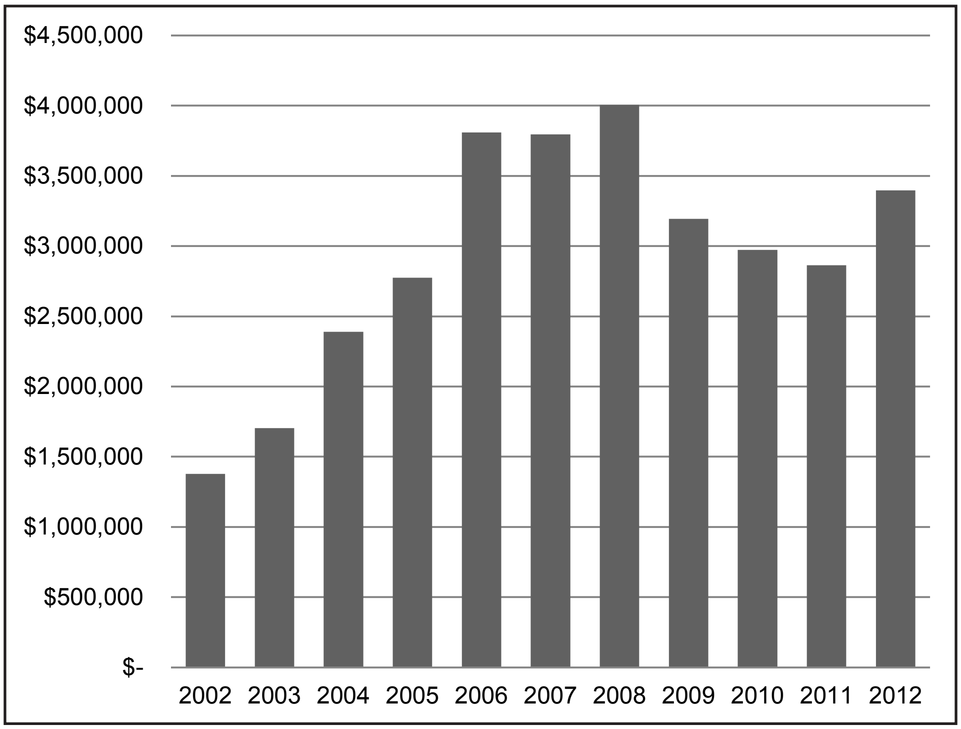
Types of Services	Montana	Wyoming	Idaho	South Dakota	North Dakota
Articles of Incorporation - Profit	$70	$100	$100	$150	$100
Articles of Amendment	$15	$50	$30	$60	$20
Registration of Limited Liability Partnership	$20	$100	$100	$125	$35
Limited Liability Companies - Domestic filing	$70	$100	$100	$150	$135
Trademark - Registration	$20	$100	$30	$125	$30
Total	**$195**	**$450**	**$360**	**$610**	**$320**

Source: Compiled by the Legislative Audit Division.

Fees charged by the office, for the most part, have not changed since 1985. In addition, the office has not completed an analysis to support the established rates since that time. Because there is a relationship between fees charged and fund balance, we analyzed the office's spendable fund balance for fiscal years

2002 through 2012. Assets that cannot be readily converted to cash, such as capital assets and inventories, are deducted from fund balance to calculate spendable fund balance. The chart below shows the spendable fund balance from June 30, 2002, through June 30, 2012.

Figure 1
Spendable Fund Balance in the Enterprise Fund
June 30, 2002 through 2012



Source: Compiled by the Legislative Audit Division.

Even though fees are below those charged in the public and private sectors for similar services, the spendable fund balance indicates the fees may be excessive. While a fund balance may be reasonable if the law is requiring the fees to be commensurate with all costs of the office; it should be minimal if the law is only referring to the cost of providing the services.

Because of the ambiguity of the language in the law, interpretations in application have differed. Office management stated the fund balance is needed for expected and unexpected office costs, that the fund balance allows them to implement a long-term planning mechanism. Anticipated costs include the office's computer information management system that is currently being developed and the maintenance of the federally mandated statewide voter filing system. If the fees are intended to cover office costs in their entirety, we would expect the office to be using the fund balance for those purposes. Instead, in 2010, the office received $1.5 million in general fund monies toward the development of the office's computer system and the office has requested $1.2 million from the 2013 legislature to cover the maintenance costs of the statewide voter filing system. Management stated that the fund balance allows the office to maintain a consistent fee schedule from year-to-year. With the office requesting and receiving general fund support, and minimal fluctuations in the fund balance, we question whether the fund balance is necessary for the reasons stated.

We also question whether requiring the businesses of Montana to fund the overall costs of the office is appropriate public policy. The office is also responsible for providing election assistance and maintaining and storing the records of the state, functions which receive little revenue to offset the cost. If the intent of the law is for fees to support all functions of the office, Montana businesses will be responsible for subsidizing these other functions.

Because the law is not clear, we make no further recommendation at this time. However, we will continue to evaluate the reasonableness of the fund balance relative to the office's long-term planning mechanism.

Independent Auditor's Report and Office Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, 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, 2012, and 2011. The information contained in these financial schedules is the responsibility of the office's management. 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. 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 opinions.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is 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.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Office of the Secretary of State for each of the fiscal years ended June 30, 2012, and 2011, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

November 13, 2012

Room 160 • State Capitol Building • PO Box 201705 • Helena, MT • 59620-1705
Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

SECRETARY OF STATE'S OFFICE
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Agency Fund
FUND BALANCE: July 1, 2011	$ 0	$ 2,037,718	$ 3,533,328	$ 0
PROPERTY HELD IN TRUST: July 1, 2011				$ 10,000
ADDITIONS				
Budgeted Revenues & Transfers-In		143,761	5,023,349	
Nonbudgeted Revenues & Transfers-In	9,676	396	676	
Prior Year Revenues & Transfers-In Adjustments			3,042	
Direct Entries to Fund Balance			4,400	
Total Additions	9,676	144,157	5,031,467	0
REDUCTIONS				
Budgeted Expenditures & Transfers-Out		605,481	4,499,903	
Nonbudgeted Expenditures & Transfers-Out	8,450		85,322	
Prior Year Expenditures & Transfers-Out Adjustments		226,147	3,106	
Reductions in Property Held in Trust				10,000
Total Reductions	8,450	831,628	4,588,331	10,000
FUND BALANCE: June 30, 2012	$ 1,226	$ 1,350,247	$ 3,976,464	$ 0
PROPERTY HELD IN TRUST: June 30, 2012				$ 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-9.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Agency Fund
FUND BALANCE: July 1, 2010	$ 2,782,666	$ 0	$ 2,137,781	$ 0
PROPERTY HELD IN TRUST: July 1, 2010				$ 0
ADDITIONS				
Budgeted Revenues & Transfers-In	148,091		4,828,749	
Nonbudgeted Revenues & Transfers-In	907		914	
Prior Year Revenues & Transfers-In Adjustments			1,018,347	
Direct Entries to Fund Balance	37,610	35,889	106,180	
Additions to Property Held in Trust				10,000
Total Additions	186,608	35,889	5,954,190	10,000
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	931,556	35,889	4,675,245	
Nonbudgeted Expenditures & Transfers-Out			48,854	
Prior Year Expenditures & Transfers-Out Adjustments			(165,456)	
Total Reductions	931,556	35,889	4,558,643	0
FUND BALANCE: June 30, 2011	$ 2,037,718	$ 0	$ 3,533,328	$ 0
PROPERTY HELD IN TRUST: June 30, 2011				$ 10,000

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-9.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Charges for Services	$ 9,676		$ 4,935,527	$ 4,945,203
Investment Earnings		$ 4,912	8,056	12,968
Sale of Documents, Merchandise and Property			78,337	78,337
Miscellaneous			5,147	5,147
Federal		139,245		139,245
Total Revenues & Transfers-In	9,676	144,157	5,027,067	5,180,900
Less: Nonbudgeted Revenues & Transfers-In	9,676	396	676	10,748
Prior Year Revenues & Transfers-In Adjustments			3,042	3,042
Actual Budgeted Revenues & Transfers-In	0	143,761	5,023,349	5,167,110
Estimated Revenues & Transfers-In		299,081	5,052,500	5,351,581
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 0	$ (155,320)	$ (29,151)	$ (184,471)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Charges for Services			$ 22,086	$ 22,086
Investment Earnings		$ (18,085)	406	(17,679)
Sale of Documents, Merchandise and Property			(41,663)	(41,663)
Miscellaneous			(9,980)	(9,980)
Federal		(137,235)		(137,235)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 0	$ (155,320)	$ (29,151)	$ (184,471)

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-9.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Federal Special Revenue Fund	Enterprise Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Charges for Services		$ 4,679,242	$ 4,679,242
Investment Earnings	$ 7,028	7,088	14,116
Capital Contributions		1,053,748	1,053,748
Sale of Documents, Merchandise and Property		108,396	108,396
Miscellaneous		(464)	(464)
Federal	141,970		141,970
Total Revenues & Transfers-In	148,998	5,848,010	5,997,008
Less: Nonbudgeted Revenues & Transfers-In	907	914	1,821
Prior Year Revenues & Transfers-In Adjustments		1,018,347	1,018,347
Actual Budgeted Revenues & Transfers-In	148,091	4,828,749	4,976,840
Estimated Revenues & Transfers-In	225,321	9,809,500	10,034,821
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (77,230)	$ (4,980,751)	$ (5,057,981)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Charges for Services		$ (4,642,999)	$ (4,642,999)
Investment Earnings	$ (113,379)	(131,826)	(245,205)
Capital Contributions		(111)	(111)
Sale of Documents, Merchandise and Property		(116,725)	(116,725)
Miscellaneous		(89,090)	(89,090)
Federal	36,149		36,149
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (77,230)	$ (4,980,751)	$ (5,057,981)

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-9.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

		Business & Government Services
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	$	2,327,960
Hourly Wages		(54,726)
Employee Benefits		837,882
Personal Services-Other		(765)
Total		3,110,351
Operating Expenses		
Other Services		891,619
Supplies & Materials		144,281
Communications		180,447
Travel		67,674
Rent		187,997
Utilities		5,551
Repair & Maintenance		507,958
Other Expenses		94,516
Goods Purchased For Resale		10,621
Total		2,090,664
Equipment & Intangible Assets		
Equipment		11,490
Total		11,490
Grants		
From Federal Sources		53,400
Total		53,400
Debt Service		
Capital Leases		2,871
Total		2,871
Other Post Employment Benefits		
Other Post Employment Benefits		159,633
Total		159,633
Total Expenditures & Transfers-Out	$	5,428,409
EXPENDITURES & TRANSFERS-OUT BY FUND		
State Special Revenue Fund	$	8,450
Federal Special Revenue Fund		831,628
Enterprise Fund		4,588,331
Total Expenditures & Transfers-Out		5,428,409
Less: Nonbudgeted Expenditures & Transfers-Out		93,772
Prior Year Expenditures & Transfers-Out Adjustments		229,252
Actual Budgeted Expenditures & Transfers-Out		5,105,385
Budget Authority		7,768,349
Unspent Budget Authority	$	2,662,964
UNSPENT BUDGET AUTHORITY BY FUND		
Federal Special Revenue Fund	$	1,362,088
Capital Projects Fund		446,252
Enterprise Fund		854,624
Unspent Budget Authority	$	2,662,964

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-9.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

		Business & Government Services
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	$	2,263,327
Employee Benefits		857,620
Personal Services-Other		18,839
Total		3,139,786
Operating Expenses		
Other Services		826,312
Supplies & Materials		187,572
Communications		282,670
Travel		27,987
Rent		234,739
Utilities		1,501
Repair & Maintenance		354,194
Other Expenses		125,536
Goods Purchased For Resale		12,206
Total		2,052,717
Equipment & Intangible Assets		
Equipment		33,233
Total		33,233
Grants		
From Federal Sources		131,616
Total		131,616
Debt Service		
Capital Leases		694
Total		694
Other Post Employment Benefits		
Other Post Employment Benefits		168,042
Total		168,042
Total Expenditures & Transfers-Out	$	5,526,088
EXPENDITURES & TRANSFERS-OUT BY FUND		
Federal Special Revenue Fund	$	931,556
Capital Projects Fund		35,889
Enterprise Fund		4,558,643
Total Expenditures & Transfers-Out		5,526,088
Less: Nonbudgeted Expenditures & Transfers-Out		48,854
Prior Year Expenditures & Transfers-Out Adjustments		(165,456)
Actual Budgeted Expenditures & Transfers-Out		5,642,690
Budget Authority		9,322,920
Unspent Budget Authority	$	3,680,230
UNSPENT BUDGET AUTHORITY BY FUND		
Federal Special Revenue Fund	$	2,288,687
Capital Projects Fund		446,252
Enterprise Fund		945,291
Unspent Budget Authority	$	3,680,230

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-9.

Office of the Secretary of State
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2012

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 (State Special Revenue, Federal Special Revenue, and Capital Projects). In applying the modified accrual basis, the office records:

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

The office uses accrual basis accounting for its Proprietary (Enterprise) and Fiduciary (Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the office records revenues in the accounting period when realizable, measurable, and earned, 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 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

- **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. The office's State Special Revenue Fund includes the activity related to training given by the office in fiscal year 2012.

- **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Office Federal Special Revenue Fund includes activities related to the Help America Vote Act (HAVA), Election Reform Payments, and Election Assistance for Individuals with Disabilities.
- **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The office uses this fund for activities related to the development of the Secretary of State Information Management System (SIMS).

Proprietary Fund Category

- **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The office Enterprise Fund includes business services, administrative rules, elections filings, management services, information services, and records management services.

Fiduciary Fund Category

- **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end. The office agency fund includes activity related to a surety bond held for an outside party.

2. Direct Entries to Fund Balance

Direct entries to fund balances in the Federal Special Revenue Fund, Capital Projects, and Enterprise fund include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies or corrections of errors that occurred at least two fiscal years prior.

3. Capital Contributions and Prior Year Revenue Activity

The $1,053,748 in capital contributions and the $1,018,347 in prior year revenues & transfers-in adjustments, shown on the 2011 Schedule of Total Revenues & Transfers-In and the 2011 Schedule of Changes in Fund Balances & Property Held in Trust, are the result of the office capitalizing costs incurred through June 30, 2010, for the Secretary of State Information Management System.

Office of the
Secretary of State

Office Response

MONTANA SECRETARY OF STATE
LINDA McCULLOCH

RECEIVED

DEC 0 6 2012

LEGISLATIVE AUDIT DIV.

TO TORI HUNTHAUSEN, CPA, LEGISLATIVE AUDITOR:

Following is our response to recommendations contained in the Office of the Secretary of State's (SOS) 2011-2012 audit report.

Recommendation #1:

A. *Develop and document procedures for verifying the completeness of on-line revenue, for receiving and depositing cash in the office's satellite location, and for capitalizing information management systems.*
B. *Enhance internal control testing procedures to ensure identified control weaknesses are addressed.*

SOS Response:

A. We concur. The Secretary of State has already begun to develop and document the procedures around online revenue and is currently developing procedure updates and communication between the office's Capital fiscal location and the office's satellite location. Procedures to identify potential capital assets are also currently being developed.
B. We concur. We will enhance the office's existing internal control testing procedures to ensure that control weaknesses are addressed.

Recommendation #2:

We recommend the office comply with state law governing the use of reverted appropriation authority.

SOS Response:
We concur. The Secretary of State and will comply with state law governing reverted appropriation authority as appropriate in the future.

Recommendation #3:

We recommend the office recover indirect costs from federal grants as required by state law.

SOS Response:
We concur. The Secretary of State will consult with its federal cognizant agency in regard to recovering indirect costs on new grants awarded (if allowed by the grantor).

Montana State Capitol • PO Box 202801 • Helena, Montana 59620-2801
tel: (406) 444-4195 • fax: (406) 444-4249 • TTY: (406) 444-9068 • sos.mt.gov

Thank you to the Legislative Auditor and Division Staff for their professional work and interactions with our SOS staff during this fiscal audit process. During my several years of working with the Legislative Audit Division I have enjoyed the expertise and experience they represent.

I believe that all of state government would benefit from guidance the auditors could periodically provide to state agency heads. Often similar recommendations appear in fiscal audits throughout state agencies. It would be helpful and fiscally prudent to issue occasional guidance reflective of those recommendations, including situations that might arise from newly passed legislation. Information sharing is an inexpensive, yet sound practice for improving business practices. We can all get onboard with that!

Sincerely,

Linda McCulloch

Linda McCulloch
Secretary of State