

**MONTANA MEDICAL LEGAL  
PANEL**

**AUDITED FINANCIAL STATEMENTS  
With Supplemental Information**

**December 31, 2011 and 2010**

# LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:  
Cindy Jorgenson  
Angie Grove

May 2012

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, 2011.

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

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

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Tori Hunthausen".

Tori Hunthausen, CPA  
Legislative Auditor

12C-05

# MONTANA MEDICAL LEGAL PANEL

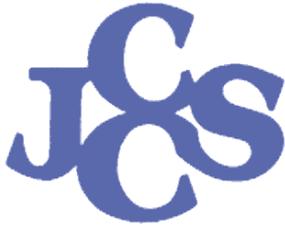
## CONTENTS

	<b><u>Page</u></b>
Administrative officials	3
<b>AUDITED FINANCIAL STATEMENTS</b>	
Independent auditors' report	4 - 5
Statements of assets, liabilities, and fund balances - cash basis	6
Statements of revenues, expenses and change in fund balances - cash basis	7
Notes to financial statements	8 - 10
<b>SUPPLEMENTAL INFORMATION</b>	
Statements of revenues collected and expenses paid - budget vs. actual	11 - 12
<b>INDEPENDENT AUDITORS' REPORTS FOR GAO</b>	
Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i> .	13 - 14
Agency response	15

**MONTANA MEDICAL LEGAL PANEL  
ADMINISTRATIVE OFFICIALS**

Jean Branscum  
Kathleen Stepp  
Carl Deitchman

Executive Director  
Associate Director  
Fiscal Director



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Certified Public Accountants and Business Advisors

## **INDEPENDENT AUDITORS' REPORT**

To the Legislative Audit Committee  
of the Montana State Legislature  
Helena, Montana

We have audited the accompanying statements of assets, liabilities, and fund balances - cash basis of Montana Medical Legal Panel, as of December 31, 2011 and 2010, and the related statements of revenues, expenses, and changes in fund balances - 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 audits.

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 fund balances of the Montana Medical Legal Panel, as of December 31, 2011 and 2010, and its revenue, expenses and changes in fund balances 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, 2012, 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 opinions 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, 2011 and 2010 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, 2012

**MONTANA MEDICAL LEGAL PANEL  
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES - CASH BASIS  
December 31, 2011 and 2010**

		December 31	
		2011	2010
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash in bank		\$ 344,360	\$ 308,166
Total assets		\$ 344,360	\$ 308,166
<b>LIABILITIES AND FUND BALANCES</b>			
<b>FUND BALANCES</b>			
Restricted		\$ 344,360	\$ 308,166
Total liabilities and fund balances		\$ 344,360	\$ 308,166

See the notes to financial statements.

**MONTANA MEDICAL LEGAL PANEL**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES - CASH BASIS**  
**December 31, 2011 and 2010**

	<b>Years ended December 31</b>	
	<b>2011</b>	<b>2010</b>
<b>REVENUES</b>		
Assessment fees	\$ 707,711	\$ 891,373
Interest income	792	1,317
Miscellaneous income	3,675	6,450
Total revenues	712,178	899,140
<b>EXPENSES</b>		
Administrative	296,703	364,968
Computer software	15,816	56,525
Panelist travel	58,331	68,653
Panelist hearing time	65,080	75,437
Records reproduction	20,510	69,341
Panelist preparation and travel time	106,692	161,367
Panel legal counsel	42,114	42,000
Medical records and x-rays	25,373	28,901
Postage	12,623	13,737
Temporary personnel	-	19,085
Panel consultant	2,000	17,941
Meeting rooms	9,208	9,830
Office supplies	4,110	5,504
Telephone	3,694	3,815
Miscellaneous	3,095	1,523
Liability insurance	5,435	500
Professional services	5,200	5,000
Total expenses	675,984	944,127
<b>CHANGE IN FUND BALANCES</b>	36,194	(44,987)
Fund balances, beginning of year	308,166	353,153
<b>FUND BALANCES, END OF YEAR</b>	\$ 344,360	\$ 308,166

See the notes to financial statements.

**MONTANA MEDICAL LEGAL PANEL  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010**

**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.

*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.

*Fund Accounting and Balances*

The Montana Medical Legal Panel is funded with state special revenue funds derived from annual assessments. This amount is set annually by the director and is assessed equally to all health care providers. Accounts are organized in funds according to state law. The Panel uses the following funds:

**Governmental Funds:**

Special Revenue Fund - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Legislative appropriation is required to spend from this fund.

For the year ended December 31, 2010, the Panel implemented the provisions GASB Statement 54 Fund Balance Reporting and Governmental Fund Type Definitions. The objective of Statement 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is found to observe constraints imposed upon the use of resources reported in governmental funds. The clarifications of the governmental fund type definitions should reduce uncertainty about which resources can or should be reported in the respective fund types. These new classifications include nonspendable and spendable, which is further reported as restricted, committed, assigned and unassigned.

**MONTANA MEDICAL LEGAL PANEL**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2011 and 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Fund Accounting and Balances (Continued)*

As of December 31, 2011 and 2010, fund balances of the governmental special revenue funds are classified as follows:

**Nonspendable** — amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The Panel had no nonspendable fund balances as of December 31, 2011 and 2010.

**Restricted** — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

**Committed** — amounts that can be used only for specific purposes determined by state legislation and appropriated to the Panel. The Panel had no committed fund balances as of December 31, 2011 and 2010.

**Assigned** — amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Panel had no assigned fund balances as of December 31, 2011 and 2010.

**Unassigned** — all other spendable amounts. The Panel had no unassigned fund balances as of December 31, 2011 and 2010.

When both restricted and unrestricted resources are available in a fund, the assumed order of spending is restricted first, next committed, next assigned, and finally unassigned.

*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 (CONTINUED)  
December 31, 2011 and 2010**

**3. CASH DEPOSITS**

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

	<u>2011</u>	<u>2010</u>
Valley Bank - checking	\$ 39,658	\$ 71,425
US Bank - money market	99,114	10,916
American Federal Savings Bank - money market	-	2,120
First Community Bank - money market	196,329	15,515
First Interstate Bank - money market	-	7,009
First Security Bank - money market	-	96,509
Mountain West Bank - money market	9,259	8,171
Flint Creek Valley Bank - savings	-	96,501
	<u>\$ 344,360</u>	<u>\$ 308,166</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**

Jean Branscum is the 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 \$296,703 and \$364,968 for the years ended December 31, 2011 and 2010, respectively.

**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, 2012, 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, 2011**

	<u>TOTAL</u>	<u>BUDGET</u>	<u>VARIANCE</u> <u>FAVORABLE</u> <u>(UNFAVORABLE)</u>
<b>REVENUE</b>			
Assessment fees	\$ 707,711	\$ 889,381	\$ (181,670)
Interest income	792	3,212	(2,420)
Miscellaneous income	<u>3,675</u>	<u>5,019</u>	<u>(1,344)</u>
	<u>712,178</u>	<u>897,612</u>	<u>(185,434)</u>
<b>EXPENSE</b>			
Administrative	296,703	319,405	22,702
Computer software	15,816	35,000	19,184
Panelist travel	58,331	75,000	16,669
Panelist hearing time	65,080	85,000	19,920
Records reproduction	20,510	25,000	4,490
Panelist prep and travel time	106,692	155,000	48,308
Panel legal counsel	42,114	42,000	(114)
Medical records and x-rays	25,373	32,500	7,127
Postage	12,623	15,000	2,377
Temporary personnel	-	5,000	5,000
Panel consultant	2,000	5,000	3,000
Meeting rooms	9,208	12,000	2,792
Office supplies	4,110	6,000	1,890
Telephone	3,694	4,000	306
Miscellaneous	3,095	2,000	(1,095)
Liability insurance	5,435	1,000	(4,435)
Professional services	<u>5,200</u>	<u>15,000</u>	<u>9,800</u>
	<u>675,984</u>	<u>833,905</u>	<u>157,921</u>
Net Income (Loss)	<u>\$ 36,194</u>	<u>\$ 63,707</u>	<u>\$ (27,513)</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, 2010**

	<u>TOTAL</u>	<u>BUDGET</u>	<u>VARIANCE</u> <u>FAVORABLE</u> <u>(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.



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**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 Legislative Audit Committee  
of the Montana State Legislature  
Helena, Montana

We have audited the financial statements of Montana Medical Legal Panel as of and for the year ended December 31, 2011, and have issued our report thereon dated May 31, 2012. 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*.

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, 2012

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May 23, 2012

Junkermier, Clark, Campanella, Stevens, P.C.  
Certified Public Accountants  
P.O. Box 1164  
Helena, Montana 59624

RE: Montana Medical Legal Panel

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

We have reviewed the draft audit report for the Montana Medical Legal Panel. We are pleased that the Medical Panel meets accounting standards and that no recommendations for improvement were noted.

Sincerely,

Jean A. Branscum  
Director