

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

Montana Chiropractic Legal Panel

June 30, 2012 and 2011

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P.O. Box 1699
Helena, Montana 59624-1699
(406) 442-5520
FAX (406) 443-1017

Montana Chiropractic Legal Panel

June 30, 2012 and 2011

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GALUSHA
HIGGINS
& GALUSHA^{PC}
EST. 1919

A PROFESSIONAL CORPORATION OF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

910 N. Last Chance Gulch, Helena, MT 59601
P.O. Box 1699, Helena, MT 59624

Phone (406) 442-5520
Fax (406)-443-1017

www.ghg-cpa.com

INDEPENDENT AUDITOR'S REPORT

To the Director
Montana Chiropractic Legal Panel
Helena, Montana

We were engaged to audit the accompanying statements of assets, liabilities, and surplus - cash basis of Montana Chiropractic Legal Panel, as of June 30, 2012 and 2011, 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 Chiropractic Legal Panel's management.

The Montana Chiropractic Legal Panel did not have sufficient internal controls to provide reasonable assurance over the amount of management fee expense for 2012 or 2011, stated in the accompanying financial statements at \$7,051 and \$6,082 for the years ended June 30, 2012 and 2011, respectively. The entity's records do not permit the application of other auditing procedures over management fee expense.

As discussed in Note A, Montana Chiropractic Legal Panel prepares its financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Since Montana Chiropractic Legal Panel did not have sufficient internal controls over the management fee expense and we were not able to apply other auditing procedures to satisfy ourselves as to the accuracy of management fee expense, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2012 on our consideration of Montana Chiropractic 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 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.

GALUSHA, HIGGINS & GALUSHA, PC
Certified Public Accountants and Advisors

Helena, Montana
November 12, 2012

Montana Chiropractic Legal Panel
STATEMENTS OF ASSETS, LIABILITIES, AND SURPLUS - CASH BASIS
June 30,

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 21,637	\$ 18,023
TOTAL ASSETS	\$ 21,637	\$ 18,023
LIABILITIES AND SURPLUS		
SURPLUS		
Surplus	\$ 21,637	\$ 18,023
TOTAL LIABILITIES AND SURPLUS	\$ 21,637	\$ 18,023

The accompanying notes are an integral part of these financial statements.

Montana Chiropractic Legal Panel
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN SURPLUS - CASH BASIS
for the years ended June 30,

REVENUES	2012	2011
Assessment fees	\$ 16,875	\$ 16,705
Late fees	675	300
Total revenue	<u>17,550</u>	<u>17,005</u>
EXPENSES		
Audit	5,151	-
Bank service charges	60	27
Copying and printing	298	138
Computer and internet	-	60
Director expenses	-	44
Management fee	7,051	6,082
Hearing expenses	1,097	-
Postage	221	111
Rent	58	46
Supplies	-	40
Total expenses	<u>13,936</u>	<u>6,548</u>
INCREASE IN SURPLUS	3,614	10,457
Surplus, beginning of year	<u>18,023</u>	<u>7,566</u>
SURPLUS, END OF YEAR	<u><u>\$ 21,637</u></u>	<u><u>\$ 18,023</u></u>

The accompanying notes are an integral part of these financial statements.

Montana Chiropractic Legal Panel

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Activities - Montana Chiropractic Legal Panel was established by the “Montana Chiropractic Legal Panel Act” as authorized by Section 27-12-101 and 104 Montana Code Annotated (MCA). The panel is a quasi-governmental entity and is allocated to the Montana supreme court for administrative purposes only, except that 2-15-121(2) MCA does not apply.

The Montana Chiropractic Legal Panel was created to review all malpractice claims or potential claims against chiropractic physicians, except claims subject to a valid arbitration agreement allowed by law. The purpose of the Montana Chiropractic Legal Panel is to prevent, whenever possible, the filing of court actions against chiropractic physicians and their employees for professional liability situations in which the facts do not permit at least a reasonable inference of malpractice. Also the purpose of the Montana Chiropractic Legal Panel is to make possible the fair and equitable disposition of such claims against chiropractic physicians as are or reasonably may be well founded.

2. 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.
3. Reporting Entity - In accordance with government accounting and financial reporting standards, there are no component units to be included with the Montana Chiropractic Legal Panel.
4. Assessment Fees - The Montana Chiropractic Legal Panel is funded by an annual assessment fee levied on all licensed and active chiropractic physicians at the beginning of each fiscal year, beginning July 1. The amount of the assessment is set annually by the director and is equally assessed against all chiropractic physicians. A fund surplus at the end of the year that is not required for the administration of the Montana Chiropractic Legal Panel during the next fiscal year, in which event the director will reduce the next annual assessment to an amount estimated to be necessary for the proper administration of Montana Chiropractic Legal Panel during that fiscal year. The fund and any income from it must be held in trust, deposited in an account, and invested by the director.
5. Cash and Cash Equivalents - The Montana Chiropractic 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.
6. Reclassifications - Certain reclassifications have been made to the prior year amounts to conform to the current year presentation. These reclassifications had no impact on the change in surplus.
7. Subsequent Events - Management has performed an analysis of the activities and transactions subsequent to June 30, 2012 to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended June 30, 2012. Management has performed this analysis through November 12, 2012, the date the financial statements were available to be issued.

Continued

Montana Chiropractic Legal Panel

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE B - PANEL HEARINGS

The Montana Chiropractic Legal Panel held no hearings during the fiscal year ended June 30, 2011 and one hearing during the fiscal year ended June 30, 2012.

Concluded



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HIGGINS
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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 Director
Montana Chiropractic Legal Panel

We were engaged to audit the basic financial statements of Montana Chiropractic Legal Panel as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated November 12, 2012.

Internal Control over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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

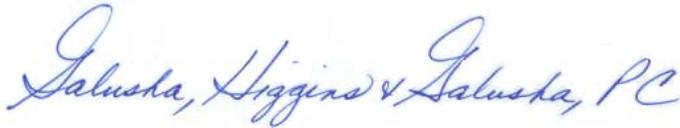
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montana Chiropractic 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.

Per MCA 27-12-207, during a Panel audit the report must include a determination of the adequacy, sufficiency and reasonableness of the annual assessment. Due to the scope limitation during the audit, we were unable to conclude on the assessment. Montana Chiropractic Legal Panel's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Montana Chiropractic Legal Panel's response and, accordingly, we express no opinion on it.

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.

A handwritten signature in blue ink that reads "Galusha, Higgins & Galusha, PC". The signature is written in a cursive, flowing style.

GALUSHA, HIGGINS & GALUSHA, PC
Certified Public Accountants and Advisors

Helena, Montana
November 12, 2012

Montana Chiropractic Legal Panel

June 30, 2012 and 2011

SCHEDULE OF FINDINGS AND RESPONSES

Finding 2012-1

Material Weakness in Internal Control over Financial Reporting—Failure to properly segregate authority, custody, and record keeping in the cash disbursements process.

Criteria: Internal controls should be in place to provide reasonable assurance that misappropriation of assets does not occur and that cash is accounted for properly.

Condition: Presently, one person is charged with approving invoices, recording cash disbursements in the accounting software and signing checks.

Cause: There were not adequate internal controls in place to provide reasonable assurance that misappropriation of assets did not take place and cash is accounted for properly.

Effect or Potential Effect: Lack of segregation of duties increases the risk that misappropriation of assets and material misstatements will occur and not be detected by the Panel's internal controls.

Recommendation: Someone separate from the person recording the cash disbursements in the accounting software should approve invoices and sign checks.

Responsible Official's Response: The Panel cannot implement recommended procedures with the current number of individuals contracted by the Organization.

Finding 2012-2

Material Weakness in Internal Control over Financial Reporting—Failure to properly segregate authority, custody, and record keeping in the cash receipts process.

Criteria: Internal controls should be in place to provide reasonable assurance that misappropriation of assets does not occur and that cash is accounted for properly.

Condition: Presently, one person is charged with receiving cash, recording the cash receipt in the accounting software, sending out invoices and taking deposits to the bank.

Cause: There were not adequate internal controls in place to provide reasonable assurance that misappropriation of assets did not take place and cash is accounted for properly.

Effect or Potential Effect: Lack of segregation of duties increases the risk that misappropriation of assets and material misstatements will occur and not be detected by the Panel's internal controls.

Recommendation: Someone separate from the person recording the cash receipts in the accounting software should be receiving cash and taking deposits to the bank.

Responsible Official's Response: The Panel cannot implement recommended procedures with the current number of individuals contracted by the Organization.

Montana Chiropractic Legal Panel

June 30, 2012 and 2011

Finding 2012-3

Material Weakness in Internal Control over Financial Reporting—Failure to obtain proper review and approval for management fees paid to the Director.

Criteria: Internal controls should be in place to provide reasonable assurance that misappropriation of assets does not occur and that cash is accounted for properly.

Condition: Presently, the Director issues invoices to the Montana Chiropractic Legal Panel for hours worked and reimbursable expenses and then issues and signs the check to pay the invoices.

Cause: There were not adequate internal controls in place to provide proper segregation of duties.

Effect or Potential Effect: Lack of review and approval of management fees paid to the Director increases the risk that misappropriation of assets and material misstatements will occur and not be detected by the Panel's internal controls.

Recommendation: Someone should be reviewing and approving the amount paid to the Director in management fees each month.

Responsible Official's Response: The management fee for the Director has been approved by both the Chief Justice of the Supreme Court and the Director of the Montana Chiropractic Association. Documentation for the hourly rate and monthly flat fee is on file with the Legal Panel. However, the Panel cannot implement recommended procedures with the current number of individuals contracted by the Organization.

Finding 2012-4

Material Weakness in Internal Control over Financial Reporting—Failure to properly reconcile the bank statement.

Criteria: Internal controls should be in place to provide reasonable assurance that misappropriation of assets does not occur and that cash is accounted for properly.

Condition: Presently, the bank statement is not being reconciled to QuickBooks.

Cause: There were not adequate internal controls in place to provide for reconciliation of the bank statement.

Effect or Potential Effect: Lack of appropriate reconciliation of the bank statement increases the risk that misappropriation of assets and material misstatements will occur and not be detected by the Panel's internal controls.

Recommendation: Someone should be reconciling the bank statement to QuickBooks on a monthly basis with a separate individual reviewing the reconciliation and bank statement.

Responsible Official's Response: The Director reconciles the bank statement to the check book monthly. It is not reconciled to QuickBooks.