A Report to the Montana Legislature

Financial-Compliance Audit

Department of Commerce

For the Two Fiscal Years Ended June 30, 2013

January 2014

Legislative Audit Division

13-16

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Financial-Compliance Audits

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Room 277, State Capitol
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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
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January 2014

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Commerce (department) for the two fiscal years ended June 30, 2013. This report includes recommendations related to internal controls over: payment authorizations, conflict of interest situations, allowable federal administrative expenses, and procurement card (procard) purchases. In addition, the report has recommendations regarding compliance with state laws and regulations for travel expenses and membership requirements for the Montana Heritage Commission.

This report includes the department's financial schedules. The financial schedule presentation is intended to provide the legislative body with information necessary for decision-making purposes; it is not intended to conform to the financial reporting requirements established in generally accepted accounting principles (GAAP). The financial schedule presentation has not changed, but audit reporting standards have changed. Auditing standards require us to clearly communicate that the financial schedule presentation is not intended to, and does not, conform to GAAP reporting requirements. The Independent Auditor's Report on page A-1 contains language to this effect in the section titled "Adverse Opinions on U.S. Generally Accepted Accounting Principles." This section does not imply the amounts presented on the department's financial schedules are not fairly stated. Page A-1 also communicates the extent to which the user can rely on the information contained in the financial schedules in the section titled "Unmodified Opinions on Regulatory Basis of Accounting."

The department's written response to the audit recommendations is included in the audit report at page B-1. We thank the director and her staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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Appointed and Administrative Officials

Department of Commerce

Meg O'Leary, Director, effective January 2013

Doug Mitchell, Deputy Director, effective October 28, 2013

Andy Poole, Business Resources Division Administrator

Marty Tuttle, Chief Legal Counsel

Kelly A. Lynch, Administrator, Community Development Division

Jeri Duran, Administrator, Montana Promotion Division

Bruce Brensdal, Administrator, Housing Division

David Ewer, Executive Director, Board of Investments

Michelle Barstad, Executive Director, Montana Facility Finance Authority

Dave Desch, Executive Director, Board of Research and Commercialization Technology

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT
Department of Commerce
For the Two Fiscal Years Ended June 30, 2013

JANUARY 2014 | 13-16 | REPORT SUMMARY

The Department of Commerce is the state agency with the responsibility for economic and community development to create, retain, and expand jobs. Statutorily, the Department of Commerce has other responsibilities including, but not limited to, housing programs, tourism promotion, and the Montana Heritage Program.

Context

During fiscal years 2012 and 2013, the Department of Commerce (department) granted funds from both state and federal sources totaling approximately $65.4 million. Significant amounts of the grant funds go to communities for: development of affordable low-income housing, infrastructure for water and sewer systems, bridges, school facility improvements, and tourism-related infrastructure. In addition, during the audit period the department paid out over $75 million, received from the U.S. Department of Housing and Urban Development, in benefits to address low-income housing needs.

Results

This report includes six recommendations to the department, four of which relate to internal controls. The control recommendations address payment authorizations, conflict of interests, federal administrative expenses, and procurement cards. The other two recommendations focus on compliance with state laws concerning travel policy and payments, and membership requirements of the Montana Heritage Commission.

In addition, we reviewed the five recommendations that were made in the prior financial-compliance audit of the department for fiscal years 2010 and 2011. We found the department implemented four of the recommendations. One recommendation was not implemented because it is no longer applicable to the department.

Recommendation Concurrence	
Concur	6
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Department of Commerce (department) for the two fiscal years ended June 30, 2013. The accompanying financial schedules include activity that we audit as part of other engagements. These audits are Board of Housing (11-07B, 13-07A), Board of Investments (12-04A, 12-04B), and Montana Facility Finance Authority (12-12). The reports are available upon request. The objectives of this audit were to:

1. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvement in management and internal controls of the department.
2. Determine whether the department's financial schedules present fairly the results of operations and changes in fund equity for each of the two fiscal years ended June 30, 2013, and June 30, 2012.
3. Determine whether the department complied with selected state and federal laws and regulations.
4. Determine the implementation status of prior audit recommendations.

Internal Controls

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 status of control deficiencies we identified during the audit as significant or material weaknesses.

Table 1
Summary of Control Deficiencies

Subject	Type of Deficiency	Page
Payment Authorization and Conflict of Interest	Material	7 & 8

Source: Compiled by the Legislative Audit Division.

Our consideration of internal control was not for the purpose of expressing an opinion on the effectiveness of internal controls. Therefore, material weaknesses or significant deficiencies may exist that were not identified.

Internal Service Funds

As required by §17-8-101(6), MCA, we reviewed the reasonableness of the department's internal service fund type fees and charges and the fund equity for fiscal years 2012 and 2013. To determine whether fees were commensurate with costs in each of the funds, we reviewed the relationship between fee revenues collected and expenses incurred in providing the services. To determine the reasonableness of fund equity in each of the funds, we reviewed the working capital in the funds at the end of the year, as well as fund equity trends. We used a 60-day working capital reserve as a measure based on federal guidelines.

The table below summarizes the department's two internal service funds, and our determination of fees commensurate with costs and reasonableness of fund equity balances.

Table 2
Internal Service Funds

Fund Name and Description	Fees Commensurate with Costs		Fund Equity Reasonable	
	FY12	FY13	FY12	FY13
Director's Office – Accumulates costs incurred by the Director's Office for central services. Both federal and state programs are charged for these services.	Yes	Yes	No*	Yes
Investment Program – Accumulates personal services and operating expenses incurred by the Investment Program to manage state investments.	Yes	No*	No*	Yes

Source: Compiled by the Legislative Audit Division.

* See below for more detailed information.

Director's Office – Fiscal year 2012 fund equity was not reasonable because the fund had excess working capital on hand, mostly based on amounts accumulated in prior years. At fiscal year-end 2012 we calculated working capital was 83 days, exceeding the 60-day measure by 23 days.

Investment Program – Fiscal year 2012 fund equity was not reasonable due to excessive working capital. At fiscal year-end 2012, we calculated working capital was 91 days, exceeding the 60-day measure by 31 days. During fiscal year 2013, the program waived some fees in order to reduce their working capital. This effectively reduced working capital and fund equity, however, it caused the fee revenue to not be commensurate with their costs for fiscal year 2013. The use of fee waivers can be an effective way to manage excess fund equity, although it can cause fees to not be commensurate with costs.

Summary

Because the department is actively managing its internal service funds in an effort to comply with the requirement in state law, we make no recommendation to the department at this time.

Background

The Department of Commerce is responsible for encouraging and promoting economic and community development. The department consists of five divisions and several entities that are administratively attached or allocated to the department for administrative purposes, including Board of Housing, Montana Facility Finance Authority, Board of Research and Commercialization Technology, Board of Investments, Coal Board, Hard Rock Mining Impact Board, State Tribal Economic Development Commission, and Montana Heritage Preservation and Development Commission. The following is a description of the various divisions and entities comprising the department, including the number of full-time equivalent (FTE) positions for each.

Director's Office (19.50 FTE) – administers the department and its divisions by providing executive, administrative, legal, and policy guidance, and provides internal support to all department divisions such as budgeting, accounting, purchasing, contracting, personnel administration, payroll, and training. The division also provides analysis, development, maintenance, and supervision of department data processing systems and hardware.

Montana Promotion Division (29.50 FTE) – is responsible for promoting a positive image of the state through advertising, publicity, and international and domestic group travel, as well as printing and distribution of publications and marketing to film production companies.

Business Resources Division (35.84 FTE) – includes programs to enhance Montana's economic and business climate, assist businesses and communities in achieving economic prosperity, and build the economic base of Montana through business creation, expansion, retention efforts, energy development, and the Board of Research and Commercialization Technology.

Community Development Division (20.33 FTE) – works with federal, state, and local governments and the private sector in areas of community development. The division provides financial and technical assistance through three primary programs. These include the Community Development Block Grant Program (CDBG), Community Technical Assistance Program (CTAP), and Treasure State Endowment Program (TSEP). The Coal Board and the Hard Rock Mining Impact Board are independent citizen boards appointed by the governor that are attached/allocated to the division for administrative purposes.

Montana Facility Finance Authority (3.00 FTE) – issues tax-exempt bonds for eligible facilities at interest rates significantly below those that would be available at taxable bond rates. Eligible facilities include, but are not limited to, acute care hospitals, nursing homes, assisted living facilities, retirement facilities, outpatient centers, homes for persons with developmental or mental disabilities, chemical dependency centers, and pre-release centers.

Board of Investments (32.00 FTE) – invests state funds in accordance with the Montana Constitution and statutory requirements. The board manages eight investment portfolios: 1) the All Other Funds Portfolio; 2) Montana Domestic Equity Pool; 3) Short-Term Investment Pool; 4) Trust Funds Investment Pool; 5) Retirement Funds Bond Pool; 6) Montana Real Estate Pool; 7) Montana International Equity Pool; and 8) Montana Private Equity Pool. The board also administers several programs in the Enterprise Fund, which issue bonds to assist local governments, cities, and school districts, or to provide funds to improve the state's economy.

Housing Division (54.16 FTE) – administers the federal Section 8 Housing Programs which provide rent subsidies to eligible low-income families and individuals, as well as the Montana Home Investment Partnership Program (HOME) and the Montana Board of Housing (MBOH). The HOME program provides funds to strengthen public/private partnerships to provide more affordable housing. The MBOH helps provide decent, safe, sanitary, and affordable housing to lower income individuals and families. MBOH moneys are made available through issuance of revenue bonds.

Montana Heritage Preservation and Development Commission (12.00 FTE) – manages certain state-owned historic properties located at Virginia City, Nevada City, and Reeder's Alley in Helena.

Prior Audit Recommendations

We performed the prior audit of the department for the two fiscal years ended June 30, 2011. The report included five recommendations to the department. The department fully implemented four of the recommendations; the other recommendation is no longer applicable to the department. The recommendation, concerning subrecipient monitoring for the school deferred maintenance program, is no longer applicable because it was a one-time only program funded by the 2009 Legislature.

Chapter II – Findings and Recommendations

Internal Controls

State policy requires state agencies to develop appropriate internal control procedures based upon their business processes. The AICPA (American Institute of Certified Public Accountants) defines internal control as "a process – effected by those charged with governance, management, and other personnel – designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations." The following sections denote issues found during the audit regarding inadequacies in the Department of Commerce's (department) internal control system related to: payment authorizations, conflict of interest situations, federal administrative charges, and procurement card purchases.

Payment Authorization

The department paid invoices that were not authorized according to its internal control plan.

The department's internal control plan includes the process invoices go through prior to being paid. The internal control process requires authorized signers to review invoices for: receipt of service, accuracy, and if the expense is allowable based on applicable support. Once authorized personnel are satisfied the invoice meets these conditions, they sign the invoice indicating their approval for payment and the invoice is sent to accounting. Accounting personnel, according to the plan, review the invoice before processing it for payment to ensure the invoice has been approved for payment by designated personnel on the authorized signer list.

During fiscal years 2012 and 2013, the department had over $23 million in other services payments as presented on the Schedules of Total Expenditures and Transfers-Out. Other services usually involves the receipt of a product or process. During our audit work we noted the following instances indicating the review for proper authorization was not working as designed:

- Two invoices were not approved for payment.
- Ten invoices were approved for payment by individuals who were not an authorized signer for the particular program being charged.

These exceptions occurred in one particular division of the department. This division had up to 20 authorized signers and underwent a reorganization that may have caused some of the exceptions. In addition, program personnel indicated that personnel who authorized payment for the 10 exceptions were appropriate, although they were not on the authorized signer list. Accounting personnel indicated they are very familiar with program personnel so they do not always check the authorized signer list. Under this practice, an individual who changes positions in a program could authorize an invoice for payment even though they are no longer working in that program.

As a result, the established internal controls for payments are not working as designed. Although all the exceptions we found were limited to one division, we cannot assume the control was working as designed for all other divisions at the department. Designated authorized signers are the individuals who are most knowledgeable in determining if the goods or services have been received and if the invoice is for the appropriate amount according to the contract terms, or other applicable support. Payments that have not been authorized by an appropriate program personnel carry increased risk that goods or services have not been received or the payment amount is not appropriate.

Recommendation #1

We recommend the department comply with its written control plan and only pay invoices that have been authorized by program personnel on the authorized signer list.

Conflict of Interest

The department's control procedures related to employee conflict of interest situations are not adequate.

A conflict of interest exists when an employee in a position of trust has a personal interest that conflicts with their official responsibilities. We determined the department's internal controls are not adequate to identify conflict of interest situations involving employees and department contractors. Without identification, the department cannot take appropriate measures to reduce risks caused by conflict of interest situations.

Department employees are required to complete an on-line Code of Ethics training when hired and then again approximately every three years. Although this training does include information on conflicts of interest, the department does not specifically instruct employees to notify management when conflict of interest situations occur.

We identified the following conflict of interest situations involving two contracts for services entered into by the Promotions Division (division). A spouse of a division employee, who formerly worked for the same division, began employment at a company. The division then entered into a contract for services with that company. Two years later, the spouse began employment at a different company and the division entered into a contract with that company as well. The spouse was in a management role at both companies when the contracts were negotiated. No documentation exists to show department management was aware of these relationships or employee disclosure of the relationship to management. Undisclosed conflict of interest situations increase the risk the department may not be receiving all goods and services or may be paying more than necessary for the goods or services.

Our expanded audit work revealed the employee in question was not part of the contracting process for either contact and did not authorize any payment made under the contracts in question during the audit period. In addition, we did not identify any payments to the two contractors that were not adequately supported. However, the department's controls were not adequate to prevent the employee from taking advantage of the situation for personal gain. In addition, other undetected conflict of interest situations could exist in the department. During fiscal years 2012 and 2013, the department paid out approximately $35 million for goods and services to companies under contract with the department.

If the department is notified of conflict of interest situations, the department can mitigate the risks by establishing adequate segregation of duties; where the employee in question cannot be involved in either the contracting process or be an authorized signer for payments on the contract. In our finding discussed previously, we found the department is paying invoices that have not been properly authorized. This control weakness could negate any level of segregation of duties put in place to mitigate the risk of conflict of interest and increases the risk the department may not receive all goods and services paid or may be paying more for goods or services than necessary.

Recommendation #2

We recommend the department periodically require employees to disclose any conflict of interest situations and when necessary, reduce the risks of conflict of interest situations through segregation of duties.

Section 8 Housing Administrative Charges

The department's reconciliation process is not adequately documented to ensure only allowable administrative expenditures are charged to the Section 8 Housing Choice Vouchers Program.

Federal regulations require the department "...establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements." Section 8 Housing program administrative expenses totaled approximately $3.6 million for fiscal years 2012 and 2013. The department has a reconciliation process in place designed to ensure all administrative expenses charged to the federal program were approved by program personnel and are allowable charges. Through interview with personnel responsible for the reconciliation and review of the documentation, we could not determine whether all expenses charged during the audit period were reconciled. Department management indicated that all expense items were reconciled, although they agree the documentation of their process should be improved.

Approval of expenses by program personnel is critical to ensure all administrative expenses are allowable because of their knowledge of specific federal program requirements. Although we did not identify any unallowable administrative expenses, without adequate documentation, we could not verify the reconciliation process was complete.

Recommendation #3

We recommend the department document its reconciliation process to ensure all federal expenses are approved and all administrative charges to Section 8 Housing Choice Voucher Program are allowable.

Procurement Card Purchases

The department did not have documented controls in place during the audit period to ensure that procurement card purchases follow state procurement laws and policies.

Procurement cards (procards) are credit cards issued to state employees, to use for purchases associated with official state business. When employees are issued a procard, management authorizes purchases up to certain dollar amounts. Employees' supervisors are required to approve purchases. During fiscal years 2012 and 2013, department personnel used procards to purchase approximately $1.8 million of goods and services.

Under state law, the department is allowed to follow small purchases and limited solicitations requirements established by the Department of Administration in administrative rules for purchases between $5,000 and $25,000. Administrative rules allow the department to use a limited solicitation procedure, that requires a minimum of three viable written or oral quotations, and the limited solicitation procedure must be documented. State procurement policy also allows an agency to make a "sole source procurement" when an award for a supply or service is made to the only known capable vendor. State law requires that a record be maintained of all purchases made as sole source. We found two instances of purchases made with procards that did not comply with these state procurement laws and policies as discussed below.

In one instance, the department purchased display signs for approximately $5,100 using two employees' procards. Both employees' procard limits were $5,000. As a result, the procard limit established by management was circumvented. State procard policy does not allow splitting purchases to avoid card limits. In addition, department personnel could not locate any documentation to support that three informal bids were obtained as limited solicitation as required by state purchasing rules. Personnel indicated the staff involved no longer work at the department, but believe the bid requirement was met. However, no documentation was found, contrary to state procurement policy.

For a $11,421 purchase of three computers using a procard, the department could not provide either limited solicitation bid requirement or sole source documentation, contrary to state procurement policy. Department personnel indicated because of the fixed costs of the computers, limited solicitation was not necessary. However, sole source documentation should have been completed as required by state procurement rules.

We believe risk of noncompliance with purchasing regulations for procard purchases is higher because the transactions do not go through the normal supervisor approval process before the purchase occurs. Once the item is purchased, the supervisory approval is too late to ensure that state purchasing regulations are followed. Procard limits are a management control to limit what personnel can spend without prior approval. Without adequate controls, the department may not be in compliance with state purchasing rules intended to minimize the amount the department pays for goods and services.

Since we brought this issue to their attention, department management have added a provision in their procard policy related to compliance with state procurement requirements and the prohibition of splitting purchases between cards to circumvent procard limits and avoid the procurement requirements. Although the addition to policy is a positive step, education in state procurement laws and rules is necessary for procard users. In addition, monitoring of procard purchases is necessary to ensure compliance with procurement laws and rules that include: sole source documentation, limited solicitation, splitting of purchases, and documentation requirements.

RECOMMENDATION #4

We recommend the department implement effective controls to ensure procard purchases comply with state procurement purchasing laws and rules.

Travel Policy

The department's travel policy allows certain employees to be paid higher rates for meals than is allowed by statute.

In 1991, the department established a policy to enable staff, required as part of their job to entertain writers, directors, producers, or prospective business, to be reimbursed for the actual costs of the meals. The current policy, revised in November 2010, allows employees to receive the full cost of their meal if authorized. Currently, 24 people at the department are authorized to allow exceptions under this policy. State law, §2-18-501, MCA, only permits a per diem amount of $5 for the morning meal, $6 for the midday meal, and $12 for the evening meal, unless an exception is requested and received from the Department of Administration. The department does not have an exception to the state law granted through Department of Administration. We found the following two activities completed by the Promotions Division where the employees were permitted to receive more for meals than allowed by state law.

Content Gathering – From February 2012 through October 2013, employees traveled 17 times through particular areas of the state to gather information on tourism used in a workshop designed to promote that area of the state. We reviewed one of the 17 trips and found that for six meals reviewed, employees were allowed $173 more for meals than permitted under state law.

Familiarization Tours – During fiscal years 2012 and 2013, employees completed four familiarization tours. Normally one or two employees travel the state with travel writers, tour operators, and travel agents to promote state tourism. We reviewed two meals from two different tours and noted at least one state employee was allowed to be reimbursed for a total of $35 more than permitted by state law.

Employees paid for all the expenses of the content gatherings and familiarization tours' meals through procards. None of the employees involved with the travel completed a travel reimbursement form. State travel policy requires employees use a travel expense voucher, or similar travel claim form authorized by their agency, to itemize their allowable expenses, even when procards are used. Information on the travel expense forms is necessary to determine compliance with state law and policy regarding specific travel time frames for meals. In addition, for the eight total meals we reviewed as discussed above, over $100 in tips were paid for state employees. State travel policy does not allow meal tips as eligible travel expenses.

The two activities discussed above were the only activities we noted during the audit that allowed the increased meal rates; however, we did not review all activity at the department. Given that 24 employees are authorized to allow the increased meal rates under their policy, the potential exists for other use of the policy in violation of state law.

Recommendation #5

We recommend the department:

A. *Comply with state law regarding allowance for meals.*

B. *Require employees complete travel reimbursement forms as required by state policy.*

C. *Comply with state travel policy regarding tips.*

Montana Heritage Commission

The Montana Heritage Commission and a subcommittee are not in compliance with state laws regarding membership.

The Montana Heritage Commission is to acquire and manage, on behalf of the state, properties that possess outstanding historical value, display exceptional qualities worth preserving, are genuinely representative of the state's culture and history, and demonstrate the ability to become economically self-supporting. State law requires a subcommission be established to review and recommend the sale of personal property from the former Bovey assets acquired by the 55th Legislature. We found the following two instances of noncompliance with state law regarding the commission and subcommittee membership:

- Section 22-3-1002(2), MCA, states the commission is to be made up of 14 members, including two members appointed by legislative leadership. The terms for both people appointed by legislative leadership expired in April 2013, and neither one has been replaced. Although the department cannot fill the vacancies themselves, the request by the department for replacements did not occur until September 2013, six months after the two members' terms expired.
- The subcommittee does not have equal representation from the Montana Historical Society Board of Trustees as required by §22-3-1003(7), MCA. In addition, the operations manager for the Montana Heritage Commission was a member of the subcommittee. State law does not provide for the operations manager to be on the subcommittee.

Department personnel indicated they will make the changes for the subcommittee and have requested the commission members be appointed by either the President of the Senate or Speaker of the House.

Recommendation #6

We recommend the department:

A. *Facilitate, in a timely manner, membership requirements in state law regarding the Montana Heritage Commission.*

B. *Comply with state law regarding Montana Heritage Commission subcommittee membership.*

Independent Auditor's Report and Department 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:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Commerce for each of the fiscal years ended June 30, 2013, and 2012, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Department of Commerce's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department of Commerce's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, liabilities, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Department of Commerce, as of June 30, 2013, and June 30, 2012, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the financial schedules referred to above presents fairly, in all material respects, the results of operations and changes in fund equity of the Department of Commerce for each of the fiscal years ended June 30, 2013, and 2012, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 17, 2013

DEPARTMENT OF COMMERCE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Investment Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2012	$ (6,669,583)	$ 34,297,383	$ (1,500,386)	$ (3,561)	$ 180,749,443	$ 546,885	$ 450,226,143	$ 31,694
ADDITIONS								
Budgeted Revenues & Transfers-In	1,570,000	5,521,374	12,770,101		40,109,940	5,756,237		
Nonbudgeted Revenues & Transfers-In	28	315	601		29,187,808	265	903,489,135	
Prior Year Revenues & Transfers-In Adjustments		58,829	(4,992)		84,285			
Direct Entries to Fund Equity	8,714,607	27,260,746	4,055,954	31,713	(8,205)	(48,748)		
Total Additions	10,284,635	32,841,264	16,821,664	31,713	69,373,828	5,707,754	903,489,135	0
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	7,128,997	50,422,426	17,441,512	43,747	72,190,987	6,401,123		
Nonbudgeted Expenditures & Transfers-Out	(346)	1,274,217	(650,103)		471,803	236,377	858,879,243	
Prior Year Expenditures & Transfers-Out Adjustments	(26,533)	(1,190,284)	(631,840)	(1,450)	(116,818)	190		
Total Reductions	7,102,118	50,506,360	16,159,568	42,297	72,545,972	6,637,689	858,879,243	0
FUND EQUITY: June 30, 2013	$ (3,487,066)	$ 16,632,288	$ (838,291)	$ (14,146)	$ 177,577,299	$ (383,050)	$ 494,836,035	$ 31,694

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.

DEPARTMENT OF COMMERCE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Investment Trust Fund	Permanent Fund
FUND EQUITY July 1, 2011	$ (9,361,676)	$ 44,649,198	$ (3,312,327)	$ (5,321)	$ 177,242,134	$ 517,048	$ 415,221,685	$ 31,694
ADDITIONS								
Budgeted Revenues & Transfers-In		3,838,934	21,885,921		45,624,309	6,152,912		
Nonbudgeted Revenues & Transfers-In	25	11,275	118,269		35,985,943		892,902,433	
Prior Year Revenues & Transfers-In Adjustments		(1,515)	300,079		62,677			
Direct Entries to Fund Equity	9,066,338	21,140,748	3,728,176	203,687	5,303	(50,179)		
Total Additions	9,066,363	24,989,442	26,032,445	203,687	81,678,233	6,102,733	892,902,433	0
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	7,141,889	36,602,158	24,346,770	201,927	78,015,244	5,967,585		
Nonbudgeted Expenditures & Transfers-Out		(734,586)	(11,875)		277,787	115,688	857,897,975	
Prior Year Expenditures & Transfers-Out Adjustments	(767,619)	(526,315)	(114,391)		(122,108)	(10,377)		
Total Reductions	6,374,270	35,341,257	24,220,504	201,927	78,170,924	6,072,896	857,897,975	0
FUND EQUITY June 30, 2012	$ (6,669,583)	$ 34,297,383	$ (1,500,386)	$ (3,561)	$ 180,749,443	$ 546,885	$ 450,226,142	$ 31,694

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DEPARTMENT OF COMMERCE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Investment Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Taxes	$ 28		$ 569				$ 597
Charges for Services		$ 208,167	15	$ 2,145,043	$ 5,439,372		7,792,597
Investment Earnings		342,183	216,055	26,499,590		$ 996,443	28,054,271
Monetary Settlements				50,000			50,000
Sale of Documents, Merchandise and Property		43,546		49,500			93,046
Rentals, Leases and Royalties		163,864					163,864
Contributions and Premiums		4,387				902,492,692	902,497,079
Grants, Contracts, and Donations		299,183					299,183
Transfers-in	1,570,000	4,515,040					6,085,040
Intra-entity Revenue				12,916			12,916
Federal Indirect Cost Recoveries				12,186	317,130		329,316
Miscellaneous		4,148					4,148
Federal			12,549,071	40,612,798			53,161,869
Total Revenues & Transfers-In	1,570,028	5,580,518	12,765,710	69,382,033	5,756,502	903,489,135	998,543,926
Less: Nonbudgeted Revenues & Transfers-In	28	315	601	29,187,808	265	903,489,135	932,678,152
Prior Year Revenues & Transfers-In Adjustments		58,829	(4,992)	84,285			138,122
Actual Budgeted Revenues & Transfers-In	1,570,000	5,521,374	12,770,101	40,109,940	5,756,237	0	65,727,652
Estimated Revenues & Transfers-In	1,570,000	5,688,735	17,440,515	41,451,234	5,843,649		71,994,133
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 0	$ (167,361)	$ (4,670,414)	$ (1,341,294)	$ (87,412)	$ 0	$ (6,266,481)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Licenses and Permits		$ (20,100)					$ (20,100)
Charges for Services		(60,612)		$ 973,455	$ (86,542)		826,301
Investment Earnings		(3,687)	$ (857)	(2,330,264)			(2,334,808)
Sale of Documents, Merchandise and Property		(1,654)		(500)			(2,154)
Rentals, Leases and Royalties		(47,136)					(47,136)
Contributions and Premiums		(13)					(13)
Grants, Contracts, and Donations		(34,117)					(34,117)
Intra-entity Revenue				3,316			3,316
Federal Indirect Cost Recoveries				(264)	(870)		(1,134)
Miscellaneous		(42)					(42)
Federal			(4,669,557)	12,963			(4,656,594)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 0	$ (167,361)	$ (4,670,414)	$ (1,341,294)	$ (87,412)	$ 0	$ (6,266,481)

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Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF COMMERCE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Investment Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Taxes			$ 422				$ 422
Charges for Services	$ 25	$ 124,080		$ 1,348,548	$ 5,850,547		7,323,200
Investment Earnings		352,214	235,347	39,359,075		$ 1,104,951	41,051,587
Monetary Settlements		4,871		503,310			508,181
Sale of Documents, Merchandise and Property		23,153		72,000			95,153
Rentals, Leases and Royalties		186,350					186,350
Contributions and Premiums						891,797,482	891,797,482
Grants, Contracts, and Donations		279,708					279,708
Transfers-in		2,874,884	4,245,556				7,120,440
Intra-entity Revenue				17,419			17,419
Federal Indirect Cost Recoveries				18,520	302,365		320,885
Miscellaneous		3,434		782			4,216
Federal			17,822,944	40,353,275			58,176,219
Total Revenues & Transfers-In	25	3,848,694	22,304,269	81,672,929	6,152,912	892,902,433	1,006,881,262
Less: Nonbudgeted Revenues & Transfers-In	25	11,275	118,269	35,985,943		892,902,433	929,017,945
Prior Year Revenues & Transfers-In Adjustments		(1,515)	300,079	62,677			361,241
Actual Budgeted Revenues & Transfers-In	0	3,838,934	21,885,921	45,624,309	6,152,912	0	77,502,076
Estimated Revenues & Transfers-In	12	4,105,121	35,355,645	46,893,302	6,850,085		93,204,165
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (12)	$ (266,187)	$ (13,469,724)	$ (1,268,993)	$ (697,173)	$ 0	$ (15,702,089)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Licenses and Permits		$ (20,100)					$ (20,100)
Charges for Services	$ (12)	(30,053)		$ (39,372)	$ (405,401)		(474,838)
Investment Earnings		(60,989)	$ 87,677	(127,366)			(100,678)
Fines and Forfeits		(187)					(187)
Monetary Settlements		(62)		461,437			461,375
Sale of Documents, Merchandise and Property		(32,241)		(38,000)			(70,241)
Rentals, Leases and Royalties		(39,886)					(39,886)
Contributions and Premiums		(220)					(220)
Grants, Contracts, and Donations		(72,339)					(72,339)
Transfers-in		(9,744)	(1,721)				(11,465)
Intra-entity Revenue				(2,632)			(2,632)
Federal Indirect Cost Recoveries				(480)	(291,772)		(292,252)
Miscellaneous		(366)		(218)			(584)
Federal			(13,555,680)	(1,522,362)			(15,078,042)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (12)	$ (266,187)	$ (13,469,724)	$ (1,268,993)	$ (697,173)	$ 0	$ (15,702,089)

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Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF COMMERCE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Board of Investments	Business Resources Division	Community Development Division	Energy Promotion & Development Division	Housing Division	Management Services Division	Montana Facility Finance Authority	Montana Heritage Commission	Montana Promotion Division	Total
Personal Services										
Salaries	$ 2,284,607	$ 1,694,578	$ 1,045,812	$ 235,950	$ 2,167,704	$ 1,169,355	$ 144,322	$ 401,912	$ 1,468,278	$ 10,612,518
Other Compensation	6,450	1,250	1,200		3,050		1,750			13,700
Employee Benefits	602,612	551,349	343,920	79,544	780,103	333,189	45,564	127,579	504,460	3,368,320
Personal Services-Other	29,395				32,127	(33,359)	(5,899)			22,264
Total	2,923,064	2,247,177	1,390,932	315,494	2,982,984	1,469,185	185,737	529,491	1,972,738	14,016,802
Operating Expenses										
Other Services	1,328,801	1,398,920	116,802	26,658	4,358,265	85,420	28,280	125,751	2,474,008	9,942,905
Supplies & Materials	60,207	92,107	138,491	3,175	208,301	42,421	10,132	101,748	212,386	868,968
Communications	30,937	81,492	30,446	18,986	64,174	22,199	3,763	85,513	6,746,332	7,083,842
Travel	53,410	100,738	51,626	7,187	110,944	20,347	10,075	26,212	148,275	528,814
Rent	209,110	170,462	126,889	14,680	217,412	101,222	22,773	230	219,104	1,081,882
Utilities		2,394						89,867		92,261
Repair & Maintenance	845	12,295	6,058	7,442	369,539	1,343	11,175	58,978	16,210	483,885
Other Expenses	428,543	3,214,863	255,087	56,866	1,489,028	31,153	39,588	106,989	836,407	6,458,524
Goods Purchased For Resale								15,630		15,630
Total	2,111,853	5,073,271	725,399	134,994	6,817,663	304,105	125,786	610,918	10,652,722	26,556,711
Equipment & Intangible Assets										
Total										
Local Assistance										
From State Sources									5,131,745	5,131,745
Total									5,131,745	5,131,745
Grants										
From State Sources		3,755,958	25,189,828				49,288		1,438,329	30,433,403
From Federal Sources		844,285	7,461,821		2,169,800	404,382				10,880,288
Total		4,600,243	32,651,649		2,169,800	404,382	49,288		1,438,329	41,313,691
Benefits & Claims										
From State Sources							47,799			47,799
From Federal Sources					37,525,379					37,525,379
STIP Distrib to Local Govts	858,879,243									858,879,243
Total	858,879,243				37,525,379		47,799			896,452,421
Transfers-out										
Fund transfers		1,295,000	1,572,665						100,000	2,967,665
Intra-Entity Expense							12,916			12,916
Total		1,295,000	1,572,665				12,916		100,000	2,980,581
Debt Service										
Bonds	609,486				24,527,447					25,136,933
Total	609,486				24,527,447					25,136,933
Other Post Employment Benefits										
Other Post Employment Benefits	89,330				125,298	60,438	9,298			284,364
Total	89,330				125,298	60,438	9,298			284,364
Total Expenditures & Transfers-Out	$ 864,612,976	$ 13,215,691	$ 36,340,645	$ 450,488	$ 74,148,571	$ 2,238,110	$ 430,824	$ 1,140,409	$ 19,295,534	$ 1,011,873,248
EXPENDITURES & TRANSFERS-OUT BY FUND										
General Fund		$ 5,681,363	$ 970,267	$ 450,488						$ 7,102,118
State Special Revenue Fund		2,694,577	27,418,136					$ 1,098,112	$ 19,295,534	50,506,359
Federal Special Revenue Fund		4,839,751	7,952,242		$ 2,963,194	$ 404,382				16,159,569
Capital Projects Fund								42,297		42,297
Enterprise Fund	$ 929,771				71,185,377		$ 430,824			72,545,972
Internal Service Fund	4,803,962					1,833,728				6,637,690
Investment Trust Fund	858,879,243									858,879,243
Total Expenditures & Transfers-Out	864,612,976	13,215,691	36,340,645	450,488	74,148,571	2,238,110	430,824	1,140,409	19,295,534	1,011,873,248
Less: Nonbudgeted Expenditures & Transfers-Out	859,000,487	(1,045,392)	1,569,754		548,030	34,353	4,552	(228)	99,635	860,211,191
Prior Year Expenditures & Transfers-Out Adjustments	(42)	(2,248)	(345,740)	(4,275)	(817,159)	232	47,812	414	(845,728)	(1,966,734)
Actual Budgeted Expenditures & Transfers-Out	5,612,531	14,263,331	35,116,631	454,763	74,417,700	2,203,525	378,460	1,140,223	20,041,627	153,628,791
Budget Authority	6,310,428	26,458,702	41,556,544	455,000	90,870,321	2,400,664	417,922	1,148,942	21,542,140	191,160,663
Unspent Budget Authority	$ 697,897	$ 12,195,371	$ 6,439,913	$ 237	$ 16,452,621	$ 197,139	$ 39,462	$ 8,719	$ 1,500,513	$ 37,531,872
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund		$ 37,480	$ 464,894	$ 237						$ 502,611
State Special Revenue Fund		6,315,954	1,713,201		$ 25,800			$ 4,924	$ 1,500,513	9,560,392
Federal Special Revenue Fund		5,841,937	4,261,818		4,068,725	$ 195,618				14,368,099
Capital Projects Fund								3,795		3,795
Enterprise Fund	$ 547,438				12,358,096		$ 39,462			12,944,996
Internal Service Fund	150,459					1,521				151,980
Unspent Budget Authority	$ 697,897	$ 12,195,371	$ 6,439,913	$ 237	$ 16,452,621	$ 197,139	$ 39,462	$ 8,719	$ 1,500,513	$ 37,531,872

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DEPARTMENT OF COMMERCE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Board of Investments	Business Resources Division	Community Development Division	Energy Promotion & Development Division	Housing Division	Director's Office Division	Montana Facility Finance Aurhority	Montana Heritage Commission	Montana Promotion Division	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT										
Personal Services										
Salaries	$ 2,096,553	$ 1,523,406	$ 998,719	$ 198,962	$ 1,875,074	$ 1,015,192	$ 134,358	$ 383,125	$ 1,247,540	$ 9,472,929
Other Compensation	9,600	1,081	1,750		3,379		5,050			20,860
Employee Benefits	555,140	531,045	335,266	66,525	683,619	303,737	42,251	154,662	451,847	3,124,092
Personal Services-Other	63,244				11,404	13,893	4,764			93,305
Total	2,724,537	2,055,532	1,335,735	265,487	2,573,476	1,332,822	186,423	537,787	1,699,387	12,711,186
Operating Expenses										
Other Services	1,245,856	1,662,937	151,343	71,553	5,232,284	46,308	50,809	196,053	5,329,482	13,986,625
Supplies & Materials	65,161	102,857	52,414	5,269	230,540	49,150	4,681	102,266	267,081	879,419
Communications	57,313	165,938	30,580	15,814	88,110	19,732	5,899	56,445	9,186,243	9,626,074
Travel	47,536	132,077	64,289	13,533	80,936	6,779	26,381	25,768	131,229	528,528
Rent	205,074	183,705	129,307	13,486	224,036	82,196	22,139	4,621	217,544	1,082,108
Utilities		2,763		35				79,926		82,724
Repair & Maintenance	1,856	12,474	5,978	871	177,774	2,931	266	84,157	53,410	339,717
Other Expenses	429,282	8,887,178	221,969	73,608	903,462	25,864	37,577	95,923	795,890	11,470,753
Goods Purchased For Resale								13,853		13,853
Total	2,052,078	11,149,929	655,880	194,169	6,937,142	232,960	147,752	659,012	15,980,879	38,009,801
Equipment & Intangible Assets										
Equipment								25,500	48,508	74,008
Total								25,500	48,508	74,008
Capital Outlay										
Total										
Local Assistance										
From State Sources									5,031,750	5,031,750
Total									5,031,750	5,031,750
Grants										
From State Sources		2,671,127	7,102,357			(600)	45,686		1,099,320	10,917,890
From Federal Sources		858,252	6,269,984		5,807,299	275,672				13,211,207
Total		3,529,379	13,372,340		5,807,299	275,072	45,686		1,099,320	24,129,097
Benefits & Claims										
From Federal Sources					37,838,153					37,838,153
STIP Distrib to Local Govts	857,897,975									857,897,975
Total	857,897,975				37,838,153					895,736,128
Transfers-out										
Fund transfers		1,295,000		4,000					100,000	1,399,000
Intra-Entity Expense							17,419			17,419
Total		1,295,000		4,000			17,419		100,000	1,416,419
Debt Service										
Bonds	742,110				30,177,416					30,919,526
Total	742,110				30,177,416					30,919,526
Other Post Employment Benefits										
Other Post Employment Benefits	78,891				110,951	53,359	8,636			251,837
Total	78,891				110,951	53,359	8,636			251,837
Total Expenditures & Transfers-Out	$ 863,495,591	$ 18,029,840	$ 15,363,956	$ 463,656	$ 83,444,437	$ 1,894,213	$ 405,916	$ 1,222,299	$ 23,959,844	$ 1,008,279,753
EXPENDITURES & TRANSFERS-OUT BY FUND										
General Fund		$ 5,023,645	$ 902,295	$ 448,501		$ (171)				$ 6,374,270
State Special Revenue Fund		2,512,386	7,844,855	10,000		(6,200)		$ 1,020,372	$ 23,959,844	35,341,257
Federal Special Revenue Fund		10,493,809	6,616,806	5,155	$ 6,829,062	275,672				24,220,504
Capital Projects Fund								201,927		201,927
Enterprise Fund	$ 1,149,632				76,615,375		$ 405,916			78,170,923
Internal Service Fund	4,447,984					1,624,912				6,072,896
Investment Trust Fund	857,897,975									857,897,975
Total Expenditures & Transfers-Out	863,495,591	18,029,840	15,363,956	463,656	83,444,437	1,894,213	405,916	1,222,299	23,959,844	1,008,279,752
Less: Nonbudgeted Expenditures & Transfers-Out	858,043,394	(846,461)			188,366	77,683	(17,991)		100,000	857,544,991
Prior Year Expenditures & Transfers-Out Adjustments	(14,781)	(711,532)	(540,128)	(859)	(211,606)	8,338	1,809	63,935	(135,986)	(1,540,810)
Actual Budgeted Expenditures & Transfers-Out	5,466,978	19,587,833	15,904,084	464,515	83,467,677	1,808,192	422,098	1,158,364	23,995,830	152,275,571
Budget Authority	6,218,723	33,822,735	47,830,813	470,155	114,590,803	2,167,422	485,230	1,209,597	25,239,870	232,035,348
Unspent Budget Authority	$ 751,745	$ 14,234,902	$ 31,926,729	$ 5,640	$ 31,123,126	$ 359,230	$ 63,132	$ 51,233	$ 1,244,040	$ 79,759,777
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund		$ 14,556	$ 461,896	$ 5,640						$ 482,092
State Special Revenue Fund		5,050,228	23,481,367		$ 25,800			$ 3,691	$ 1,244,040	29,805,126
Federal Special Revenue Fund		9,170,118	7,983,466		13,382,730	$ 338,937				30,875,251
Capital Projects Fund								47,542		47,542
Enterprise Fund	$ 657,322				17,714,596		$ 63,132			18,435,048
Internal Service Fund	94,423					20,293				114,716
Unspent Budget Authority	$ 751,745	$ 14,234,902	$ 31,926,729	$ 5,640	$ 31,123,126	$ 359,230	$ 63,131	$ 51,233	$ 1,244,040	$ 79,759,777

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Additional information is provided in the notes to the financial schedules beginning on page A-9.

Department of Commerce
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2013

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Capital Projects, Debt Service, and Permanent). In applying the modified accrual basis, the department 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 department 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 department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Investment Trust) fund categories. Under the accrual basis, as defined by state accounting policy, the department 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 department 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 department uses the following funds:

Governmental Fund Category

- **General Fund** – to account for all financial resources except those required to be accounted for in another fund.

- **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. Department State Special Revenue Funds include Distressed Woods, Micro-business Loans, School Facilities and Tech Account, Treasure State Endowment Fund, Coal Board, and Montana Heritage Commission.
- **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include assistance programs such as Community Development Block Grants, Housing Tax Credit Exchange, Neighborhood Stabilization, and HOME grants.
- **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 Department uses this fund for costs of historic preservation and supporting improvements in Virginia and Nevada Cities.
- **Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's, programs. The department uses this fund to account for income from sales of personal property by the Montana Heritage Commission.

Proprietary Fund Category

- **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. Department Internal Service Funds include the Investment Division and the Director's Office.
- **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. Department Enterprise Funds include Facility Finance Authority, Board of Housing, Board of Investments Industrial Revenue Bonds, and Section 8 Housing Programs.

Fiduciary Fund Category

- **Investment Trust Fund** – to account for situations where legally separate governments commingle their investments in a pool for the benefit of all participants. The Department investment trust fund is the Short Term

Investment Pool managed by the Board of Investment which accounts for all investing activity for local governments.

2. General Fund Equity

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity for each of the fiscal years ended June 30, 2013, and June 30, 2012.

3. Direct Entries to Fund Equity

The majority of the total direct entries to fund balances in the General and State Special Revenue Funds relate to entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. Some of the direct entries reflect the reduction of accrued grant awards.

4. Change in Accounting Presentation

The Department of Commerce administers the State Small Business Credit Initiative Act. This grant was awarded to the Governor's Office. The first receipt of money was recorded as a Transfer In from the Governor's Office. The remaining receipts have been recorded as federal revenue. This results in an inconsistency between the reporting of similar transactions within the same fiscal year on the Schedule of Changes in Fund Equity and the Schedule of Revenue and Transfers-In.

5. Subsequent Events

On September 26, 2013, the Montana Board of Housing issued $60.0 million of Single Family Program Bonds Series 2013 B (1979 Single Family II Indenture). The bonds will mature on June 1, 2014, through December 1, 2044, with interest rates from 0.45 percent to 5.30 percent. Bond proceeds of $35.0 million were used to purchase single family mortgage loans for the Board's Homeownership Program. Bond proceeds of $25.0 million were used to refund existing bond issues.

On July 1, 2013, MBOH Servicing began servicing approximately 2,600 loans acquired from a former mortgage loan servicer for the Board. As of the end of July, MBOH serviced approximately 3,000 loans or 48 percent of the Board's mortgage loan portfolios.

The 2013 Legislative Session transferred the Board of Horse Racing to the Department of Commerce from the Department of Livestock. The Board has a contracted Executive Director and no other staff. The transfer included $502,742.40 of loans.

On July 1, 2013, the Energy Promotion and Development Division consolidated into the Business Resources Division.

Department of Commerce

Department Response

MONTANA
DEPARTMENT OF COMMERCE

DIRECTOR'S OFFICE

RECEIVED
JAN 17 2014
LEGISLATIVE AUDIT DIV.

January 17, 2014

Ms. Tori Hunthausen
Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, Montana 59620-1705

Dear Ms. Hunthausen:

We have reviewed the recommendations pertaining to the Department of Commerce's Financial-Compliance Audit for the two fiscal years ended June 30, 2013. Our response is as follows:

RECOMMENDATION #1
We recommend the department comply with its written control plan and only pay invoices that have been authorized by program personnel on the authorized signer list.

Response:
The department concurs.

RECOMMENDATION #2
We recommend the department periodically require employees to disclose any conflict of interest situations and when necessary, reduce the risks of conflict of interest situations through segregation of duties.

Response:
The department concurs. In the situation described, the department knew of the relationship and mitigated risks by having segregation of duties and no authorization for the employee to approve payments to the identified contracts. The department agrees the controls can be strengthened and will implement a process to have conflict of interest letters signed periodically.

RECOMMENDATION #3
We recommend the department document its reconciliation process to ensure all federal expenses are approved and all administrative charges to Section 8 Housing Choice Voucher Program are allowable.

MEG O'LEARY, DIRECTOR

STEVE BULLOCK, GOVERNOR

http://commerce.mt.gov
Commerce@mt.gov
301 S. Park Ave. | P.O. Box 200501 | Helena, MT | 59620-0501 | Phone:406.841.2700 | Fax:406.841.2701 | TDD:406.841.2702

Response:
The department concurs. Written internal control procedures are being developed that can be tested and will assure that only authorized and allowable administrative expenses are being paid.

RECOMMENDATION #4
We recommend the department implement effective controls to ensure procard purchases comply with state procurement purchasing laws and rules.

Response:
The department concurs. Training for all procard holders was held January 15, 2014. This training focused on procurement processes. Accounting staff will continue to review all procard purchases.

RECOMMENDATION #5
We recommend the department:

A. Comply with state law regarding allowance for meals.

B. Require employees complete travel reimbursement forms as required by state policy.

C. Comply with state travel policy regarding tips.

Response:
The department concurs. Employees that were required as part of their job to promote Montana by escorting writers, directors, producers, etc, were allowed to have their meals exceed the state travel policy when dining with them. This was done through a department policy in 1991. The policy has been rescinded and employees are no longer receiving more than the travel policy allows.

RECOMMENDATION #6
We recommend the department:
A. Facilitate, in timely manner, membership requirements in state law regarding the Montana Heritage Commission.

B. Comply with state law regarding Montana Heritage Commission subcommittee membership.

Response:
The department concurs. The department will continue to inform the appropriate appointing authority.

My staff and I will be available to discuss the audit and recommendations with the Legislative Audit Committee at its convenience.

Sincerely,

Meg O'Leary
Director

MEG O'LEARY, DIRECTOR STEVE BULLOCK, GOVERNOR

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