



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Office of the
Secretary of State*

*For the Two Fiscal Years Ended
June 30, 2014*

FEBRUARY 2015

LEGISLATIVE AUDIT
DIVISION

14-19

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2013, was issued March 28, 2014. The Single Audit Report for the two fiscal years ended June 30, 2015, will be issued by March 31, 2016. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

February 2015

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report for the Office of the Secretary of State (office) for the two fiscal years ended June 30, 2014. This report does not include any recommendations.

This report includes the office'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 office'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 office's written response to the audit is included in the audit report at page B-1. We would like to thank the secretary and her staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

TABLE OF CONTENTS

Elected, Appointed, and Administrative Officials.....	ii
Report Summary	S-1
CHAPTER I – INTRODUCTION.....	1
Introduction.....	1
Background	1
Prior Audit Recommendation	2
INDEPENDENT AUDITOR’S REPORT AND OFFICE FINANCIAL SCHEDULES	
Independent Auditor’s Report	A-1
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2014	A-3
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2013	A-4
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2014.....	A-5
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2013.....	A-6
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2014.....	A-7
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2013.....	A-8
Notes to the Financial Schedules	A-9
OFFICE RESPONSE	
Office of the Secretary of State	B-1

ELECTED, APPOINTED, AND ADMINISTRATIVE OFFICIALS

Office of the Secretary of State Linda McCulloch, Secretary of State
Eric Stern, Chief Deputy Secretary of State
Jane Demaray, Deputy Secretary of State
Jorge Quintana, Chief Legal Counsel
Tana Gormely, Deputy for Business Services
Lisa Kimmet, Deputy for Elections & Government Services
Joe DeFilippis, Deputy for Records and Information Management
Brandi Pierson, Chief Financial Officer

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

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Office of the Secretary of State

For the Two Fiscal Years Ended June 30, 2014

FEBRUARY 2015

14-19

REPORT SUMMARY

The Office of the Secretary of State provides diverse services to the public and other state agencies including elections administration, administrative rule, corporate and Uniform Commercial Code filing, and records and information management. The office collected approximately \$9.8 million in revenue for its services provided during fiscal years 2013 and 2014 combined.

Context

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

During the fiscal year 2013 and 2014 audit period, approximately 97 percent of the office's total expenses of \$11.1 million are related to personal services and operating expenses. All office expense activity is included in the Business and Government Services program on the Schedules of Expenditures & Transfers-Out. The office's main source of revenue is charges for services, derived from the fees it charges for corporate and Uniform Commercial Code (UCC) filings, totaling approximately \$9.8 million in the audit period.

Results

Our audit effort concentrated on significant activity including charges for services, personal services, and contracted services. In addition, we reviewed significant transactions recording the new computer system as construction work in process. We audited this activity through a combination of sampling, analytical techniques, as well as testing of the office's significant controls. We also determined the status of audit recommendations made to the office in the prior audit report.

We found the office implemented one of the three recommendations. We were unable to follow-up during this audit on the other two recommendations because the office did not have any reverted appropriations or new federal funding. We will continue to monitor the recommendations in future audits.

For a complete copy of the report (14-19) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>

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Call toll-free 1-800-222-4446, or e-mail ladhotline@mt.gov.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Office of the Secretary of State (office) for the two fiscal years ended June 30, 2014. The objectives of this audit were to:

1. Determine whether the office's financial schedules present fairly, the financial position and results of operations in accordance with state accounting policy for each of the two fiscal years ended June 30, 2014.
2. Obtain an understanding of the office's control systems to the extent necessary to support our audit of the office's financial schedules and, if appropriate, make recommendations for improvement in the internal and management controls of the office.
3. Determine whether or not the office has complied with selected laws and regulations.
4. Determine whether or not the office implemented audit recommendations made in the previous audit.

This audit report does not include any recommendations to the office.

During this audit, we focused audit effort on significant classes of transactions including charges for services, personal services, and contracted services. In addition, we reviewed significant transactions recording the office's new computer system as construction work in process. We audited this material activity through a combination of sampling and analytical techniques, as well as testing of the office's significant controls.

Background

Article VI, Section 1, of the Montana Constitution authorizes the Secretary of State as an officer of the executive branch of state government. Section 2-15-401, MCA, sets forth the Secretary of State's duties. In fiscal year 2014, the office was authorized 57.25 full-time equivalent employees. The office includes the following five divisions:

- ♦ Elections and Government Services
- ♦ Administrative Rules of Montana and Notary Services
- ♦ Business Services
- ♦ Executive
- ♦ Records and Information Management

The office files, stores, maintains, and preserves permanent records of the state. It also registers businesses and files documents for business entities operating in the state of Montana. The office publishes the Montana Administrative Register and the Administrative Rules of Montana. The office is also responsible for the commissioning of notaries public in Montana.

The Secretary of State serves as chief election officer of the state, maintains uniformity in the application of the election laws and retaining electronic records through the Elections and Government Services Division. In addition, the Secretary of State serves as a member of the Board of Land Commissioners, the Board of Examiners, and the Capital Finance Advisory Council.

Prior Audit Recommendation

The prior audit report included three recommendations to the office. We determined the office fully implemented one of the recommendations related to procedures for verifying completeness of online revenue and internal control testing procedures. We were not able to follow-up this audit on the other two prior audit recommendations because the office did not have any reverted appropriations or new federal funding during the audit period. We will continue to monitor the status of these two recommendations in future audits.

Independent Auditor's Report and Office Financial Schedules

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

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 Secretary of State's office for each of the fiscal years ended June 30, 2014, and 2013, 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 office'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 office'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.

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 office as of June 30, 2014, and June 30, 2013, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, present fairly, in all material respects, the results of operations and changes in fund equity of the Secretary of State's office for each of the fiscal years ended June 30, 2014, and June 30, 2013, 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 15, 2014

SECRETARY OF STATE'S OFFICE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

FUND EQUITY: July 1, 2013	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund
	\$ 1,955	\$ 731,750	\$ 0	\$ 4,078,555
ADDITIONS				
Budgeted Revenues & Transfers-In		26,514		5,094,504
Nonbudgeted Revenues & Transfers-In		1		41
Prior Year Revenues & Transfers-In Adjustments				25,570
Direct Entries to Fund Equity	(1,955)		809,751	
Total Additions	(1,955)	26,515	809,751	5,120,115
REDUCTIONS				
Budgeted Expenditures & Transfers-Out		134,305	982,708	5,408,511
Nonbudgeted Expenditures & Transfers-Out				(907,394)
Prior Year Expenditures & Transfers-Out Adjustments		134,305	982,708	161,736
Total Reductions	0	134,305	982,708	4,662,852
FUND EQUITY: June 30, 2014	\$ 0	\$ 623,960	\$ (172,957)	\$ 4,535,818

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund
FUND EQUITY: July 1, 2012	\$ 1,226	\$ 1,350,247	\$ 3,976,464
ADDITIONS			
Budgeted Revenues & Transfers-In		39,614	4,836,394
Nonbudgeted Revenues & Transfers-In	729	7	45
Prior Year Revenues & Transfers-In Adjustments			(18,403)
Total Additions	729	39,621	4,818,035
REDUCTIONS			
Budgeted Expenditures & Transfers-Out		658,118	4,775,377
Nonbudgeted Expenditures & Transfers-Out			(30,393)
Prior Year Expenditures & Transfers-Out Adjustments			(29,040)
Total Reductions	0	658,118	4,715,944
FUND EQUITY: June 30, 2013	\$ 1,955	\$ 731,750	\$ 4,078,555

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Federal Special Revenue Fund	Enterprise Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Charges for Services		\$ 5,090,958	\$ 5,090,958
Investment Earnings	\$ 899	4,229	5,128
Sale of Documents, Merchandise and Property		95,163	95,163
Miscellaneous		(70,234)	(70,234)
Federal	25,616		25,616
Total Revenues & Transfers-In	26,515	5,120,115	5,146,631
Less: Nonbudgeted Revenues & Transfers-In	1	41	42
Prior Year Revenues & Transfers-In Adjustments		25,570	25,570
Actual Budgeted Revenues & Transfers-In	26,514	5,094,504	5,121,019
Estimated Revenues & Transfers-In	26,000	5,034,935	5,060,935
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 514	\$ 59,569	\$ 60,084
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Charges for Services		\$ 125,695	\$ 125,695
Investment Earnings	\$ (102)	(4,776)	(4,878)
Sale of Documents, Merchandise and Property		17,879	17,879
Miscellaneous		(79,229)	(79,229)
Federal	616		616
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 514	\$ 59,569	\$ 60,084

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

TOTAL REVENUES & TRANSFERS-IN BY CLASS

	Federal Special Revenue Fund	Enterprise Fund	State Special Revenue Fund	Total
Charges for Services		\$ 4,715,047	\$	\$ 4,715,776
Investment Earnings	\$ 2,613	7,557	729	10,170
Sale of Documents, Merchandise and Property		87,903		87,903
Miscellaneous		7,528		7,528
Federal	37,008			37,008
Total Revenues & Transfers-In	39,621	4,818,035	729	4,858,385
Less: Nonbudgeted Revenues & Transfers-In	7	45	729	781
Prior Year Revenues & Transfers-In Adjustments		(18,403)		(18,403)
Actual Budgeted Revenues & Transfers-In	39,614	4,836,394	0	4,876,007
Estimated Revenues & Transfers-In	19,000	5,257,500		5,276,500
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 20,614	\$ (421,106)	\$ 0	\$ (400,493)

BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS

Charges for Services		\$ (369,721)	\$	\$ (369,721)
Investment Earnings	\$ (5,394)	537		(4,857)
Sale of Documents, Merchandise and Property		(44,450)		(44,450)
Miscellaneous		(7,472)		(7,472)
Federal	26,008			26,008
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 20,614	\$ (421,106)	\$ 0	\$ (400,493)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Business & Government Services	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	\$ 2,407,221	\$ 2,407,221
Hourly Wages	55,569	55,569
Employee Benefits	931,446	931,446
Personal Services-Other	2,807	2,807
Total	<u>3,397,043</u>	<u>3,397,043</u>
Operating Expenses		
Other Services	1,505,824	1,505,824
Supplies & Materials	91,737	91,737
Communications	171,437	171,437
Travel	32,151	32,151
Rent	221,842	221,842
Utilities	3,500	3,500
Repair & Maintenance	31,523	31,523
Other Expenses	132,168	132,168
Goods Purchased For Resale	2,821	2,821
Total	<u>2,193,003</u>	<u>2,193,003</u>
Grants		
From Federal Sources	5,000	5,000
Total	<u>5,000</u>	<u>5,000</u>
Debt Service		
Capital Leases	(397)	(397)
Total	<u>(397)</u>	<u>(397)</u>
Other Post Employment Benefits		
Other Post Employment Benefits	185,216	185,216
Total	<u>185,216</u>	<u>185,216</u>
Total Expenditures & Transfers-Out	<u>\$ 5,779,865</u>	<u>\$ 5,779,865</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
Federal Special Revenue Fund	\$ 134,305	\$ 134,305
Capital Projects Fund	982,708	982,708
Enterprise Fund	4,662,852	4,662,852
Total Expenditures & Transfers-Out	5,779,865	5,779,865
Less: Nonbudgeted Expenditures & Transfers-Out	(907,394)	(907,394)
Prior Year Expenditures & Transfers-Out Adjustments	161,736	161,736
Actual Budgeted Expenditures & Transfers-Out	6,525,524	6,525,524
Budget Authority	7,168,314	7,168,314
Unspent Budget Authority	<u>\$ 642,790</u>	<u>\$ 642,790</u>
UNSPENT BUDGET AUTHORITY BY FUND		
Federal Special Revenue Fund	\$ 590,029	\$ 590,029
Enterprise Fund	52,761	52,761
Unspent Budget Authority	<u>\$ 642,790</u>	<u>\$ 642,790</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Business & Government Services	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	\$ 2,241,207	\$ 2,241,207
Hourly Wages	(843)	(843)
Employee Benefits	840,533	840,533
Personal Services-Other	7,151	7,151
Total	<u>3,088,048</u>	<u>3,088,048</u>
Operating Expenses		
Other Services	890,091	890,091
Supplies & Materials	241,835	241,835
Communications	261,878	261,878
Travel	28,789	28,789
Rent	227,085	227,085
Utilities	8,515	8,515
Repair & Maintenance	380,141	380,141
Other Expenses	69,570	69,570
Goods Purchased For Resale	10,607	10,607
Total	<u>2,118,511</u>	<u>2,118,511</u>
Equipment & Intangible Assets		
Equipment	(11,490)	(11,490)
Total	<u>(11,490)</u>	<u>(11,490)</u>
Grants		
From Federal Sources	5,313	5,313
Total	<u>5,313</u>	<u>5,313</u>
Debt Service		
Capital Leases	1,655	1,655
Total	<u>1,655</u>	<u>1,655</u>
Other Post Employment Benefits		
Other Post Employment Benefits	172,025	172,025
Total	<u>172,025</u>	<u>172,025</u>
Total Expenditures & Transfers-Out	<u>\$ 5,374,062</u>	<u>\$ 5,374,062</u>

EXPENDITURES & TRANSFERS-OUT BY FUND

Federal Special Revenue Fund	\$ 658,118	\$ 658,118
Enterprise Fund	<u>4,715,944</u>	<u>4,715,944</u>
Total Expenditures & Transfers-Out	5,374,062	5,374,062
Less: Nonbudgeted Expenditures & Transfers-Out	(30,393)	(30,393)
Prior Year Expenditures & Transfers-Out Adjustments	<u>(29,040)</u>	<u>(29,040)</u>
Actual Budgeted Expenditures & Transfers-Out	5,433,495	5,433,495
Budget Authority	<u>7,148,533</u>	<u>7,148,533</u>
Unspent Budget Authority	<u>\$ 1,715,038</u>	<u>\$ 1,715,038</u>

UNSPENT BUDGET AUTHORITY BY FUND

Federal Special Revenue Fund	\$ 696,869	\$ 696,869
Capital Projects Fund	446,252	446,252
Enterprise Fund	<u>571,917</u>	<u>571,917</u>
Unspent Budget Authority	<u>\$ 1,715,038</u>	<u>\$ 1,715,038</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

Office of the Secretary of State

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2014

1. Summary of Significant Accounting Policies

Basis of Accounting

The office uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (State Special Revenue, Federal Special Revenue, and Capital Projects). In applying the modified accrual basis, the office records:

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

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

Expenditures and expenses may include: entire budgeted service contracts even though the office receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The office uses the following funds:

Governmental Fund Category

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

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

Proprietary Fund Category

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

2. Direct Entries to Fund Equity

Direct entries to fund balances in the Federal Special Revenue Fund, Capital Projects, and Enterprise fund include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies, corrections of errors that occurred at least two fiscal years prior, change in accounting principle or a change in the application of an accounting principle, or retroactive change mandated by the GASB in conjunction with the implementation of a pronouncement.

OFFICE OF THE
SECRETARY OF STATE

OFFICE RESPONSE



MONTANA SECRETARY OF STATE

LINDA McCULLOCH

February 11, 2015

RECEIVED

FEB 11 2015

LEGISLATIVE AUDIT DIV.

Tori Hunthausen, CPA
Legislative Audit Division
PO Box 201705
Helena Mt. 59620

Ms. Hunthausen,

I am extremely proud of this report from the Legislative Audit Division.

It has taken a considerable amount of effort and commitment from the staff of the Secretary of State Office to accomplish their goal of a report with no recommendations. I'd like to take this opportunity to recognize them for the excellent job they do.

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

If we can provide additional information, please contact us.

Sincerely,

A handwritten signature in cursive script that reads "Linda McCulloch".

Linda McCulloch
Secretary of State