



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

## *State Auditor's Office*

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

OCTOBER 2014

LEGISLATIVE AUDIT  
DIVISION

14-20

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§5-13-202(2), MCA

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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  
P.O. Box 200802  
Helena, MT 59620-0802

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

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

# LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:  
Cindy Jorgenson  
Angus Maciver

October 2014

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the State Auditor's Office (office) for the two fiscal years ended June 30, 2014. Included in this report are three recommendations related to deficiencies in internal controls and noncompliance with state law.

This report includes the office 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 office's written response to the audit recommendations is included in the audit report beginning on page B-1. We thank the State Auditor and her staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA  
Legislative Auditor



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## ELECTED, APPOINTED, AND ADMINISTRATIVE OFFICIALS

**State Auditor's Office**    Monica Lindeen, State Auditor  
    Commissioner of Securities & Insurance  
    Adam Schafer, Deputy State Auditor  
    Lynne Egan, Deputy Securities Commissioner  
    Greg Dahl, Deputy Insurance Commissioner  
    Jesse Laslovich, Chief Legal Counsel  
    Staci Litschauer, Central Services Administrator

<b>Insure Montana Board Members</b>				<u>Term Expires</u>
	John Thomas, Chair	Helena		January 2015
	Susan Witte, Vice Chair	Helena		June 2015
	Tim O'Leary	Missoula		January 2016
	Katherine Buckley-Patton	Helena		January 2016
	Julie Jaksha	Butte		June 2016
	Claudia Clifford	Helena		January 2016
	David Kendall	Missoula		June 2017
	Tara Veazey*	Helena		
	Carol Roy*	Helena		

\*These board members serve at the pleasure of the Governor and State Auditor as nonvoting staff appointments to the board.

For additional information concerning the State Auditor's Office, contact Monica Lindeen:

State Auditor's Office  
 P. O. Box 4009  
 Helena, MT 59604-4009  
 (406) 444-2040  
 e-mail: mlindeen@mt.gov







# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL-COMPLIANCE AUDIT

### State Auditor's Office

For the Two Fiscal Years Ended June 30, 2014

OCTOBER 2014

14-20

REPORT SUMMARY

The mission of the State Auditor's Office is to protect Montana's consumers through insurance and securities regulation.

### Context

The elected Montana State Auditor serves as the Commissioner of Securities and Insurance. The State Auditor's Office (office) is organized into three divisions: Centralized Management, Insurance, and Securities.

The Insurance Division investigates insurance code and rule violations, collects taxes, resolves complaints, provides insurance licenses, reviews rates, and provides continuing education. This division also includes the Insure Montana Program that provides assistance with the cost of health insurance to small businesses.

The Securities Division is responsible for the administration and enforcement of the Securities Act of Montana. This includes registration of securities issuers, salespeople, investment advisers, brokers-dealers, investment adviser representatives, and conducting investigations.

Total revenues collected by the office were approximately \$111 million and \$120 million in fiscal years 2013 and 2014, respectively. Primary revenue sources include insurance premium tax, and securities and insurance licenses, permits, and fees. Approximately 60 percent or more of total revenues are deposited into the General Fund annually.

Total annual expenditures approximate \$52 million. Primary office expenditures include local assistance, which represent

state contributions to firefighter and police retirement systems, Insure Montana tax credits, and premium assistance.

We focused our audit effort primarily on reviewing these revenue and expenditure activities and related account balances. Throughout the audit, we reviewed and tested the office's control systems and determined compliance with selected state laws and regulations.

### Results

The current audit report contains three recommendations. We identified a deficiency in access controls within the office's internally developed computer system used as the basis for recording revenues and expenditures. We also identified a control deficiency in the calculation of tax credits for the Insure Montana program. The office also does not collect all required registration documents per state law for securities issuers.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (14-20) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE  
Call toll-free 1-800-222-4446, or e-mail [ladhotline@mt.gov](mailto:ladhotline@mt.gov).

# Chapter I – Introduction

## **Introduction**

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

1. To obtain an understanding of the office's control structures to the extent necessary to support the audit of its financial schedules and, where necessary, make recommendations for improvement in the office's management and internal controls.
2. To determine the office's compliance with selected state laws and regulations during the two fiscal years ending June 30, 2014.
3. To determine the implementation status of prior audit recommendations.
4. To determine whether the office's financial schedules present fairly the results of operations and changes in fund equity for each of the fiscal years ended June 30, 2014, and June 30, 2013.

We addressed these objectives by focusing our audit effort primarily on insurance and securities revenues; including premium insurance tax, licenses, permits, and fees; and the related expenditures activity including payments of local assistance in support of the Firefighters' Unified Retirement System, the Volunteer Firefighters' Pension trust fund, and the Municipal Police Officers' Retirement System administered by the Montana Public Employees' Retirement Administration. We also reviewed the Insure Montana program, including the premium assistance and tax credit programs. Throughout the audit, we reviewed and tested the office's control systems and determined compliance with selected state laws and regulations.

## **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 consider 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 significant deficiencies we identified during this audit.

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.

Table 1  
**Summary of Deficiencies in Internal Control**

Subject	Type of Deficiency	Page
Computer Access Controls	Significant	5
Insure Montana	Significant	6

## **Office Background and Organization**

The State Auditor is the Commissioner of Insurance and Securities. The State Auditor also serves as a member of the State Land Board and the Crop Hail Insurance Board. The office licenses and regulates insurance companies and agents within the state, and regulates and registers securities dealers.

The following programs or activities that are presented on the Schedule of Expenditures & Transfers-out are explained below. Total authorized full-time equivalent (FTE) staff for the programs and activities was 88.75 during the audit period. The Local Assistance to Counties has no approved FTE and is primarily administered through the FTE of the Central Management program.

**Central Management** (18.8 FTE) This division is responsible for the administrative, budgeting, personnel, and accounting functions of the office. The division also provides support for the State Auditor as she fulfills her duties on the State Land Board and the Crop Hail Insurance Board.

**Local Assistance to Counties** The office is responsible for distributing a portion of insurance premium taxes to the Montana Public Employees' Retirement Administration for the Firefighters' Unified Retirement System, the Volunteer Firefighters' Pension trust fund, and the Municipal Police Officers' Retirement System.

**Insurance** (58.95 FTE) This division regulates the insurance industry in Montana. Its duties include: resolving insurance consumer inquiries and complaints about agents, coverage, and companies; licensing and reviewing the rates and financial condition of insurance companies; collecting the insurance premium tax; approving forms used by insurance companies; licensing, testing, and administering a continuing education program for insurance agents; and investigating insurance code and rule violations.

The division administers the Insure Montana Program, a two-part program that is designed to assist small businesses with the cost of health insurance, whether they have previously provided health insurance or not. Insure Montana has a tax credit program and a premium assistance program. Eligible employers participating in the tax credit program claim a refundable credit on their annual state income tax return. Eligible employers participating in the premium assistance program may choose to provide their employees group health insurance through a Qualified Association Health Plan or through Insure Montana's purchasing pool. Whichever plan the employer chooses, employers receive incentive payments and their employees receive assistance payments to assist with the cost of coverage.

**Securities Division** (11 FTE) This division is responsible for the administration and enforcement of the Securities Act of Montana. The division is responsible for the registration of securities issuers, salespeople, investment advisers, broker-dealers, and investment adviser representatives. It also investigates instances of unregistered or fraudulent securities transactions.

### **Prior Audit Recommendations**

The prior financial-compliance audit of the office for the two fiscal years ended June 30, 2012, contained three recommendations. The office implemented the three recommendations.



## Chapter II – Findings and Recommendations

### **Internal Control Deficiencies**

Internal controls are defined as a coordinated set of policies and procedures to ensure operating efficiency and effectiveness in conformance with applicable laws and regulations, and that the related transactions are accurate, properly recorded, and executed in accordance with management's directives. State Accounting Policy places responsibility for establishing and maintaining internal controls on management. This responsibility includes reviews, tests, and analyses of internal controls throughout the year to ensure their proper operation. The following two report sections discuss weaknesses we found in the State Auditor's Office (office) internal controls.

### **Computer Access Controls**

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**Access controls for the office's internally developed computer system can be improved.**

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The office uses an internally developed computer system called SAO Production to perform many of its regulatory and consumer protection functions, including insurance licensing, company licensing, premium tax collection, consumer complaint management, and investigations. The system is used as the basis for recording the majority of revenue and expenditure activity on the state's accounting records. Therefore, the system is critical in supporting the office's operations.

State entities must provide for the security of their data and information resources as required by state law. Access to these information resource systems must be controlled. Access controls means that access to program documentation, data files, programs, and computer hardware is limited to the extent required by individual job duties. Access controls should include reviews of access rights and password requirements to ensure appropriate access to the system.

As a part of our audit, we reviewed access controls over SAO Production and identified the following deficiencies:

- ◆ Access rights to the system are not reviewed after access is granted.
- ◆ No password requirements such as length, history, expiration, or lockouts for failed attempts are in place.

Without adequate access reviews and password controls in place, inappropriate or unintentional access could result in inappropriate transactions. Although our audit did

not identify any inappropriate transactions, inadequate controls increases the risk for these to occur.

The control deficiencies identified were communicated in writing to the office in April 2014. As a result, the office began testing access rights to the system monthly following the communication, and password requirements were put in place in June 2014. However, access control deficiencies existed the majority of the audit period. The office has plans to replace the system, which is estimated to be completed by the end of calendar year 2014. The office should ensure the new system is equipped with appropriate access controls.

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**RECOMMENDATION #1**

*We recommend the office comply with state policy and establish access and password controls over internal computer systems.*

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## **Insure Montana**

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### **Reviews of information entered into the Insure Montana database, used in the calculation of tax credits, are not performed.**

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The Insure Montana program offers a tax credit to assist small businesses with the cost of health insurance. The office determines whether a small business applicant is eligible to receive the refundable tax credit. Once eligibility is determined, the applicant's information is entered into an internal database that calculates the tax credit to be awarded. The tax credit is calculated based on several factors such as number of employees, spouse, and dependents covered on the insurance plan.

During our audit, we recalculated 46 of the approximately 2,500 tax credits awarded during the audit period and discovered two errors in calculated credits. We communicated these errors to the office. As a result, the office contacted the affected businesses who were then provided with revised tax credit certificates awarding each of them adequate tax credits.

The tax credit miscalculations occurred as a result of entry errors into the Insure Montana database. We identified that a review of the applicant's information, once entered into the Insure Montana database, is not conducted. This review of the database would mitigate their risk of calculation errors. Therefore, we consider this



lack of review to be an internal control deficiency since the errors were not prevented or detected in a timely manner. The office contributes this deficiency to human error and increased turnover in program staff.

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**RECOMMENDATION #2**

*We recommend the office perform reviews of Insure Montana tax credit calculations to prevent and detect errors in a timely manner.*

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## **Registration by Qualification**

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**The office did not require specified documentation to register as a securities offeror as required by state law.**

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The office is required to administer the Securities Act of Montana. Under this act, companies must register with the office before they can offer or sell securities in the state of Montana.

Securities can be registered by “qualification” when no other method of registration is available. This method of registration can be used by all offerings (that are not federally exempt) made within a state, and is commonly used by small businesses doing an exclusively intrastate offering. According to agency personnel, this form of registration is rarely used and only a handful of registrations are received each year and even fewer are approved.

State law prescribes the registration requirements for securities that are being registered by qualification. The law requires the registration to contain specific information and be accompanied by specific documents. During the audit, we discovered the office does not require a specimen or copy of the security being registered as specified in §30-10-205 1(l), MCA.

The specific documentation requirements are in statute to ensure adequate information is obtained for the registration of securities companies. According to the office, other methods are used to determine the adequacy of the information presented in the registration statements because securities certificates are now obsolete. The office believes the statutory requirement is therefore out of date and intends to seek a change through legislation.

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**RECOMMENDATION #3**

*We recommend the office comply with state law by requiring specified documentation in law be included in the registration by qualification.*

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# **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 Office of the State Auditor 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 and liabilities.

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 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 Office of the State Auditor for each of the fiscal years ended June 30, 2014, and 2013, in conformity with the basis of accounting described in Note 1.

*Emphasis of Matter*

As described in Note 3, in fiscal year 2012, the office incorrectly accounted for trust accounts, resulting in a \$12,840,027 understatement of fiscal year 2013 beginning fund equity in the Private Purpose Trust Fund. In accordance with state accounting policy, the office recorded direct entries to fund equity during fiscal year 2013 to correct this error. The Schedule of Changes in Fund Equity for the fiscal year ended June 30, 2013, reflects this correction. Our opinion is not modified with respect to this matter.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

August 27, 2014

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

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2013	\$ (26,473,937)	\$ 10,171,096	\$ 0	\$ 12,675,946
ADDITIONS				
Budgeted Revenues & Transfers-In	68,598,294	44,679,931	366	
Nonbudgeted Revenues & Transfers-In	5,287,240	1,886,908		284,336
Prior Year Revenues & Transfers-In Adjustments	601	(26,133)	14	
Direct Entries to Fund Equity	(46,055,023)	(26,582,781)	500	
Total Additions	27,831,112	19,957,925	881	284,336
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	29,563,016	16,714,538	381	
Nonbudgeted Expenditures & Transfers-Out		5,579,457		173,859
Prior Year Expenditures & Transfers-Out Adjustments	26,504	101,081		
Total Reductions	29,589,519	22,395,075	381	173,859
FUND EQUITY: June 30, 2014	\$ (28,232,344)	\$ 7,733,946	\$ 500	\$ 12,786,423

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.

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

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2012	\$ (25,550,652)	\$ 10,175,552	\$ (58)	\$ 0
<b>ADDITIONS</b>				
Budgeted Revenues & Transfers-In	69,422,340	34,031,773	482,612	
Nonbudgeted Revenues & Transfers-In	5,023,363	315,255		483,937
Prior Year Revenues & Transfers-In Adjustments	323,661	6,124	58	774,541
Direct Entries to Fund Equity	(48,575,202)	(11,304,669)		12,840,027
Total Additions	26,194,161	23,048,483	482,670	14,098,505
<b>REDUCTIONS</b>				
Budgeted Expenditures & Transfers-Out	27,188,971	17,709,492	482,612	
Nonbudgeted Expenditures & Transfers-Out	94	5,394,665		1,331,608
Prior Year Expenditures & Transfers-Out Adjustments	(71,619)	(51,219)		90,951
Total Reductions	27,117,446	23,052,938	482,612	1,422,559
FUND EQUITY: June 30, 2013	\$ (26,473,937)	\$ 10,171,096	\$ 0	\$ 12,675,946

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.



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

TOTAL REVENUES & TRANSFERS-IN BY CLASS

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Private Purpose Trust Fund	Total
Licenses and Permits	\$ 7,146,711	\$ 13,393,002		\$	\$ 20,539,713
Taxes	60,839,269	26,470,015	14		87,309,299
Charges for Services		195,639			195,639
Fines and Forfeits	612,915				612,915
Grants, Contracts, and Donations				\$ 284,336	284,336
Transfers-in	5,287,240	4,876,124	366		10,163,731
Miscellaneous		1,605,925			1,605,925
Total Revenues & Transfers-In	73,886,135	46,540,706	381	284,336	120,711,558
Less: Nonbudgeted Revenues & Transfers-In	5,287,240	1,886,908		284,336	7,458,484
Prior Year Revenues & Transfers-In Adjustments	601	(26,133)	14		(25,517)
Actual Budgeted Revenues & Transfers-In	68,598,294	44,679,931	366	0	113,278,592
Estimated Revenues & Transfers-In	68,598,300	44,679,945	368		113,278,613
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (6)	\$ (14)	\$ (2)	\$ 0	\$ (21)

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

Licenses and Permits	\$	(1)	\$	(3)		\$	(4)
Taxes		(1)		(2)			(3)
Charges for Services		(1)		(6)	\$	(1)	(8)
Fines and Forfeits		(1)					(1)
Transfers-in		(1)		(1)		(1)	(2)
Miscellaneous		(1)		(3)			(4)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$	(6)	\$	(14)	\$	(2)	\$ (21)

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.

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

TOTAL REVENUES & TRANSFERS-IN BY CLASS

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Private Purpose Trust Fund	Total
Licenses and Permits	\$ 6,976,634	\$ 12,542,021		\$	\$ 19,518,655
Taxes	61,927,881	11,399,192	58		73,327,131
Charges for Services	4,724	240,801	2,287		247,812
Fines and Forfeits	836,762				836,762
Grants, Contracts, and Donations				\$ 1,258,478	1,258,478
Transfers-in	5,023,363	10,108,023			15,131,385
Federal Indirect Cost Recoveries		29,399			29,399
Miscellaneous		33,716			33,716
Federal			480,325		480,325
Total Revenues & Transfers-In	74,769,364	34,353,152	482,670	1,258,478	110,863,664
Less: Nonbudgeted Revenues & Transfers-In	5,023,363	315,255		483,937	5,822,555
Prior Year Revenues & Transfers-In Adjustments	323,661	6,124	58	774,541	1,104,384
Actual Budgeted Revenues & Transfers-In	69,422,340	34,031,773	482,612	0	103,936,725
Estimated Revenues & Transfers-In	69,422,345	34,031,788	482,613	0	103,936,746
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (5)	\$ (15)	\$ (1)	\$ 0	\$ (21)

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

Licenses and Permits	\$	(2)	\$	(3)		\$	(5)
Taxes		(0)		(3)			(3)
Charges for Services		(1)		(4)	\$	(1)	(6)
Fines and Forfeits		(1)					(1)
Grants, Contracts, and Donations				(1)			(1)
Transfers-in				(2)			(2)
Federal Indirect Cost Recoveries				(0)			(0)
Miscellaneous		(1)		(3)		(0)	(4)
Federal		(5)	\$	(15)	\$	(1)	(0)
Budgeted Revenues & Transfers-In Over (Under) Estimated						0	(21)

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.

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

	Central Management	Insurance	Local Assistance to Counties	Securities	Total
<b>PROGRAM (ORG) EXPENDITURES &amp; TRANSFERS-OUT</b>					
Personal Services					
Salaries	\$ 1,056,560	\$ 2,876,960		\$ 622,151	\$ 4,555,671
Employee Benefits	337,355	969,637		195,496	1,502,488
Total	<u>1,393,915</u>	<u>3,846,598</u>		<u>817,647</u>	<u>6,058,159</u>
Operating Expenses					
Other Services	149,079	841,082		52,696	1,042,857
Supplies & Materials	213,892	80,767		16,063	310,722
Communications	73,274	74,927		13,491	161,692
Travel	31,904	95,814		20,051	147,769
Rent	117,383	330,619		32,580	480,582
Repair & Maintenance	331	48		5	384
Other Expenses	62,482	86,035		13,950	162,466
Total	<u>648,345</u>	<u>1,509,291</u>		<u>148,836</u>	<u>2,306,471</u>
Equipment & Intangible Assets					
Equipment	54,374				54,374
Intangible Assets	44,152	(600)			43,552
Total	<u>98,526</u>	<u>(600)</u>			<u>97,926</u>
Local Assistance					
From other sources			\$ 28,473,924		28,473,924
Total			<u>28,473,924</u>		<u>28,473,924</u>
Benefits & Claims					
To Individuals		813,624			813,624
From State Sources		8,553,215		83,438	8,636,653
From Other Sources		173,859			173,859
Total		<u>9,540,698</u>		<u>83,438</u>	<u>9,624,135</u>
Transfers-out					
Fund transfers		99,290		5,498,929	5,598,219
Total		<u>99,290</u>		<u>5,498,929</u>	<u>5,598,219</u>
Total Expenditures & Transfers-Out	\$ <u>2,140,785</u>	\$ <u>14,995,277</u>	\$ <u>28,473,924</u>	\$ <u>6,548,849</u>	\$ <u>52,158,835</u>
<b>EXPENDITURES &amp; TRANSFERS-OUT BY FUND</b>					
General Fund		\$ 1,115,596	\$ 28,473,924		\$ 29,589,519
State Special Revenue Fund	\$ 2,140,785	13,705,441		\$ 6,548,849	22,395,075
Federal Special Revenue Fund		381			381
Private Purpose Trust Fund		173,859			173,859
Total Expenditures & Transfers-Out	<u>2,140,785</u>	<u>14,995,277</u>	<u>28,473,924</u>	<u>6,548,849</u>	<u>52,158,835</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(1,758)	390,635		5,364,439	5,753,316
Prior Year Expenditures & Transfers-Out Adjustments	(4)	(37,941)	26,504	139,026	127,584
Actual Budgeted Expenditures & Transfers-Out	<u>2,142,548</u>	<u>14,642,583</u>	<u>28,447,420</u>	<u>1,045,384</u>	<u>46,277,935</u>
Budget Authority	<u>2,425,887</u>	<u>16,615,722</u>	<u>28,559,222</u>	<u>1,377,730</u>	<u>48,978,561</u>
Unspent Budget Authority	\$ <u>283,339</u>	\$ <u>1,973,140</u>	\$ <u>111,802</u>	\$ <u>332,346</u>	\$ <u>2,700,626</u>
<b>UNSPENT BUDGET AUTHORITY BY FUND</b>					
General Fund		\$ 531,064	\$ 111,802		\$ 642,866
State Special Revenue Fund	\$ 283,339	1,438,456		\$ 332,346	2,054,141
Federal Special Revenue Fund		3,619			3,619
Unspent Budget Authority	\$ <u>283,339</u>	\$ <u>1,973,140</u>	\$ <u>111,802</u>	\$ <u>332,346</u>	\$ <u>2,700,626</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.

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

	Central Management	Insurance	Local Assistance to Counties	Securities	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT					
Personal Services					
Salaries	\$ 816,663	\$ 2,805,954		\$ 569,935	\$ 4,192,552
Employee Benefits	257,840	935,396		189,639	1,382,875
Total	<u>1,074,503</u>	<u>3,741,351</u>		<u>759,574</u>	<u>5,575,428</u>
Operating Expenses					
Other Services	38,042	933,028		100,012	1,071,082
Supplies & Materials	28,840	123,049		16,027	167,916
Communications	24,974	103,446		30,730	159,150
Travel	15,364	103,521		10,121	129,006
Rent	93,572	319,994		67,513	481,079
Repair & Maintenance	319	565		117	1,001
Other Expenses	25,272	90,659		22,555	138,486
Total	<u>226,382</u>	<u>1,674,261</u>		<u>247,076</u>	<u>2,147,719</u>
Equipment & Intangible Assets					
Intangible Assets	7,911	72,681		7,097	87,688
Total	<u>7,911</u>	<u>72,681</u>		<u>7,097</u>	<u>87,688</u>
Local Assistance					
From other sources			\$ 27,117,352		27,117,352
Total			<u>27,117,352</u>		<u>27,117,352</u>
Benefits & Claims					
To Individuals		925,563			925,563
From State Sources		9,195,349		290,614	9,485,962
From Other Sources		1,422,559			1,422,559
Total		<u>11,543,471</u>		<u>290,614</u>	<u>11,834,084</u>
Transfers-out					
Fund transfers		73,154		5,240,130	5,313,284
Total		<u>73,154</u>		<u>5,240,130</u>	<u>5,313,284</u>
Total Expenditures & Transfers-Out	\$ <u>1,308,796</u>	\$ <u>17,104,917</u>	\$ <u>27,117,352</u>	\$ <u>6,544,491</u>	\$ <u>52,075,555</u>

## EXPENDITURES &amp; TRANSFERS-OUT BY FUND

General Fund		\$ 94	\$ 27,117,352		\$ 27,117,446
State Special Revenue Fund	\$ 1,308,796	15,199,652		\$ 6,544,491	23,052,938
Federal Special Revenue Fund		482,612			482,612
Private Purpose Trust Fund		1,422,559			1,422,559
Total Expenditures & Transfers-Out	1,308,796	17,104,917	27,117,352	6,544,491	52,075,555
Less: Nonbudgeted Expenditures & Transfers-Out	(600)	1,448,843		5,278,125	6,726,368
Prior Year Expenditures & Transfers-Out Adjustments	(147)	40,018	(71,619)	(139)	(31,887)
Actual Budgeted Expenditures & Transfers-Out	1,309,543	15,616,056	27,188,971	1,266,505	45,381,074
Budget Authority	1,377,059	16,580,800	29,774,639	1,431,353	49,163,852
Unspent Budget Authority	\$ <u>67,517</u>	\$ <u>964,744</u>	\$ <u>2,585,668</u>	\$ <u>164,849</u>	\$ <u>3,782,778</u>

## UNSPENT BUDGET AUTHORITY BY FUND

General Fund			\$ 2,585,668		\$ 2,585,668
State Special Revenue Fund	\$ 67,517	\$ 962,360		\$ 164,849	1,194,726
Federal Special Revenue Fund		2,383			2,383
Unspent Budget Authority	\$ <u>67,517</u>	\$ <u>964,744</u>	\$ <u>2,585,668</u>	\$ <u>164,849</u>	\$ <u>3,782,778</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.

# State Auditor's Office

## 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 (General, State Special Revenue, and Federal Special Revenue funds). 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 Fiduciary (Private-Purpose Trust) fund category. 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**

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund. The General Fund includes revenue for insurance premium tax, securities brokerage licenses, fines and penalties, and transfers in from securities and captive insurance state special revenue funds. The expenditures included in the general fund are transfers of funds to Montana Public Employee's Retirement Administration, expenditures to

each city or town that has a fire relief association or a police department that is not a participant in the municipal police officer's retirement system, and Insure Montana Activity.

- ♦ **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. Office State Special Revenue Funds include Insurance and Security Division activity, such as securities portfolio registrations revenue, insurance license revenue, examination fees, industry continuing education programs, and Insure Montana Activity.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Office Federal Special Revenue Funds includes two Affordable Care Act Grants both of which ended in fiscal year 2012-13. The grants are Health Insurance Premium Review Grant – ended September 30, 2012 and State Planning and Establishment Grant for the Affordable Care Act Exchanges – ended December 31, 2012.

### **Fiduciary Fund Category**

- ♦ **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. The office's private-purpose trust fund includes financial deposits required to be held in trust by the office for insurance companies licensed in Montana.

## **2. General Fund Equity Balance**

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The office has authority to pay obligations from the statewide General Fund within its appropriation limits. The office expends cash or other assets from the statewide fund when it pays General Fund obligations. The office's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2013 and June 30, 2014.

## **3. Direct Entries to Fund Equity**

Direct entries to fund equity in the General and State Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. The significant portion of direct entries in both the General Fund and State Special Revenue Fund relate to resources from premium insurance tax revenues.

Direct entries to fund equity in the Private Purpose Trust Fund in fiscal year 2012-13 are due to a correction of an error in reporting trust accounts previously reported as property held in trust.

#### **4. Insure Montana Funding**

In fiscal year 2012-13, the Insure Montana Program was funded through the Health and Medicaid Initiatives Account which is a state special revenue account generated from the taxation of tobacco products. In 2013, the legislature changed the fiscal year 2013-14 funding structure to include partial funding from the above state special revenue account, partial funding from the CSI office state special revenue account of the Insurance Division, and partial funding from the General Fund.





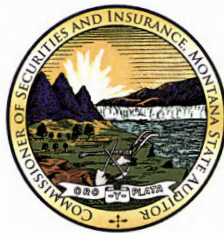
STATE AUDITOR'S OFFICE

OFFICE RESPONSE



# COMMISSIONER OF SECURITIES & INSURANCE

MONICA J. LINDEEN  
COMMISSIONER



OFFICE OF THE MONTANA  
STATE AUDITOR

October 20, 2014

Ms. Tori Hunthausen  
Legislative Auditor  
Office of the Legislative Auditor  
P.O. Box 201705  
Helena, Mt. 59620-1705

RECEIVED  
OCT 22 2014  
LEGISLATIVE AUDIT DIV.

Dear Ms. Hunthausen:

The Office of the Commissioner of Securities and Insurance, Montana State Auditor received the financial compliance audit for the two fiscal years ending June 30, 2014. Thank you for the opportunity to respond to the recommendations.

## **Recommendation #1**

**Access controls for the office's internally developed computer system can be improved.**

### **Agency Response:**

**Concur.** Password change requirements have been implemented and a monthly access report is run and reviewed by management to ensure appropriate access to the internal system.

## **Recommendation #2**

**Reviews of information entered into the Insure Montana database, used in the calculation of tax credits, are not performed.**

### **Agency Response:**

**Concur.** Staff received additional training and will review the tax credit data during the annual renewal process to avoid future errors. In addition, management will conduct random reviews of the data as a secondary control.

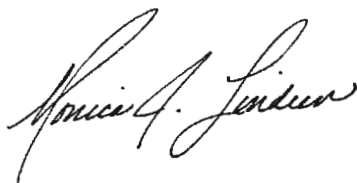
**Recommendation #3**

**The office did not require specified documentation to register as a securities offeror as required by state law.**

**Concur.** The department agrees that 30-10-205 1(1), MCA requires a specimen or copy of the document and will ask the Legislature to change the law, since securities certificates are obsolete.

We would like to thank your staff for their time and effort during the audit. They were very professional and helpful addressing the issues and pointing out areas that need improvement.

Sincerely,

A handwritten signature in black ink, reading "Monica J. Lindeen". The signature is written in a cursive style with a large, stylized 'M' and 'L'.

Monica J. Lindeen  
Commissioner of Securities & Insurance  
Office of the Montana State Auditor