



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Office of the
Commissioner of
Political Practices*

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

OCTOBER 2014

LEGISLATIVE AUDIT
DIVISION

14-21

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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
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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 the result of our financial-compliance audit of the Office of the Commissioner of Political Practices (office) for the two fiscal years ended June 30, 2014. This report contains one recommendation to the office related to internal control over financial reporting.

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 sections titled "Adverse Opinions on Regulatory Basis of Accounting" and "Unmodified Opinions on Regulatory Basis of Accounting."

We thank the Commissioner and his staff for their cooperation and assistance throughout the audit. The office's response is on page B-1.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

TABLE OF CONTENTS

Figures and Tables.....	ii
Appointed and Administrative Officials	iii
Report Summary	S-1
CHAPTER I – INTRODUCTION.....	1
Introduction	1
Background.....	2
Prior Audit Recommendations.....	2
CHAPTER II – FINDINGS AND RECOMMENDATIONS.....	3
Internal Control Over Transaction Processing and Financial Reporting.....	3
Revenues and Unearned Revenues.....	3
Revenue Estimates	4
Other Accounting Errors	4
Summary	4
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-5
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2013.....	A-6
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2014.....	A-7
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2013.....	A-8
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2014.....	A-9
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2013.....	A-10
Notes to the Financial Schedules	A-11
OFFICE RESPONSE	
Office of the Commissioner of Political Practices	B-1

FIGURES AND TABLES

Tables

Table 1	Summary of Deficiency in Internal Control	1
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APPOINTED AND ADMINISTRATIVE OFFICIALS

Commissioner of Political Practices Jonathan R. Motl, Commissioner

Office Administrative Official Mary Baker, Program Supervisor

For additional information concerning the Office of the Commissioner of Political Practices, contact:

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Office of the Commissioner of Political Practices

For the Two Fiscal Years Ended June 30, 2014

OCTOBER 2014

14-21

REPORT SUMMARY

The Office of the Commissioner of Political Practices reported issuing 75 formal decisions resolving 95 complaints in the period from June 10, 2013, to June 30, 2014. Of the 75, 53 had sufficient facts to continue investigating. Of those 53, 20 have negotiated settlements, 14 are in active district court enforcement proceedings, and 19 are in continued negotiation.

Context

The Office of the Commissioner of Political Practices (office) is responsible for enforcing campaign and lobbying disclosure laws, and code of ethics laws for state officials and employees. It performs these duties through review of campaign and political committee expenditure reports, investigations of campaign finance and disclosure cases, registration of lobbyists and principal expenditure tracking, and formal ethics complaint proceedings.

The office is funded through General Fund appropriation and a small amount of lobbyist license revenue. Office expenditures total \$910,000 and \$493,000 in fiscal year 2014, and 2013, respectively. In 2014, the office expended \$343,000 related to the development of an online reporting system to improve reporting for political candidates and committees.

Our audit work included review of lobbyist registration fees, office expenditures, and compliance with state law and state accounting policy. It also included reviewing the overall reasonableness of the financial schedule presentation and note disclosures.

Results

The office continues to experience difficulty in recording multi-year license revenue, which ultimately affects fund equity balances. This report contains one recommendation to the office to improve internal controls over recording revenue and other financial transactions.

Recommendation Concurrence	
Concur	1
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (14-21) 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>
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.

Chapter I – Introduction

Introduction

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

1. 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 improvements in management and internal controls of the office.
2. Determine whether the office complied with selected laws and regulations.
3. Determine the implementation status of audit recommendations made in the previous audit.
4. Determine the reasonableness of the office’s financial schedules for each of the two fiscal years ended June 30, 2014.

This report contains one recommendation to the office relating to internal controls over financial reporting. Our audit work included review of lobbyist registration fees, office expenditures, and compliance with state law and state accounting policy. It also included reviewing the overall reasonableness of the financial schedule presentation and note disclosures.

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 significant deficiencies and material weaknesses we identified during this audit.

Subject	Type of Deficiency	Page
Lack of internal controls	Material weakness	3

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.

Background

The Governor appoints the Commissioner of Political Practices to a six-year term, subject to confirmation by the senate. A four-member selection committee submits a list of two to five names of individuals to the Governor for consideration. The selection committee is comprised of: the speaker of the house, the president of the senate, and the minority floor leaders of both houses of the legislature. The commissioner can only serve one term and is precluded from being a candidate for public office for a period of five years after leaving the position. If for any reason a vacancy occurs in the position of commissioner, a successor shall be appointed within 30 days to serve out the unexpired term. The current commissioner was appointed to serve out an unexpired term ending December 31, 2016, subject to confirmation by a majority of the senate in the 2015 Legislature.

The primary duties of the commissioner include:

1. Facilitating disclosure of financial contributions to and expenditures of candidates and political committees.
2. Facilitating registration of lobbyists and monitoring expenditures made by principals. Principals are defined as any business, association, government agency or others who pay lobbyists to work on their behalf.
3. Monitoring of candidates, political committees, lobbyists, and principles for compliance with Montana laws.
4. Monitoring and enforcing Montana's Code of Ethics for public officers, public employees, and legislators.
5. Investigating legitimate complaints of alleged violations of campaign finance and practice laws, lobbying laws, and ethics laws.

The office was authorized 6.75 full-time employees for the fiscal year ending June 30, 2014.

Prior Audit Recommendations

The prior audit for the two fiscal years ended June 30, 2012, contained three recommendations to the office. The office implemented two recommendations and did not implement one. The recommendation the office did not implement is related to multi-year license revenue recognition and is discussed on page 3.

Chapter II – Findings and Recommendations

Internal Control Over Transaction Processing and Financial Reporting

The office should strengthen internal controls over recording financial transactions in accordance with state law and accounting policy.

Section 17-1-102(4), MCA, requires the Office of the Commissioner of Political Practices (office) to input all necessary transactions before the end of the fiscal year to present the receipt, use, and disposition of all money and property, for which it is accountable, in accordance with generally accepted accounting principles (GAAP).

The Department of Administration publishes the Montana Operations Manual (MOM) to assist agencies with recording financial transactions. MOM 302, section VIII provides that, “State agencies are responsible for implementing internal control procedures to ensure all transactions necessary for compliance with generally accepted accounting principles (GAAP) are recorded in SABHRS before fiscal year-end. In addition to the following procedures, agencies should develop appropriate internal control procedures based upon their business processes.” In addition, that section also states, “State agencies must document their internal controls for major financial processes. Agencies must update their internal control documentation, to reflect current procedures, prior to each following fiscal year-end. An internal control manual and related appendixes are provided in MOM policy 399 of MOM Volume II. Agencies may use the procedures contained in MOM policy 399 as part of their documentation process or choose to follow other guidance. Additional internal control guidance is provided on the State Financial Services Division Website.”

Revenues and Unearned Revenues

As noted in past audit reports, the office has difficulty recording routine and reoccurring revenue activity related to multi-year license revenue, which ultimately affects revenue reported and fund equity balances on the financial schedules of the office. License fees are derived from lobbyist registration, which is considered a multi-year license fee. A portion of the fees is recorded as earned revenue and the remainder is recorded as unearned revenue. The office did not correctly classify all revenues reported as either earned or unearned and did not correctly record adjustments recommended in the prior audit related to unearned revenues. Licenses and Permits revenue in fiscal year 2013 was understated by \$5,787 and \$11,575 in the General Fund and the State Special Revenue Fund, respectively. In fiscal year 2014, Licenses and Permits revenue was understated by \$13,538 and \$25,688 in the General Fund and the State Special Revenue Fund, respectively.

The effect of these errors on the Schedule of Total Revenues & Transfers-In and The Schedule of Changes in Fund Equity for both fiscal years 2013 and 2014 are described in the Independent Auditor's Report on page A-1.

Revenue Estimates

In order to prepare accurate revenue estimates, the office should analyze the amounts recorded on the accounting system. In fiscal year 2014, the office recorded revenue estimates twice. The amounts recorded twice in fiscal year 2014 were \$12,300 in the General Fund and \$11,000 in the State Special Revenue Fund. Personnel could not explain why the revenue estimates were recorded twice.

Other Accounting Errors

In the past, the office recorded advances in the amount of \$953 and construction in process of \$8,000. These amounts remained unadjusted on the accounting records for several years. Personnel indicated the office has not used the advance account for several years. They further stated there should not be any advances outstanding on the accounting records, and could not explain why the construction in process account had a balance. If the office reviewed account balances and activity, these balances may have been identified and corrected.

Summary

Section 17-2-110(3), MCA, provides that financial reports, “. . . accurately and comprehensively present the financial activities of the reporting state agency in accordance with generally accepted accounting principles so that the reports can be effectively used by the executive and legislative branches of state government.” The office's internal control procedures should include periodic reviews of recorded financial information to ensure accurate and complete reporting of financial activity.

As noted above, past errors have not been corrected and errors were made in recording fiscal year 2013 and 2014 transactions. Management noted they do not have a professional accountant on staff and they will work with a professional accountant to correct the errors. We believe professional accounting resources currently exist in the State Financial Services Division at the Department of Administration.

RECOMMENDATION #1

We recommend the office strengthen internal controls to:

- A. *Ensure account balances and financial transactions are recorded in accordance with state law and accounting policy.*
 - B. *Analyze the amounts of revenue estimates in order to prepare more accurate estimates.*
-

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 Commissioner of Political Practices 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.

Basis for Adverse Opinions on Regulatory Basis of Accounting

As described in Note 4, the office did not correctly record multi-year license revenues in fiscal years 2014 and 2013, and did not post transactions to correct past errors. Misstatements are summarized below:

Schedule and Accounts	General Fund Understated	State Special Revenue Fund Understated
Schedule of Total Revenues and Transfers-In for the Fiscal Year Ended June 30, 2013		
Licenses and Permits	\$5,787	\$11,575
Total Revenue & Transfers-In	\$5,787	\$11,575
Actual Budgeted Revenues and Transfers-In	\$5,787	\$11,575
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$5,787	\$11,575
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS:		
Licenses and Permits	\$5,787	\$11,575
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2013		
FUND EQUITY: July 1, 2012	\$17,550	\$887
Budgeted Revenues & Transfers-In	\$5,787	\$11,575
Total Additions	\$5,787	\$11,575
FUND EQUITY: June 30, 2013	\$23,336	\$12,462

Schedule and Accounts	General Fund Understated	State Special Revenue Fund Understated
Schedule of Total Revenues and Transfers-In for the Fiscal Year Ended June 30, 2014		
Licenses and Permits	\$13,538	\$25,688
Total Revenue & Transfers-In	\$13,538	\$25,688
Actual Budgeted Revenues and Transfers-In	\$13,538	\$25,688
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$13,538	\$25,688
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS:		
Licenses and Permits	\$13,538	\$25,688
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2014		
FUND EQUITY: July 1, 2013	\$23,336	\$12,462
Budgeted Revenues & Transfers-In	\$13,538	\$25,688
Total Additions	\$13,538	\$25,688
FUND EQUITY: June 30, 2014	\$36,874	\$38,150

Adverse Opinions on Regulatory Basis of Accounting

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinions on Regulatory Basis of Accounting” paragraph, the Schedules of Changes in Fund Equity and the Schedules of Total Revenues & Transfers-In do not present fairly the results of operations and changes in fund equity of the office for each of the fiscal years ended June 30, 2014, and 2013, in conformity with the basis of accounting described in Note 1.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Total Expenditures & Transfers-Out for each of the fiscal years ended June 30, 2014, and 2013, present fairly, in all material respects, the results of operations of the office in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

September 18, 2014

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund	State Special Revenue Fund	Capital Projects Fund
FUND EQUITY: July 1, 2013	\$ (71,599)	\$ (44,463)	\$ 0
ADDITIONS			
Budgeted Revenues & Transfers-In	5,717	(9,675)	
Direct Entries to Fund Equity	575,701	(1,000)	257,850
Total Additions	<u>581,418</u>	<u>(10,675)</u>	<u>257,850</u>
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	573,338		343,610
Nonbudgeted Expenditures & Transfers-Out	(202)		
Prior Year Expenditures & Transfers-Out Adjustments	(6,260)		
Total Reductions	<u>566,876</u>	<u>0</u>	<u>343,610</u>
FUND EQUITY: June 30, 2014	\$ (57,057)	\$ (55,138)	\$ (85,760)

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-11.

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>General Fund</u>	<u>State Special Revenue Fund</u>
FUND EQUITY: July 1, 2012	\$ (45,843)	\$ (12,438)
ADDITIONS		
Budgeted Revenues & Transfers-In	9,141	10,675
Direct Entries to Fund Equity	458,373	(42,700)
Total Additions	<u>467,514</u>	<u>(32,025)</u>
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	490,881	
Nonbudgeted Expenditures & Transfers-Out	(89)	
Prior Year Expenditures & Transfers-Out Adjustments	2,479	
Total Reductions	<u>493,271</u>	<u>0</u>
FUND EQUITY: June 30, 2013	\$ (71,599)	\$ (44,463)

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-11.

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Licenses and Permits	\$ (5,125)	\$ (9,675)	\$ (14,800)
Charges for Services	191		191
Fines and Forfeits	10,651		10,651
Total Revenues & Transfers-In	<u>5,717</u>	<u>(9,675)</u>	<u>(3,958)</u>
Less: Nonbudgeted Revenues & Transfers-In			0
Prior Year Revenues & Transfers-In Adjustments	<u>5,717</u>	<u>(9,675)</u>	<u>(3,958)</u>
Actual Budgeted Revenues & Transfers-In	24,600	22,550	47,150
Estimated Revenues & Transfers-In	<u>(18,883)</u>	<u>(32,225)</u>	<u>(51,108)</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated			
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Licenses and Permits	\$ (16,725)	\$ (32,225)	\$ (48,950)
Charges for Services	(2,809)		(2,809)
Fines and Forfeits	651		651
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>(18,883)</u>	<u>(32,225)</u>	<u>(51,108)</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-11.

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	State Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Licenses and Permits	\$ 5,675	\$ 10,675	\$ 16,350
Charges for Services	116		116
Fines and Forfeits	3,350		3,350
Total Revenues & Transfers-In	9,141	10,675	19,816
Less: Nonbudgeted Revenues & Transfers-In			0
Prior Year Revenues & Transfers-In Adjustments			0
Actual Budgeted Revenues & Transfers-In	9,141	10,675	19,816
Estimated Revenues & Transfers-In	43,913	55,000	98,913
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (34,772)	\$ (44,325)	\$ (79,097)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Licenses and Permits	\$ (24,325)	\$ (44,325)	\$ (68,650)
Charges for Services	(3,797)		(3,797)
Fines and Forfeits	(6,650)		(6,650)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (34,772)	\$ (44,325)	\$ (79,097)

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-11.

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>Administration</u>	<u>Total</u>
PROGRAM EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	\$ 281,877	\$ 281,877
Employee Benefits	101,947	101,947
Total	<u>383,824</u>	<u>383,824</u>
Operating Expenses		
Other Services	115,140	115,140
Supplies & Materials	22,262	22,262
Communications	13,087	13,087
Travel	818	818
Rent	24,203	24,203
Repair & Maintenance	15	15
Other Expenses	7,527	7,527
Total	<u>183,052</u>	<u>183,052</u>
Equipment & Intangible Assets		
Intangible Assets	343,610	343,610
Total	<u>343,610</u>	<u>343,610</u>
Capital Outlay		
Total		
Total Expenditures & Transfers-Out	<u>\$ 910,486</u>	<u>\$ 910,486</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	\$ 566,876	\$ 566,876
Capital Projects Fund	343,610	343,610
Total Expenditures & Transfers-Out	<u>910,486</u>	<u>910,486</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(202)	(202)
Prior Year Expenditures & Transfers-Out Adjustments	<u>(6,260)</u>	<u>(6,260)</u>
Actual Budgeted Expenditures & Transfers-Out	916,948	916,948
Budget Authority	<u>1,126,746</u>	<u>1,126,746</u>
Unspent Budget Authority	<u>\$ 209,798</u>	<u>\$ 209,798</u>
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	\$ 51,008	\$ 51,008
Capital Projects Fund	158,790	158,790
Unspent Budget Authority	<u>\$ 209,798</u>	<u>\$ 209,798</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-11.

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>Administration</u>	<u>Total</u>
PROGRAM EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	\$ 206,104	\$ 206,104
Employee Benefits	78,153	78,153
Total	<u>284,257</u>	<u>284,257</u>
Operating Expenses		
Other Services	163,136	163,136
Supplies & Materials	16,862	16,862
Communications	7,956	7,956
Travel	653	653
Rent	14,070	14,070
Other Expenses	6,337	6,337
Total	<u>209,014</u>	<u>209,014</u>
Total Expenditures & Transfers-Out	<u>\$ 493,271</u>	<u>\$ 493,271</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	\$ <u>493,271</u>	\$ <u>493,271</u>
Total Expenditures & Transfers-Out	493,271	493,271
Less: Nonbudgeted Expenditures & Transfers-Out	(89)	(89)
Prior Year Expenditures & Transfers-Out Adjustments	<u>2,479</u>	<u>2,479</u>
Actual Budgeted Expenditures & Transfers-Out	490,881	490,881
Budget Authority	567,028	567,028
Unspent Budget Authority	<u>\$ 76,147</u>	<u>\$ 76,147</u>
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	\$ <u>76,147</u>	\$ <u>76,147</u>
Unspent Budget Authority	<u>\$ 76,147</u>	<u>\$ 76,147</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-11.

Office of the Commissioner of Political Practices
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, 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.

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. All appropriation authority of the office is in the General Fund and Capital Projects Fund.
- ◆ **State Special Revenue Fund** – to account for two thirds of the proceeds of lobbyist licensing revenue collected under provisions of MCA 5-7-103(1),(4).
- ◆ **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities. The office used these funds to construct an online reporting system in order for political candidates and committees to report their campaign finances electronically. The 2013 Legislature via HB 10 appropriated \$502,400 for the completion of the project. The new online service launched in June of 2014 and there is

a remaining unspent authority of \$158,790. There are several pending work orders related to the service that have been received but not completed or paid as of June 30, 2014.

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 balances for each of the fiscal years ended June 30, 2013, and June 30, 2014.

3. Revenue Estimate Errors

The office records revenue estimates at the beginning of each fiscal year. The main source of revenue for the office is a \$150 lobbyist license fee. The lobbyist license fee is split in two different revenue accounts, \$100 of the fee is deposited in to a state special revenue account established to pay for the Montana Legislative Broadcasting, and the other \$50 of the fee is deposited in to the general fund. The estimated revenues coming from lobbyist licenses were in error for both fiscal years 2013 and 2014. The process used to estimate the lobbyist licenses revenue was to multiply the fee by the number of registered lobbyists. In addition, the office recorded some revenue estimates twice in fiscal year 2014. Estimation errors resulted in revenue estimates which far exceeded actual revenues in both fiscal year 2013 and 2014. In total, estimated revenues in fiscal year 2014 were reported as \$47,150 and actual revenue recorded was negative \$3,958. In fiscal year 2013, total estimated revenue was \$98,913 and the actual revenue recorded was \$19,826.

4. Revenue Recording Errors

Licenses and Permits revenue in fiscal year 2014, reported on the Schedule of Total Revenues & Transfers-In, shows negative revenue in the General Fund and the State Special Revenue Fund of (\$5,125) and (\$9,675) respectively. The amounts that should have been recognized were \$8,413 and \$16,013 in the General Fund and the State Special Revenue Fund respectively.

Licenses and Permits revenue in fiscal year 2013, reported on the Schedule of Total Revenues and Transfers-In, show revenues in the General Fund and the State Special Revenue Fund of \$5,675 and \$10,675 respectively. The amounts that should have been recognized were \$11,462 and \$22,250 in the General Fund and the State Special Revenue Fund respectively.

5. Unspent Budget Authority

There are some differences in the unspent budget authority between the two fiscal years ending June 30, 2014. In fiscal year 2013, we hired an in-house legal counsel. The need to hire outside legal counsel was significantly decreased resulting in some savings. The majority of the remaining fiscal year 2014, budget was due to the appropriation that was received to develop a new on-line application for candidates and committees to report their financial activities. There is one final bill for the project and three change orders yet to be paid that will be paid from that appropriation.

6. Direct Entries to Fund Equity

Direct entries to fund equity in the General and State Special Revenue funds and the Capital Projects Fund include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

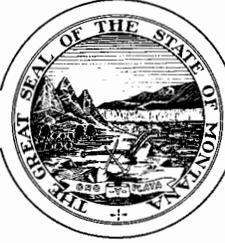
Direct entries to fund equity in the General Fund in fiscal year 2014 also include: correction of an error from a previous period that occurred at least two fiscal years prior.

OFFICE OF THE
COMMISSIONER OF
POLITICAL PRACTICES

OFFICE RESPONSE

COMMISSIONER OF
POLITICAL PRACTICES

B-1



STATE OF MONTANA

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October 21, 2014

Tori Hunthausen, Auditor
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena, MT 59620-1705

RECEIVED
OCT 22 2014
LEGISLATIVE AUDIT DIV.

Subject: Requested audit response: Commissioner of Political Practices

Ms. Hunthausen, you and the legislative audit staff were professional and pleasant to work with. Agency staff worked hard to implement all of the recommendations made during the last audit. We look forward to continuing to work with the audit staff to ensure that our work is aligned with requirements, and that we operate within statutory obligations and state policy.

Recommendation #1: We recommend the office strengthen internal controls to:

- A. Ensure account balances and financial transactions are recorded in accordance with state law and accounting policy.*
- B. Analyze the amounts of revenue estimates in order to prepare more accurate estimates.*

Concur: CPP staff has scheduled some time in January 2015 to work with Department of Administration accounting staff to come to consensus on how to correct the past errors and prepare for upcoming transactions regarding these revenue transactions. CPP will continue to work with the Department of Administration to document procedures that ensure these transactions are in accordance with state law and accounting policy. Please understand, though, that the COPP staff is quite small (7 FTE) and does not include an accountant. Right now our all-purpose, lead off-hitter (Mary Baker) takes on the budget functions for COPP along with HR responsibility, program supervision and state-wide candidate/committee campaign finance report inspection. Hopefully, we can find a way to contract for the specialized accounting skills that other, larger agencies are able to put in place through staff hiring.

Respectfully,

A handwritten signature in black ink, appearing to read "htl", written over a large, loopy scribble.

Jonathan R. Motl
Commissioner