



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Office of the
Governor and
Lieutenant Governor*

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

NOVEMBER 2014

LEGISLATIVE AUDIT
DIVISION

14-23

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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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Cindy Jorgenson
Angus Maciver

November 2014

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Office of the Governor and Lieutenant Governor (office) for the two fiscal years ended June 30, 2014. Included in this report are four recommendations related to internal control issues over operating expenditures and procurement cards, compliance with state law and policy, and a revenue estimate misstatement.

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 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 sections titled "Qualified Opinion on Regulatory Basis of Accounting," and "Unmodified Opinions on Regulatory Basis of Accounting."

The office's written response to the audit recommendations is included in the audit report at page B-1. We have considered the non-concurring response to Recommendation #3 on page B-2. Senate Bill 410 appropriates \$7.5 million to a state special revenue account administered by the office for the purpose of funding operation costs of nine specified agencies. We held that the legislation, by listing nine agencies, prohibited the allocation of the \$7.5 million appropriation to agencies not listed in the law. We maintain our position as reported.

We thank the Governor, Lieutenant Governor, and their staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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ELECTED, APPOINTED AND ADMINISTRATIVE OFFICIALS

**Office of the Governor and
Lieutenant Governor**

Governor	Steve Bullock
Lieutenant Governor	Angela McLean
Chief of Staff	Tim Burton
Deputy Chief of Staff	Ali Bovingdon
Centralized Services Administrative Officer	Rosemary Harmon

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Office of the Governor and Lieutenant Governor

For the Two Fiscal Years Ended June 30, 2014

NOVEMBER 2014

14-23

REPORT SUMMARY

The 2013 Montana Legislature authorized a General Fund transfer of \$7.5 million to the Office of the Governor and Lieutenant Governor to fund operation costs of nine specific state agencies. During fiscal year 2014, approximately \$1.45 million was disbursed and of that amount approximately \$516,000 was transferred to agencies not referenced in the law. This matter, as well as other internal control, compliance, and accounting issues are addressed in this report.

Context

The Office of the Governor and Lieutenant Governor (office) is comprised of nine programs that oversee the activities of the executive branch of Montana state government, consistent with statutory and constitutional mandates.

Fiscal year 2013 marked the last year of the State Small Business Credit Initiative federal award, which accounted for over \$4.4 million in federal revenue. This federal award was subgranted to the Department of Commerce. The primary expenditures of the office results from personal services. These expenditures account for over 70 percent of the total expenditures for the office during each fiscal year audited.

In obtaining evidence for our opinion of the financial schedules of the office, we assessed risk, documented internal controls, and performed tests related to personal services, operating expenses, transfers-in, and federal revenue. We also tested compliance with 34 selected state laws.

Results

The prior audit report contained one recommendation on improving review procedures over transactions to ensure compliance with state accounting policies and state law. We determined the office did not implement this recommendation. The current audit report contains four recommendations related to strengthening internal control procedures for approval of expenditure transactions, complying with state law on use of the Governor's Operations Account, following state policy on establishing procurement cards accounts, and recording revenue estimates.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	1
Source: Agency audit response included in final report.	

For a complete copy of the report (14-23) 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 Governor and Lieutenant Governor (office) for the two fiscal years ended June 30, 2014. The objectives of the audit were to:

1. Determine whether the office's financial schedules present fairly its results of operations and changes in fund equity for each of the fiscal years ended June 30, 2014, and 2013.
2. 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.
3. Determine whether the office complied with selected laws and regulations.
4. Determine the status of the prior audit recommendation.

Auditing standards require us to communicate, in writing, deficiencies in internal control we identified as a result of audit objective #2 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 in 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 significant deficiency we identified during this audit.

Table 1
Summary of Control Deficiencies

Subject	Type of Deficiency	Page
Internal Controls	Significant	5

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 office was authorized 58.07 full-time equivalent (FTE) positions in fiscal year 2013-14. The following paragraphs discuss the various divisions administered by the office.

Executive Office (21.00 FTE) provides administrative, legal, and press support for the office. The executive office oversees and coordinates the activities of executive branch agencies. The Governor will carry out the executive power vested by the Montana Constitution and see that the laws of the state are faithfully executed. The Governor will appoint and supervise the directors of each executive department. In accordance with constitutional and statutory requirements, the Governor will submit to the legislature a budget detailing expenditures and revenues. The Governor will make appointments to boards and commissions as required by law and establish those advisory councils deemed necessary.

In addition, the executive office administers the Office of Economic Development. This office advises the Governor on policy issues related to economic development; assists the Governor in accomplishing his economic development initiatives; leads the state's business recruitment, retention, and expansion efforts; coordinates the development and distribution of a statewide coordinated strategic economic development marketing plan; and serves as the state's primary economic development liaison.

Lieutenant Governor (3.00 FTE) carries out the duties prescribed in Montana's Constitution and statutes, and those delegated by the Governor.

Centralized Services (4.00 FTE) provides business services to all programs within the office, including budget preparation and monitoring, accounting, human resources, data processing, and other business services.

Office of Budget and Program Planning (18.00 FTE) assists the Governor in planning, preparing and administering the state budget; prepares and monitors revenue estimates; acts as approving authority for operational plan changes, program transfers and budget amendments; and is the lead executive branch agency for compliance with the federal Single Audit Act.

Citizens' Advocate Office (2.00 FTE) increases accessibility to state government by providing information to Montana citizens and functions as a referral service for public comments, suggestions, and requests for information. The office provides a toll-free number to the public and historically answers 15,000-20,000 calls per year.

Mental Disabilities Board of Visitors (5.00 FTE) protects the rights of the mentally ill and the developmentally disabled. The Board conducts reviews of Montana's public mental health programs and the Montana Developmental Center, and assists individuals receiving services from these programs. The Mental Health Ombudsman is also accounted for in this program. The Ombudsman is appointed by the Governor to represent the interests of Montanans with regard to the need for public mental

health services, to advocate for individuals who are being served, and to assist those who are seeking services for themselves or others including individuals who are in transition from public to private services.

Executive Residence Operations (1.57 FTE) maintains the Governor's official residence by properly managing, maintaining, equipping, and stocking the house for the Governor, his family, and the official public functions hosted there.

Air Transportation (1.50 FTE) provides transportation for the Governor and the Governor's staff. In fiscal year 2014, the legislature approved one-time-only funding for Federal Aviation Administration maintenance requirements.

Director of Indian Affairs (2.00 FTE) serves as the Governor's liaison with the state Indian tribal nations, provides information and policy support on issues confronting Indians of Montana, and advises and makes recommendations to the legislative and executive branches on these issues.

Prior Audit Recommendations

The prior audit report for the two fiscal years ended June 30, 2012, contained one recommendation to the office regarding improving review procedures over transactions to ensure compliance with state accounting procedures and state law. Based on the work performed during this audit, the office did not implement this recommendation. This is discussed further beginning on page 5.

Chapter II – Findings and Recommendations

Internal Controls

Internal controls over expenditures are not being followed according to the office's procedures or state policy, which puts the office at risk for unauthorized transactions.

Internal controls are policies and procedures used by managers and employees to ensure that an agency operates efficiently and effectively in conformance with applicable laws and regulations, and that the related transactions are accurate, properly recorded, and executed. State accounting policy states "Management is responsible for establishing and maintaining agency internal controls." The policy further states "Segregation of duties is one of the most important features of an internal control plan. The fundamental premise of segregated duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake or review the same action." Our audit identified areas for improvement in the Office of the Governor and Lieutenant Governor (office) internal controls. These areas are addressed in the following paragraphs.

Operating Expenditures

During fiscal years 2013 and 2014, the office expended more than \$462,000 for State Information Technology Services Division (SITSD) services. These are routine monthly expenditure payment transactions. We found numerous SITSD transactions that were entered and approved by the same person without a secondary review and approval by a program manager, as required by office internal policy.

The Governor's Office Internal Control Handbook does allow the Centralized Services Division (CSD) to enter and process regular recurring transactions, such as SITSD charges, prior to a manager's approval as long as the transaction received past program manager approval and there is no indication that the program manager would not provide approval for future charges. However, the Handbook also states that "all invoices are eventually, and in a timely manner, submitted to each program manager for approval."

The transactions that we identified did not receive approval. We found no evidence the transactions were submitted in a timely manner for a program manager approval. We also identified instances where correcting and adjusting entries were made to journals by CSD without being approved or reviewed by anyone else in the division. Without

the proper review, the office incurs increased risk of inaccurate or unsupported transactions.

The office stated that a change in staff contributed to this issue as the transition and training was a slow process as the prior individual was in that position for over twenty years. The office acknowledged a need to update their internal control procedures and staff members have had additional training regarding their responsibility for gathering managers' approvals on required transactions.

Procurement Card Expenditures

Procurement cards (procards) are state issued credit cards used to purchase state supplies, services, and travel expenses. State accounting policy designates each state agency as responsible for issuing cards to their employees. Employees are responsible for submitting receipts for purchases with their monthly statement. The employee's supervisor must review and approve all transactions. The office assigned CSD responsibility for reconciling the monthly statements.

During our audit, we identified instances in which staff did not follow state accounting policy, or the office's internal policies. We identified 48 transactions, valued at approximately \$5,000, that were processed without receipts. We also noted instances where employees made personal expenses on the procard, which is specifically prohibited by state policy. Although employees paid back most of these expenses, we noted reimbursements due of \$369.99 were still outstanding.

We also observed that monthly reconciliations were not performed on a regular basis throughout fiscal year 2013 and part of fiscal year 2014. Along with the untimely reconciliations, the office did not accurately record procard expenditures in the appropriate Statewide Budgeting, Accounting and Human Resource Systems (SABHRS) expenditure accounts. This occurred because procard transactions automatically post to the default account assigned to the card by the office. Once the billing cycle ends and the transactions post to the default account in SABHRS, it is CSD's responsibility to reconcile the charges with receipts and adjust the transactions to accurately reflect the purpose of the expenses.

In January 2014, the office implemented new internal control procedures over procard expenditures. These procedures include verifying charges are appropriate and properly approved with signatures on monthly statements by staff and program managers.

In addition, employees must submit the State Purchasing Division's Missing Receipt Form if receipts are missing. Also, a monthly reconciliation is performed and supervisors must review all procard charges and sign off with their approval for the employees' charges.

RECOMMENDATION #1

We recommend the office follow established internal control procedures for operating and procurement card expenditures.

Compliance

During the audit we also reviewed the office's compliance with selected laws and regulations. The following paragraphs describe the noncompliance we identified.

Procurement Employee Agreement Forms

The office did not obtain completed agreement forms when issuing procards to office personnel.

Montana Operations Manual, Section 139, states for a procard to be issued, "An employee must read and sign the Employee Agreement Form before they receive their card, indicating that they will adhere to the policy requirements." This form must then be signed by the supervisor for approval. We reviewed 42 employee agreements and noted many of them were not approved by a supervisor until June 2014. Based on our review, we concluded the office had no procedures to confirm signed agreements were received prior to issuance of the cards. Office staff said the office is in the process of verifying all individuals with procards issued to them have an agreement on file.

RECOMMENDATION #2

We recommend the office comply with state policy by establishing procedures to verify employee procard agreement forms are signed by card users and supervisors prior to issuance.

Governor's Operations Account

The office disbursed Governor's Operations Account funds to unauthorized agencies during the audit period.

During fiscal year 2013, the Montana Legislature passed Senate Bill 410, codified as §2-15-247, MCA. This law established a state special revenue account administered by the office and authorized the transfer of \$7.5 million of general fund resources to it for the purpose of funding operation costs at the following departments:

- ◆ Department of Public Health and Human Services
- ◆ Department of Natural Resources and Conservation
- ◆ Department of Environmental Quality
- ◆ Department of Administration
- ◆ Department of Commerce
- ◆ Department of Revenue
- ◆ Department of Corrections
- ◆ Department of Labor and Industry
- ◆ Governor's Office

We identified transfers from this fund to three state agencies that were not specifically listed in the law. As of May 5, 2014, these transfers included \$465,238 to the Department of Justice and \$50,652 to the Office of Public Instruction. The office also allocated \$625,000 to the Office of the Public Defender. These three allocations did not comply with the requirements of the law, which specifically identifies the agencies allowed to receive the funds for operations costs of that agency.

The office maintains that it is not restricted to funding only those agencies specifically designated in §2-15-247, MCA. An office executive said the responsibilities the Governor has to the entire state as head of the Executive Branch also pertain to the \$7.5 million Governor's Operation Account and allow the Governor to allocate priorities between agencies as to the use of this money.

We believe §2-15-247, MCA, clearly identifies the recipient agencies. This law does not provide authority for the office to allocate funds to agencies not listed in §2-15-247, MCA.

RECOMMENDATION #3

We recommend that the office comply with state law by disbursing the remaining Governor's Operations Account funds only to authorized agencies.

Accounting Error

Revenue Estimate Misstatement

The office incorrectly overstated estimated revenues in fiscal year 2014 by \$7.5 million.

Section 2-15-247, MCA, authorized a transfer of \$7.5 million to a state special revenue account at the office. During fiscal year 2013, the office appropriately recorded revenue when it received the transfer. However, the office recorded a \$7.5 million revenue estimate for fiscal year 2014. This was an error since the entire \$7.5 million authorized by law had been transferred the previous year. As a result, Estimated Revenues & Transfers-In on the fiscal year 2014 Schedule of Total Revenues & Transfers-In is overstated by \$7.5 million, a material misstatement of the schedule.

The office has a similar issue in the prior audit report in which they doubled a revenue estimate in the same year. By not reporting accurate revenue estimates the users of the financial information may be misled.

The office has a review process for revenue estimates. However, the report being used for the review did not include all office funds and programs so the data was incomplete. The office has since created a new review process, including a report with all revenue estimates.

RECOMMENDATION #4

We recommend the office strengthen internal control procedures over recording revenue 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 Governor'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 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 2013, or changes in financial position for the years then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

As described in Note 4, the office overstated the estimated revenues for fiscal year 2014 in the State Special Revenue Fund by the amount of \$7,500,000 on the Schedule of Total Revenues & Transfers-In. This nonbudgeted transfer-in was recorded when received in fiscal year 2013.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the Schedule of Total Revenues & Transfers-In for the fiscal year ended June 30, 2014, presents fairly, in all material respects, the results of operations of the Governor's Office for the fiscal year ended June 30, 2014, in conformity with the basis of accounting described in Note 1.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2013, and the Schedule of Changes in Fund Equity and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2014, presents fairly, in all material respects, the results of operations and changes in fund equity of the Governor's 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 22, 2014

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

FUND EQUITY: July 1, 2013	General Fund	State Special Revenue Fund
	<u>\$ (554,145)</u>	<u>\$ 7,500,000</u>
ADDITIONS		
Budgeted Revenues & Transfers-In	104	
Nonbudgeted Revenues & Transfers-In	602	
Prior Year Revenues & Transfers-In Adjustments	2,000	
Direct Entries to Fund Equity	6,190,438	(660,601)
Total Additions	<u>6,193,144</u>	<u>(660,601)</u>
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	6,044,217	790,990
Nonbudgeted Expenditures & Transfers-Out	(3,649)	
Prior Year Expenditures & Transfers-Out Adjustments	(7,852)	
Total Reductions	<u>6,032,716</u>	<u>790,990</u>
FUND EQUITY: June 30, 2014	<u>\$ (393,717)</u>	<u>\$ 6,048,409</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.

GOVERNOR'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
FUND EQUITY: July 1, 2012	\$ (415,991)	\$ 19,854	\$ 0
ADDITIONS			
Budgeted Revenues & Transfers-In	13	26,941	4,518,804
Nonbudgeted Revenues & Transfers-In	(1,000)	7,500,000	89
Prior Year Revenues & Transfers-In Adjustments			(118)
Direct Entries to Fund Equity	5,983,758		(4,477,239)
Total Additions	5,982,771	7,526,941	41,536
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	6,124,544	46,795	41,536
Nonbudgeted Expenditures & Transfers-Out	(121)	89	
Prior Year Expenditures & Transfers-Out Adjustments	(3,498)	(89)	
Total Reductions	6,120,925	46,795	41,536
FUND EQUITY: June 30, 2013	\$ (554,145)	\$ 7,500,000	\$ 0

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.

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

	General Fund	State Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Miscellaneous	\$ 2,706		\$ 2,706
Total Revenues & Transfers-In	2,706	0	2,706
Less: Nonbudgeted Revenues & Transfers-In	602		602
Prior Year Revenues & Transfers-In Adjustments	2,000		2,000
Actual Budgeted Revenues & Transfers-In	104	0	104
Estimated Revenues & Transfers-In	(63)	7,538,408	7,538,345
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>167</u>	<u>(7,538,408)</u>	<u>\$ (7,538,241)</u>
	\$	\$	\$
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Taxes	(1)		(1)
Charges for Services		(8,409)	(8,409)
Grants, Contracts, and Donations		(7,529,999)	(7,529,999)
Miscellaneous	168		168
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>167</u>	<u>(7,538,408)</u>	<u>\$ (7,538,241)</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.

GOVERNOR'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	Total
Transfers-in				
Miscellaneous	\$ (987)	7,526,941	\$ 41,536	\$ 7,568,477
Federal				(987)
Total Revenues & Transfers-In			4,477,239	4,477,239
Less: Nonbudgeted Revenues & Transfers-In	(987)	7,526,941	4,518,775	12,044,729
Prior Year Revenues & Transfers-In Adjustments	(1,000)	7,500,000	89	7,499,089
Actual Budgeted Revenues & Transfers-In	13		(118)	(118)
Estimated Revenues & Transfers-In	513	26,941	4,518,804	4,545,758
Budgeted Revenues & Transfers-In Over (Under) Estimated	(500)	41,834	4,518,904	4,561,251
	\$ (500)	\$ (14,893)	\$ (100)	\$ (15,493)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Taxes	\$ (1)			\$ (1)
Charges for Services		(14,500)		(14,500)
Transfers-in		(393)	(100)	(493)
Miscellaneous	(499)			(499)
Budgeted Revenues & Transfers-In Over (Under) Estimated	(500)	(14,893)	(100)	(15,493)
	\$ (500)	\$ (14,893)	\$ (100)	\$ (15,493)

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.

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

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Air Transportation Program	Centralized Services Program	Citizens' Advocate Office	Coordinator of Indian Affairs	Executive Residence Operations	Executive Office Program	Lieutenant Governor's Office	Mental Disabilities Board of Visitors	Office Budget & Program Planning	Total
Personal Services										
Salaries	\$ 84,555	\$ 233,758	\$ 64,518	\$ 119,293	\$ 57,958	\$ 1,382,800	\$ 233,220	\$ 278,443	\$ 1,067,782	\$ 3,522,327
Employee Benefits	25,060	69,477	25,903	38,801	28,391	417,551	66,639	101,496	329,973	1,103,291
Total	<u>109,615</u>	<u>303,235</u>	<u>90,421</u>	<u>158,094</u>	<u>86,349</u>	<u>1,800,351</u>	<u>299,859</u>	<u>379,939</u>	<u>1,397,755</u>	<u>4,625,618</u>
Operating Expenses										
Other Services	13,484	33,627	2,188	2,954	5,243	321,346	6,536	18,602	41,888	445,868
Supplies & Materials	107,078	56,139	498	1,612	52,148	9,003	1,565	3,995	18,598	250,636
Communications	1,379	3,337	5,912	3,790	3,623	47,775	3,541	7,985	17,818	95,160
Travel	5,235	76	1,418	7,300	329	78,880	6,617	9,615	7,076	116,546
Rent	2,037			4,932	40	127,250	10,270	7,539	54,378	206,446
Repair & Maintenance	54,860	3,224		288	3,308	7,381		399	3,156	72,616
Other Expenses	5,125	4,652	29	2,270	2,418	159,090	1,106	3,400	41,736	219,826
Total	<u>189,198</u>	<u>101,055</u>	<u>10,045</u>	<u>23,146</u>	<u>67,109</u>	<u>750,725</u>	<u>29,635</u>	<u>51,535</u>	<u>184,650</u>	<u>1,407,098</u>
Transfers-out										
Fund transfers									790,990	790,990
Total									<u>790,990</u>	<u>790,990</u>
Total Expenditures & Transfers-Out	\$ <u>298,813</u>	\$ <u>404,290</u>	\$ <u>100,466</u>	\$ <u>181,240</u>	\$ <u>153,458</u>	\$ <u>2,551,076</u>	\$ <u>329,494</u>	\$ <u>431,474</u>	\$ <u>2,373,395</u>	\$ <u>6,823,706</u>
EXPENDITURES & TRANSFERS-OUT BY FUND										
General Fund	\$ 298,813	\$ 404,290	\$ 100,466	\$ 181,240	\$ 153,458	\$ 2,551,076	\$ 329,494	\$ 431,474	\$ 1,582,405	\$ 6,032,716
State Special Revenue Fund									790,990	790,990
Total Expenditures & Transfers-Out	<u>298,813</u>	<u>404,290</u>	<u>100,466</u>	<u>181,240</u>	<u>153,458</u>	<u>2,551,076</u>	<u>329,494</u>	<u>431,474</u>	<u>2,373,395</u>	<u>6,823,706</u>
Less: Nonbudgeted Expenditures & Transfers-Out						(3,650)				(3,650)
Prior Year Expenditures & Transfers-Out Adjustments	<u>(759)</u>	<u>(1,301)</u>	<u>(29)</u>		<u>29</u>	<u>(4,970)</u>		<u>26</u>	<u>(847)</u>	<u>(7,851)</u>
Actual Budgeted Expenditures & Transfers-Out	<u>299,572</u>	<u>405,591</u>	<u>100,495</u>	<u>181,240</u>	<u>153,429</u>	<u>2,559,696</u>	<u>329,494</u>	<u>431,448</u>	<u>2,374,242</u>	<u>6,835,207</u>
Budget Authority	<u>336,766</u>	<u>443,398</u>	<u>112,428</u>	<u>181,287</u>	<u>153,467</u>	<u>11,556,761</u>	<u>334,203</u>	<u>431,565</u>	<u>8,761,682</u>	<u>22,311,557</u>
Unspent Budget Authority	\$ <u>37,194</u>	\$ <u>37,807</u>	\$ <u>11,933</u>	\$ <u>47</u>	\$ <u>38</u>	\$ <u>8,997,065</u>	\$ <u>4,709</u>	\$ <u>117</u>	\$ <u>6,387,440</u>	\$ <u>15,476,350</u>
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund	\$ 37,194	\$ 34,476	\$ 3,524	\$ 47	\$ 38	\$ 1,428	\$ 4,709	\$ 117	\$ 705,525	\$ 787,058
State Special Revenue Fund		3,331	8,409			75,018			5,556,915	5,643,673
Federal Special Revenue Fund						8,920,619			125,000	9,045,619
Unspent Budget Authority	\$ <u>37,194</u>	\$ <u>37,807</u>	\$ <u>11,933</u>	\$ <u>47</u>	\$ <u>38</u>	\$ <u>8,997,065</u>	\$ <u>4,709</u>	\$ <u>117</u>	\$ <u>6,387,440</u>	\$ <u>15,476,350</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.

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

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Air Transportation Program	Centralized Services Program	Citizens' Advocate Office	Coordinator of Indian Affairs	Executive Residence Operations	Executive Office Program	Lieutenant Governor's Office	Mental Disabilities Board of Visitors	Office Budget & Program Planning	Total
Personal Services										
Salaries	\$ 72,716	\$ 240,335	\$ 46,275	\$ 122,646	\$ 58,419	\$ 1,425,942	\$ 177,628	\$ 257,232	\$ 1,007,044	\$ 3,408,237
Employee Benefits	22,417	69,302	21,064	36,881	26,801	370,170	51,522	91,572	303,736	993,465
Total	95,133	309,637	67,339	159,527	85,220	1,796,112	229,150	348,804	1,310,780	4,401,702
Operating Expenses										
Other Services	16,818	31,467	1,954	2,717	3,579	637,351	3,908	21,084	46,707	765,585
Supplies & Materials	78,424	29,895	417	1,921	42,605	62,065	1,648	3,221	20,104	240,300
Communications	5,172	4,258	5,926	5,596	3,691	42,543	3,247	18,088	18,015	106,536
Travel	8,905	36	17	4,633	999	62,507	11,158	10,754	8,384	107,393
Rent				4,944	158	118,197	5,358	6,876	54,434	189,967
Repair & Maintenance	114,777	6,367		288	1,009	8,336	170	714	4,682	136,343
Other Expenses	4,470	5,759	1	987	2,392	121,694	75,167	3,157	47,714	261,341
Total	228,566	77,782	8,315	21,086	54,433	1,052,693	100,656	63,894	200,040	1,807,465
Transfers-out										
Fund transfers						89				89
Total						89				89
Total Expenditures & Transfers-Out	\$ 323,699	\$ 387,419	\$ 75,654	\$ 180,613	\$ 139,653	\$ 2,848,894	\$ 329,806	\$ 412,698	\$ 1,510,820	\$ 6,209,256
EXPENDITURES & TRANSFERS-OUT BY FUND										
General Fund	\$ 304,234	\$ 387,419	\$ 75,620	\$ 180,613	\$ 139,653	\$ 2,780,062	\$ 329,806	\$ 412,698	\$ 1,510,820	\$ 6,120,925
State Special Revenue Fund	19,465		34			27,296				46,795
Federal Special Revenue Fund						41,536				41,536
Total Expenditures & Transfers-Out	323,699	387,419	75,654	180,613	139,653	2,848,894	329,806	412,698	1,510,820	6,209,256
Less: Nonbudgeted Expenditures & Transfers-Out		(122)				89				(33)
Prior Year Expenditures & Transfers-Out Adjustments		(22)			(160)	(3,701)		296		(3,587)
Actual Budgeted Expenditures & Transfers-Out	323,699	387,563	75,654	180,613	139,813	2,852,506	329,806	412,402	1,510,820	6,212,876
Budget Authority	341,019	501,503	101,172	180,974	140,274	11,840,584	331,457	417,705	1,591,797	15,446,485
Unspent Budget Authority	\$ 17,320	\$ 113,940	\$ 25,518	\$ 361	\$ 461	\$ 8,988,078	\$ 1,651	\$ 5,303	\$ 80,977	\$ 9,233,609
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund	\$ 17,320	\$ 113,940	\$ 12,870	\$ 361	\$ 461	\$ 53,209	\$ 1,651	\$ 5,303	\$ 80,977	\$ 286,092
State Special Revenue Fund			12,648			412				13,060
Federal Special Revenue Fund						8,934,457				8,934,457
Unspent Budget Authority	\$ 17,320	\$ 113,940	\$ 25,518	\$ 361	\$ 461	\$ 8,988,078	\$ 1,651	\$ 5,303	\$ 80,977	\$ 9,233,609

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.

Governor'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). 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 department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the 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.
- ♦ **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 activity related to Senate Bill 410 from the 2013 Legislative Session which provided a statutory appropriation of \$7.5 million from the State Treasury to the Governor's Office of Budget and Program Planning for the purpose of transferring money to state departments to fund operations costs as determined by the Governor; as well as agreements between other state agencies and the Governor's Office to fund a constituent services full-time equivalent position in the office.

- ♦ **Federal Special Revenue Fund** - to account for activities funded from federal revenue sources. Office Federal Special Revenue Funds primarily include a federal allocation from the United States Department of Treasury under the State Small Business Credit Initiative Act of 2010; as well as activity related to agreements between other state agencies and the Governor's Office, including funding in fiscal year 2013 for the Math and Science Initiative from federal Workforce Investment Act funds at the Department of Labor and Industry, and a small amount of federal funding from the Department of Commerce under an agreement with the Governor's Office as their allocable share of funding for a constituent services position.

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, State Special Revenue, and Federal Special Revenue Funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

4. Budgeted Revenues & Transfers-In Over (Under) Estimated

Senate Bill 410 from the 2013 Legislative Session provided that \$7.5 million be transferred by the state treasurer to the Governor's Office of Budget and Program Planning by July 1, 2013, for the purpose of transferring money to state departments to fund operations costs. Office staff established a revenue estimate for this amount in fiscal year 2014. The Department of Administration provided a nonbudgeted transfer of these funds in late June, 2013, and the office recognized and reported the transfer-in during this period. Through oversight by the office accounting staff, the revenue estimate recorded for fiscal year 2014 was not adjusted to match the estimate to the period when the revenue was received.

5. Unspent Budget Authority

On the Schedule of Total Expenditures and Transfers-out, the primary source of unspent federal budget authority in the Executive Office Program, in fiscal years 2013

and 2014, is a fiscal year 2012 continuing appropriation for Montana's implementation of the U.S. Department of Treasury State Small Business Credit Initiative Act of 2010 (SSBCI). In fiscal year 2012, when the office was first awarded monies for this program, the Office of Budget and Program Planning provided a continuing Federal Special Revenue appropriation to the Governor's Office. Shortly after the SSBCI's onset, reporting of its financial activities was moved from a Governor's Federal Special Revenue fund to a Federal Special Revenue fund in the Department of Commerce. An accompanying move of the funding authority was not needed by the Department of Commerce so the initial funding authority remained with the Governor's Office. While the monetary allocations from the U.S. Department of Treasury were received by the Governor's Office, program operations were delegated to Department of Commerce and expenditures were directly recorded in their financial records. Due to the SSBCI being a continuing appropriation for the term of the SSBCI agreement, unspent authority at the end of a fiscal year continues forward into the subsequent year, as long as the agreement remains in force. This continuing federal authority in the Governor's Office is not accompanied by any monies.

The unspent budget authority in the Office of Budget and Program Planning in FY2014 represents unexpended personal services contingency funds.

6. Personal Services Expenditures

The personal services expenditures included on the Schedule of Total Expenditures & Transfers-Out for each of the fiscal years ended June 30, 2013 and June 30, 2014, do not include the salaries and benefits of an employee loaned to the office by another state agency for legal and administrative assistance relating to the Office of Indian Affairs and the Governor's American Indian Nations Council. The personal services cost for the loaned employee was \$54,765 in fiscal year 2013 and \$58,706 in fiscal year 2014.

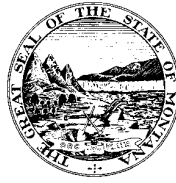
OFFICE OF THE
GOVERNOR AND
LIEUTENANT GOVERNOR

OFFICE RESPONSE

OFFICE OF THE GOVERNOR
STATE OF MONTANA

B-1

STEVE BULLOCK
GOVERNOR



ANGELA McLEAN
LT. GOVERNOR

October 29 , 2014

RECEIVED
OCT 29 2014
LEGISLATIVE AUDIT DIV.

Ms. Tori Hunthausen, CPA
Legislative Auditor
Legislative Audit Division
P.O. Box 201705
Helena, MT 59620-1705

Dear Ms. Hunthausen:

The following is our response to the recommendations contained in the audit of the Montana Office of the Governor and Lieutenant Governor for the two fiscal years ending June 30, 2014. We thank Ms. Hunthausen and her staff for their professionalism and courtesy as they conducted the audit.

Recommendation #1:

We recommend the office follow established internal control procedures for operating and procurement card expenditures.

Response: Concur.

The office has fortified its efforts to ensure that financial transactions entered into the accounting system receive proper approval by a program manager whenever an entry will have a monetary impact on the program's overall funding. This practice has been implemented, and Central Services staff are directed to ensure that transactions are approved, and that approvals are documented in a timely manner. Staff members must present receipts, or written explanations regarding missing receipts, for all state purchasing card charges, and program managers must approve all charges. Failure to follow these procedures will result in the loss of state purchasing card privileges. Our Internal Control Manual has been updated to clarify office control procedures.

Recommendation #2:

We recommend the office comply with state policy by establishing procedures to verify employee procard agreement forms are signed by card users and supervisors prior to issuance.

Response: Concur.

All employees who currently have a state purchasing card issued by the Governor's Office have signed their procard agreements, and these agreements have been signed by the appropriate program manager. Annually, each holder of a state purchasing card will be required to renegotiate a new agreement in order to retain their purchasing card privileges. This is intended to ensure that employees are continuously apprised of the requirements and responsibilities that accompany possession of a state-issued purchasing card.

Recommendation #3:

We recommend that the office comply with state law by disbursing the remaining Governor's Operations Account funds only to authorized agencies.

Response: Do not concur.

The Office of Budget and Program Planning disagrees with the assertion made by the Legislative Audit Division staff that the funds allocated to the Governor's Operations Account in SB0410 may only be distributed to agencies specifically articulated in the bill. It is OBPP's assertion that the transfer to the Department of Justice complies with the law, given the Governor's responsibilities.

Recommendation #4:

We recommend the office strengthen internal control procedures over recording revenue estimates.

Response: Concur.

Revenue estimate procedures have been included to our Internal Control Manual. This will help ensure that this step is not overlooked during our fiscal year-end closeout.

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tim Burton', written in a cursive style.

Tim Burton,
Chief of Staff