



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Public Service Regulation

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

OCTOBER 2014

LEGISLATIVE AUDIT
DIVISION

14-26

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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
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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 our financial-compliance audit report on the Department of Public Service Regulation (department) for the two fiscal years ended June 30, 2014. This report contains no recommendations.

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

The department's written response to the audit is included in the audit report on page B-1. We thank the commissioner and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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ELECTED AND ADMINISTRATIVE OFFICIALS

	<u>Term Expires</u>
Public Service Commission Bill Gallagher, Chair	January 2015
Kirk Bushman	January 2017
Travis Kavulla	January 2015
Roger Koopman	January 2017
Bob Lake	January 2017

Administrative Officials	Mandi Hinman, Administrator, Centralized Services Division
	Justin Kraske, Administrator, Legal and Consumer Division
	Kate Whitney, Administrator, Regulatory Division

For additional information concerning the Department of Public Service Regulation programs, contact:

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Department of Public Service Regulation For the Two Fiscal Years Ended June 30, 2014

OCTOBER 2014

14-26

REPORT SUMMARY

Under the direction of the Public Service Commission, the Department of Public Service Regulation is responsible for assuring the public receives safe, adequate, and economical utility and transportation services at just and reasonable rates.

Context

In addition to assuring safe, adequate, and economical utility and transportation services, the Department of Public Service Regulation (department) regulates certain public utilities, motor carriers, railroads, and pipelines within the state, and performs safety inspections of regulated activities under the direction of the Public Service Commission. The department's operating activity is subject to state regulation and grants received are subject to federal regulation.

The department is comprised of the Regulatory Division, Centralized Services Division, and Legal and Consumer Division. The department has 43 full-time equivalent (FTE) positions that include the five Commissioners and a Communications and Research Director. Commissioners are elected by district to serve four-year terms.

Most department funding comes from a tax on the gross operating revenue of regulated companies collected by the Department of Revenue. In fiscal years 2012-13 and 2013-14, this tax generated \$2.5 million and \$4.3 million

in revenue, respectively. The department also received federal grant funding for the National Gas Pipeline Safety Program of \$105,113 and \$162,302 in fiscal years 2012-13 and 2013-14, respectively.

Results

We audited the fiscal years 2012-13 and 2013-14 financial schedules and tested compliance with state laws and federal regulations. We reviewed federal transactions, revenues received for charges for services, and expenditures disbursed for personal services. We evaluated expenditures and revenues for the State Special Revenue Funds and the Federal Special Revenue Funds to determine whether activity was recorded in the proper fund. No findings resulted from our audit, and we make no recommendations to the department. The previous three audits also resulted in no recommendations to the department.

For a complete copy of the report (14-26) 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 Department of Public Service Regulation (department) for the two fiscal years ended June 30, 2014. The objectives of the audit were to:

1. Obtain an understanding of the department's internal controls to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.
2. Determine whether the department complied with selected state and federal laws and regulations.
3. Determine whether the department's financial schedules present fairly the results of operations and changes in fund equity for each of the two fiscal years ended June 30, 2014.

We addressed these objectives by focusing our audit effort on reviewing personal services, reimbursements, and federal activity related to the Pipeline Safety Grant and American Recovery and Reinvestment Act (ARRA) funds. We evaluated expenditures and revenues for the State Special Revenue Funds and the Federal Special Revenue Funds to determine whether activity was recorded in the proper fund. We also reviewed the accounting records for any unusual activity, such as significant changes in account balances between years and material nonroutine transactions. Throughout the audit, we reviewed and tested the department's internal controls and determined compliance with selected state laws.

Background

The Department of Public Service Regulation operates under the direction of the Public Service Commission (commission). The commission consists of five voting members who are elected on a district basis and serve a term of four years. After each general election, one of the commissioners is elected by the commission to serve as chairman until the next general election. The chairman exercises authority on behalf of a majority of the commissioners. The department's responsibility is to assure the public receives safe, adequate, utility and transportation services at just and reasonable rates. The department is responsible for the regulation of certain public utilities, motor carriers, railroads, and pipelines within the state, and performs safety inspections of regulated activities under the direction of the Public Service Commission.

The department's 43 full-time equivalent (FTE) positions consist of five commissioners, a Communications and Research Director, and staff of the following three divisions:

- ♦ The Regulatory Division exercises general control over public utilities, including rate determination and safety standards, and exercises general supervisory control over the activities of motor carriers and railroads (21 FTE).
- ♦ The Centralized Services Division provides administrative support to the department (9 FTE).
- ♦ The Legal and Consumer Division advises the commission on matters requiring a legal interpretation or opinion, represents the commission in legal proceedings, and assists with customer complaints and issues (7 FTE).

The aggregate of the department's expenditure activity is shown in the Public Service Regulation Program on pages A-7 and A-8. The department is primarily funded by a tax that is levied on regulated companies based on funding appropriated by the legislature for a specific fiscal year as required by §69-1-402, MCA. The tax is based upon a percentage of the gross operating revenue of all activities regulated by the commission for each calendar quarter of operation.

No findings resulted from our audit, and we make no recommendations to the department. The previous three audits also resulted in no recommendations to the department.

Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Public Service Regulation (department) 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 department's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department'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 department 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 aforementioned schedules present fairly, in all material respects, the results of operations and changes in fund equity of the Department of Public Service Regulation for each of the fiscal years ended June 30, 2014, and 2013, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

October 2, 2014

PUBLIC SERVICE REGULATION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	State Special Revenue Fund	Federal Special Revenue Fund
FUND EQUITY: July 1, 2013	\$ 231,472	\$ (2,673)
ADDITIONS		
Budgeted Revenues & Transfers-In	29,488	227,123
Nonbudgeted Revenues & Transfers-In	818	74
Direct Entries to Fund Equity	4,307,908	
Total Additions	4,338,213	227,197
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	3,577,672	224,524
Nonbudgeted Expenditures & Transfers-Out	(3,380)	
Prior Year Expenditures & Transfers-Out Adjustments	(4,315)	
Total Reductions	3,569,977	224,524
FUND EQUITY: June 30, 2014	\$ 999,708	\$ 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.

PUBLIC SERVICE REGULATION
 SCHEDULE OF CHANGES IN FUND EQUITY
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	State Special Revenue Fund	Federal Special Revenue Fund
FUND EQUITY: July 1, 2012	\$ 1,198,269	\$ 0
ADDITIONS		
Budgeted Revenues & Transfers-In	35,163	151,724
Nonbudgeted Revenues & Transfers-In	2,119	98
Direct Entries to Fund Equity	2,539,725	
Total Additions	2,577,006	151,822
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	3,571,643	154,495
Nonbudgeted Expenditures & Transfers-Out	(86)	
Prior Year Expenditures & Transfers-Out Adjustments	(27,754)	
Total Reductions	3,543,803	154,495
FUND EQUITY: June 30, 2013	\$ 231,472	\$ (2,673)

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.

PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	State Special Revenue Fund	Federal Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Licenses and Permits	\$ 11,905		\$ 11,905
Taxes		\$ 74	74
Charges for Services	18,401		18,401
Federal		227,123	227,123
Total Revenues & Transfers-In	30,306	227,197	257,503
Less: Nonbudgeted Revenues & Transfers-In	818	74	892
Prior Year Revenues & Transfers-In Adjustments			0
Actual Budgeted Revenues & Transfers-In	29,488	227,123	256,611
Estimated Revenues & Transfers-In	46,000	355,084	401,084
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (16,512)	\$ (127,961)	\$ (144,473)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Licenses and Permits	\$ 905		\$ 905
Charges for Services	(17,417)		(17,417)
Federal		(127,961)	(127,961)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (16,512)	\$ (127,961)	\$ (144,473)

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.

PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	State Special Revenue Fund	Federal Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Licenses and Permits	\$ 5,945		\$ 5,945
Taxes		\$ 98	98
Charges for Services	31,336		31,336
Federal		151,724	151,724
Total Revenues & Transfers-In	37,281	151,822	189,103
Less: Nonbudgeted Revenues & Transfers-In	2,119	98	2,216
Prior Year Revenues & Transfers-In Adjustments			0
Actual Budgeted Revenues & Transfers-In	35,163	151,724	186,887
Estimated Revenues & Transfers-In	50,700	351,834	402,534
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (15,537)	\$ (200,110)	\$ (215,647)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Licenses and Permits	\$ (3,555)		\$ (3,555)
Charges for Services	(11,982)		(11,982)
Federal		\$ (200,110)	(200,110)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (15,537)	\$ (200,110)	\$ (215,647)

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.

PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Public Service Regulation Program	Total
Personal Services		
Salaries	\$ 2,358,388	\$ 2,358,388
Employee Benefits	751,501	751,501
Total	<u>3,109,889</u>	<u>3,109,889</u>
Operating Expenses		
Other Services	99,117	99,117
Supplies & Materials	50,824	50,824
Communications	77,243	77,243
Travel	116,592	116,592
Rent	240,862	240,862
Repair & Maintenance	3,901	3,901
Other Expenses	81,019	81,019
Total	<u>669,557</u>	<u>669,557</u>
Equipment & Intangible Assets		
Equipment	8,980	8,980
Total	<u>8,980</u>	<u>8,980</u>
Debt Service		
Capital Leases	6,075	6,075
Total	<u>6,075</u>	<u>6,075</u>
Total Expenditures & Transfers-Out	<u>\$ 3,794,501</u>	<u>\$ 3,794,501</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
State Special Revenue Fund	\$ 3,569,977	\$ 3,569,977
Federal Special Revenue Fund	224,524	224,524
Total Expenditures & Transfers-Out	<u>3,794,501</u>	<u>3,794,501</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(3,380)	(3,380)
Prior Year Expenditures & Transfers-Out Adjustments	<u>(4,315)</u>	<u>(4,315)</u>
Actual Budgeted Expenditures & Transfers-Out	3,802,196	3,802,196
Budget Authority	<u>4,411,851</u>	<u>4,411,851</u>
Unspent Budget Authority	<u>\$ 609,655</u>	<u>\$ 609,655</u>
UNSPENT BUDGET AUTHORITY BY FUND		
State Special Revenue Fund	\$ 297,883	\$ 297,883
Federal Special Revenue Fund	311,772	311,772
Unspent Budget Authority	<u>\$ 609,655</u>	<u>\$ 609,655</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.

PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Public Service Regulation Program	Total
Personal Services		
Salaries	\$ 2,333,188	\$ 2,333,188
Employee Benefits	708,163	708,163
Total	<u>3,041,352</u>	<u>3,041,352</u>
Operating Expenses		
Other Services	43,146	43,146
Supplies & Materials	62,119	62,119
Communications	72,134	72,134
Travel	106,614	106,614
Rent	239,112	239,112
Repair & Maintenance	3,156	3,156
Other Expenses	82,205	82,205
Total	<u>608,486</u>	<u>608,486</u>
Equipment & Intangible Assets		
Equipment	34,102	34,102
Intangible Assets	8,284	8,284
Total	<u>42,386</u>	<u>42,386</u>
Debt Service		
Capital Leases	6,075	6,075
Total	<u>6,075</u>	<u>6,075</u>
Total Expenditures & Transfers-Out	<u>\$ 3,698,298</u>	<u>\$ 3,698,298</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
State Special Revenue Fund	\$ 3,543,803	\$ 3,543,803
Federal Special Revenue Fund	154,495	154,495
Total Expenditures & Transfers-Out	<u>3,698,298</u>	<u>3,698,298</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(86)	(86)
Prior Year Expenditures & Transfers-Out Adjustments	<u>(27,754)</u>	<u>(27,754)</u>
Actual Budgeted Expenditures & Transfers-Out	3,726,138	3,726,138
Budget Authority	4,280,011	4,280,011
Unspent Budget Authority	<u>\$ 553,872</u>	<u>\$ 553,872</u>
UNSPENT BUDGET AUTHORITY BY FUND		
State Special Revenue Fund	\$ 191,696	\$ 191,696
Federal Special Revenue Fund	362,176	362,176
Unspent Budget Authority	<u>\$ 553,872</u>	<u>\$ 553,872</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.

Department of Public Service Regulation

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2014

1. Summary of Significant Accounting Policies

Basis of Accounting

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

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

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

Basis of Presentation

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

The department uses the following funds:

Governmental Fund Category

- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include a fund to account for general operating revenues and expenditures and a fund to account for Qwest performance monitoring.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds account for the Federal Natural Gas Safety Program and American Recovery and Reinvestment Act funds.

2. Direct Entries to Fund Equity

Direct entries to fund equity in the State Special Revenue fund includes entries generated by Statewide Accounting, Budgeting, and Human Resources System to reflect the flow of resources within individual funds shared by separate agencies.

The majority of the direct entries to fund balance in the State Special Revenue Fund relates to the collection of utility gross operating tax by the Montana Department of Revenue.

DEPARTMENT OF PUBLIC
SERVICE REGULATION

DEPARTMENT RESPONSE



**MONTANA
PUBLIC SERVICE COMMISSION**

Bill Gallagher, Chairman
Bob Lake, Vice Chairman
Kirk Bushman, Commissioner
Travis Kavulla, Commissioner
Roger Koopman, Commissioner

B-1

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October 17, 2014

RECEIVED
OCT 16 2014
LEGISLATIVE AUDIT DIV.

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

Dear Ms. Hunthausen,

We have reviewed your draft Financial Compliance Audit for the two fiscal years ended June 30, 2014, and have no comments or exceptions to your report.

I would like to take this opportunity to thank you and your staff for the efficient organization in conducting the audit; your advance instructions were very helpful and it was a pleasure working with you and your staff.

Sincerely,

A handwritten signature in blue ink, appearing to read "Bill Gallagher", written over a light blue rectangular background.

Bill Gallagher, Chairman
Montana Public Service Commission