



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Commerce

*For the Two Fiscal Years Ended
June 30, 2015*

OCTOBER 2015

LEGISLATIVE AUDIT
DIVISION

15-16

FINANCIAL-COMPLIANCE AUDITS

LEGISLATIVE AUDIT COMMITTEE

REPRESENTATIVES

RANDY BRODEHL, CHAIR
Randybrodehl57@gmail.com

TOM BURNETT
Burnett.tom@gmail.com

VIRGINIA COURT
virginacourt@yahoo.com

DENISE HAYMAN
Rep.Denise.Hayman@mt.gov

KENNETH HOLMLUND
rep.ken.holmlund@mt.gov

MITCH TROPILA
tropila@mt.net

SENATORS

DEE BROWN
senatordee@yahoo.com

TAYLOR BROWN
taylor@northernbroadcasting.com

MARY McNALLY
McNally4MTLeg@gmail.com

J.P. POMNICHOWSKI
pomnich@montanadsl.net

BRUCE TUTVEDT
tutvedt@montanasky.us

GENE VUCKOVICH
Sen.Gene.Vuckovich@mt.gov

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444-4446
lad hotline@mt.gov

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.

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

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

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

AUDIT STAFF

JENNIFER ERDAHL
DELSI OSMANSON
SHANDELL VANDONSEL

NATALIE H. GIBSON
NOLAN PREESHL

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

October 2015

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Commerce (department) for the two fiscal years ended June 30, 2015. There are five audit recommendations in this report related to noncompliance with federal regulations and department policy, noncompliance with travel policy, noncompliance with state law related to a conflict of interest for the Board of Horse Racing, and a control deficiency related to simulcast revenues for the Board of Horse Racing.

The department's written response to the audit recommendations is included in the audit report at page C-1. We have considered the non-concurring response to Recommendation #4 on page C-2. As described on page 9 of the report, the contractual responsibilities of the Executive Secretary create a conflict of interest contrary to state law. We maintain our position as reported.

The department also does not concur with the recommendation #5 regarding controls over simulcast revenue verification. As long as the department is comparing information initiated from the same source, the internal controls over completeness and accuracy of revenue are inadequate. We maintain our position as reported.

We thank the director and her staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

Department of Commerce

Meg O’Leary, Director

Doug Mitchell, Deputy Director and Montana Promotion Division Acting Administrator

Sean Becker, Business Resources Division Administrator

Marty Tuttle, Chief Legal Counsel

Kelly A. Lynch, Administrator, Community Development Division

Bruce Brensdal, Administrator, Housing Division

David Ewer, Executive Director, Board of Investments

Michelle Barstad, Executive Director, Montana Facility Finance Authority

Dave Desch, Executive Director, Board of Research and Commercialization Technology

Elijah Allen, Operations Director, Montana Heritage Preservation and Development Commission

For additional information concerning the Department of Commerce, contact:

Teri Juneau
Accounting and Fiscal Manager
Department of Commerce
P.O. Box 200501
Helena, MT 59620-0501
(406) 841-2712
e-mail: tjuneau@mt.gov



MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Department of Commerce

For the Two Fiscal Years Ended June 30, 2015

OCTOBER 2015

15-16

REPORT SUMMARY

The Department of Commerce received approximately \$51.9 million and \$47.2 million in federal funds in fiscal years 2014 and 2015, respectively, mostly to fund the Section 8 Housing programs. Landlords were paid in excess of \$60,000 for ineligible Section 8 participants in the program during fiscal years 2014 and 2015.

Context

The Department of Commerce (department) provides financing for businesses, homeownership, and rental assistance; promotes tourism, travel, and filmmaking in Montana; manages the state's investment activity; manages and preserves historical cultural properties and artifacts; and regulates the live and simulcast horse racing industry.

The department's financial schedules include activity that we audit as part of other engagements. The Board of Housing provides housing for low-income families and individuals by issuing tax-exempt bonds to investors and using the proceeds to purchase mortgages, and is in the 13-07B and 15-07A blue cover audit report. The department's financial schedules also include approximately \$867.3 million and \$919.7 million in fiscal years 2014 and 2015, of the state's investment activity managed by the Board of Investments, and is included in the 14-04A and 14-04B reports. The Facility Finance Authority issues tax-exempt bonds for facilities at interest rates significantly below those that would be available at taxable bond rates and is included in the 14-12 report.

Other testing included, but was not limited to, expenditure transactions related to the grants from state and federal sources, operating expenses, bond activity, contracted services,

personal services, and the Board of Horse Racing activity. This included understanding the department's internal control policies and procedures, performing analytical procedures, and reviewing accounting transactions. We also reviewed and tested compliance with selected state laws and federal regulations.

Results

During the audit we determined the department was not in compliance with federal regulations and department policy related to the Section 8 Housing Choice Vouchers Program (program) which led to over \$60,000 in federal questioned costs. We made two recommendations related to this program.

We reviewed the six recommendations that were made in the prior financial-compliance audit of the department for the fiscal years 2012 and 2013. We found the department implemented five of the recommendations. One recommendation, related to noncompliance with state law on meal allowances during travel status, was partially implemented and is a recommendation in this report.

(continued on back)

The Board of Horse Racing (board) moved from the Department of Livestock to the Department of Commerce as of July 1, 2013. There were two recommendations related to the board in the Department of Livestock's audit report (13-22) for the two fiscal years ended June 30, 2013. The recommendations in that report were addressed to the department. The department concurred with the two recommendations and included a response in that report. The department did take steps to implement these recommendations, however, the recommendations were not fully addressed and are recommendations in this report.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	2
Source: Agency audit response included in final report.	

For a complete copy of the report (15-16) 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

Audit Scope

We performed a financial-compliance audit of the Department of Commerce (department) for the two fiscal years ended June 30, 2015. The accompanying financial schedules include activity that we audit as part of other engagements. These audits are Board of Housing (13-07B, 15-07A), Board of Investments (14-04A, 14-04B), and Montana Facility Finance Authority (14-12). The reports are available upon request. The objectives of this audit were to:

1. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvement in management and internal controls of the department.
2. 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, 2015, and June 30, 2014.
3. Determine whether the department complied with selected state laws and federal regulations.
4. Determine the implementation status of prior audit recommendations.

To address objectives #1 and #2, we focused our audit efforts primarily on the federal and state grants received for the Section 8 Housing Programs, among other programs. We also tested transactions related to operating expenses, contracted services, and personal services. This included understanding the department's internal control policies and procedures, performing analytical procedures, and reviewing accounting transactions. We addressed objective #3 by reviewing and testing compliance with state laws and federal regulations.

Internal Services Fees

As required by §17-8-101(6), MCA, we reviewed the reasonableness of the department's internal service fund type fees and charges and the fund equity for fiscal years 2014 and 2015. The department has an internal service fund for the Investment Division and Director's Office. To determine whether fees were commensurate with costs in each of the funds, we reviewed the relationship between fee revenues collected and expenses incurred in providing the services. To determine the reasonableness of fund equity in each of the funds, we reviewed the working capital in the funds at the end of the year, as well as fund equity trends. We used a 60-day working capital reserve as a measure based on federal guidelines. Based on the review, we found the charges for services were commensurate with costs and fund equity was reasonable during fiscal years 2014 and 2015.

Background

The department is responsible for encouraging and promoting economic and community development. The department consists of many divisions and several entities that are administratively attached or allocated to the department for administrative purposes, including Board of Housing, Montana Facility Finance Authority, Board of Research and Commercialization Technology, Board of Investments, Coal Board, Hard Rock Mining Impact Board, State Tribal Economic Development Commission, and Montana Heritage Preservation and Development Commission. Effective fiscal year 2014, the Board of Horse Racing was moved from the Department of Livestock to the Department of Commerce. The following is a description of the various divisions and entities comprising the department, including the number of full-time equivalent (FTE) positions for each.

Director's Office (19.0 FTE) administers the department and its divisions by providing executive, administrative, legal, and policy guidance, and provides internal support to all department divisions such as budgeting, accounting, purchasing, contracting, personnel administration, payroll, and training. The division also provides analysis, development, maintenance, and supervision of department data processing systems and hardware.

Montana Promotion Division (29.50 FTE) is responsible for promoting a positive image of the state through advertising, publicity, and international and domestic group travel, as well as printing and distribution of publications and marketing to film production companies.

Business Resources Division (35.34 FTE) includes programs to enhance Montana's economic and business climate, to assist businesses and communities in achieving economic prosperity, and to build the economic base of Montana through business creation, expansion, retention efforts, energy development, and the Board of Research and Commercialization Technology.

Community Development Division (24.45 FTE) works with federal, state, and local governments and the private sector in areas of community development. The division provides financial and technical assistance through the following primary programs. These include the Community Development Block Grant Program, Neighborhood Stabilization Program, Community Technical Assistance Program, Treasure State Endowment Program, and the Montana Home Investment Partnership Program. The Coal Board and the Hard Rock Mining Impact Board are independent citizen boards appointed by the governor that are allocated/attached to the division for administrative purposes.

Montana Facility Finance Authority (3.00 FTE) issues tax-exempt bonds for eligible facilities at interest rates significantly below those that would be available at taxable bond rates. Eligible facilities include, but are not limited to, acute care hospitals, nursing homes, assisted living facilities, retirement facilities, outpatient centers, homes for persons with developmental or mental disabilities, chemical dependency centers, and pre-release centers.

Board of Investments (32.00 FTE) invests state funds in accordance with the Montana Constitution and statutory requirements. The board manages eight investment portfolios: 1) the All Other Funds Portfolio; 2) Montana Domestic Equity Pool; 3) Short-Term Investment Pool; 4) Trust Funds Investment Pool; 5) Retirement Funds Bond Pool; 6) Montana Real Estate Pool; 7) Montana International Equity Pool; and 8) Montana Private Equity Pool. The board also administers several programs in the Enterprise Fund, which issue bonds to assist local governments, cities, and school districts, or to provide funds to improve the state's economy.

Housing Division (51.33 FTE) administers the federal Section 8 Housing Programs which provide rent subsidies to eligible low-income families and individuals, as well as the Montana Board of Housing (MBOH). The MBOH helps provide housing to lower income individuals and families. MBOH moneys are made available through issuance of revenue bonds.

Montana Heritage Commission (12.00 FTE) manages certain state-owned historic properties located at Virginia City, Nevada City, and Reeder's Alley in Helena.

Board of Horse Racing (1.25 FTE) is responsible for the live and simulcast horse racing industry; licensing all racing personnel; establishing race dates for various communities; and establishing veterinary practices and standards in connection with horse racing meets.

Prior Audit Recommendations

The prior audit report for the two fiscal years ended June 30, 2013, contained six recommendations to the department. The department implemented five recommendations and did not fully implement one recommendation. The department did not fully implement the recommendation related to compliance with the state travel policy. This is a recommendation in this report as shown on page 7.

The Department of Livestock audit report for the two fiscal years ended June 30, 2013, contained two recommendations related to the Board of Horse Racing (board). The board is now attached to the department. The two recommendations related to the

board were directed at the Department of Commerce. The department did concur with the two recommendations and included a response in that report (13-22). The department did take steps to address these recommendations. However, we found the issues were not fully addressed, and, as such, included these in this report starting on page 8.

Chapter II – Findings and Recommendations

Section 8 Housing Choice Vouchers Program

The Department of Commerce (department) administers the federal Section 8 Housing Choice Vouchers Program (program), which provides assistance to help low-income families afford rental housing. The department receives the applications from the families who want to be considered for the rental assistance and maintains centralized control over the program. The department contracts with field agents throughout the state to assist with eligibility determinations, inspections of the rental units, and initial calculations of housing assistance amounts. The department then verifies eligibility by reviewing the documentation gathered by the field agent and verifying the criteria set by federal regulations and department policy has been met. The owner is paid a portion of the rent on behalf of the family. The department paid landlords \$15,829,764 and \$15,741,352 in fiscal years 2014 and 2015, respectively. The next two recommendations relate to this program.

Noncompliance With Federal Regulations and Department Policies

The department did not follow regulations and policies for the program and continued to pay vouchers to landlords on behalf of some recipients no longer eligible for the program.

A family is considered eligible for the program when certain income limitations, defined by federal regulation and department policy, are met. These are based, in part, on the composition of the family. The department is required to examine these eligibility requirements on an annual basis. The department is also required to determine the reasonableness, as defined by federal regulation, of the rent charged by the landlord. We reviewed 98 files and identified 5 requirements not being followed in 11 different files. In several of the instances below, decisions were made to continue assistance but the department lacks documentation to support these decisions.

- ♦ The department determined one recipient was eligible for the program without including interest amounts from a savings account they were aware of. The regulations define annual income, which includes the income from a savings account. The department should have considered this amount during the eligibility process to determine whether the income was below the standard.
- ♦ The department became aware of one recipient's absence in excess of 30 days from the unit while trying to contact this recipient to perform an annual review and was unable to reach the recipient. Federal regulation and policy states if a family is absent from a unit for more than 30 days without

contacting the department, assistance is required to be terminated for the family. Once the department became aware of the absence, the assistance was not terminated and disbursements to the landlord in the amount of \$1,036 continued.

- ◆ The department did not conduct an annual reexamination for one recipient, as required. By not reexamining the information, eligibility status could be affected.
- ◆ The department did not follow federal regulations for one tenant regarding whether the rent paid to the landlord on their behalf was reasonable. When determining the reasonableness of the rent for the unit the tenant was renting, the department compared the unit to others that were not in the same market area, as required. While the department did not comply with federal regulations, we found this did not result in an unreasonable rent amount paid to the landlord.
- ◆ There were seven instances where the department identified recipients who either did not report income of \$2,000 or did not report multiple increases of income. Federal regulation and policy state a recipient can be terminated from assistance for failure to report income of \$2,000 or more. The family will also be terminated from assistance the second time there is failure to report income of any size. Once discovered by the department, the recipients were not terminated from the program and disbursements to landlords in the amount of \$62,628 continued.

Department personnel stated in some cases the current procedures were not followed, were not clear, or allowed for inconsistencies in the termination process. However, by not following federal regulations and department policy, there was approximately \$63,664 paid to landlords on behalf of recipients who were no longer eligible for benefits. As a result, we question \$63,664 charged to the program.

RECOMMENDATION #1

We recommend the Department of Commerce comply with federal eligibility regulations and department policies for the Section 8 Housing Choice Vouchers Program.

Noncompliance With the Treasury-State Agreement

The department is not following the required cash management methods for disbursements to landlords for rental payments.

The United States Treasury and the state of Montana enter into a Treasury-State Agreement (agreement) in order to minimize the time between payment of expenditures and drawing funds from the federal government and to set disbursement patterns. The agreement in effect for fiscal years 2014 and 2015 requires the department to disburse funds to landlords by Electronic Fund Transfer so that the settlement date is the first day of the month and so that payments by warrant are issued on the first business day of the month. The department disburses the funds throughout the month, not just the first day. The department did not follow the disbursement pattern of the agreement for 73 days; 55 in fiscal year 2014 and 18 in fiscal year 2015.

Department personnel stated disbursements are processed typically on the 1st and 15th of the month to accommodate partial payments to the landlords and changes to tenant records based on interim or annual reviews. The department is not in compliance with the agreement which could lead to increased interest owed to the federal government or decreased funding.

RECOMMENDATION #2

We recommend the Department of Commerce comply with the Treasury-State Agreement for the Section 8 Housing Choice Vouchers Program.

Noncompliance With State Law Related to Travel

The department is not following state law when reimbursing meal allowances during travel status.

During the audit period, we reviewed travel reimbursement forms for 11 months of the two years and found examples from 7 months that were not in compliance with state law and policy. Section 2-18-501, MCA, permits a per diem amount for travel within the state of Montana of \$5 for the morning meal, \$6 for the midday meal, and \$12 for the evening meal. The per diem amount for travel outside of the state of Montana is \$7 for the morning meal, \$11 for the midday meal, and \$23 for the evening meal. Section 2-18-502, MCA, establishes the time ranges an employee is eligible for the

meal allowance provided in §2-18-501, MCA, and requires the employee be in a travel status for more than three continuous hours during the listed time ranges. We identified 17 approved travel reimbursement forms that either did not have enough evidence to support the reimbursement to the employee or were not filled out correctly, as outlined below.

- ♦ Five of the travel forms did not claim the correct per diem for the meal allowance based on time ranges documented, amounting to \$32 overpaid to employees.
- ♦ Four of the forms documented that meals were provided as part of the conference attended and per diem for the meal allowance was still claimed, amounting to \$100 overpaid to employees.
- ♦ Two of the forms did not contain enough evidence to determine the appropriate reimbursement allowed.
- ♦ We found six instances where employees purchased meals during travel status on the procard which exceeded the allotted per diem rate.

State accounting policy requires agencies to develop internal controls to ensure programs operate in conformance with laws and regulations, and that the related transactions are accurate. The department did not have adequate review procedures in place to verify the completeness and accuracy of travel reimbursement forms. Employees were not complying with state law related to the per diem rates and travel time ranges when filling out forms for reimbursement.

Department personnel stated the travel reimbursement forms were not filled out completely by staff related to travel requirements and some meals were not itemized. It was further stated staff attended a training related to travel requirements last year and the supervisors need to be more attentive in the review of the forms.

RECOMMENDATION #3

We recommend the Department of Commerce strengthen internal controls in the review procedures of travel reimbursement forms and ensure employees comply with state law regarding reimbursement requests for meal allowances.

Board of Horse Racing

The Board of Horse Racing (board) is responsible for regulating the horse racing industry in Montana, including simulcast pari-mutuel race activities. Starting July 1, 2013, the board moved to the department from the Department of Livestock. There

were two recommendations related to the board in the Department of Livestock's audit report (13-22) for the two fiscal years ended June 30, 2013. These recommendations relate to a conflict of interest and a lack of controls over simulcast revenue and were reviewed during this audit.

Conflict of Interest

The department, on behalf of the board, entered into an employment contract that created a conflict of interest.

A contractor was hired to serve as Executive Secretary (secretary) to perform many horse racing related activities for the board. The duties of the secretary include, but are not limited to: making inquiries into the financial dealing and solvency of any licensee; developing and promoting additional revenue from advance deposit wagering, simulcast, and fantasy sports; and work closely with the simulcast operator. The board issues a license to the company that provides the simulcast pari-mutuel network services. The secretary is also under contract with the simulcast pari-mutuel network provider (network provider), that is licensed by the board, to provide web services and financial reporting for daily simulcast wagering information. The duties required by the contract between the department and the secretary creates a conflict of interest as described below.

Section 2-2-102 (7)(d), MCA, in part, defines a public employee as a person under contract to the state. The secretary is considered to be a public employee. Section 2-2-121, MCA, defines the rules of conduct for public employees. The law prohibits public employees from engaging in substantial financial transactions for their private business purposes with a person who the employee inspects or supervises in the course of official duties. It further prohibits a public employee from performing an official act that directly and substantially benefits a business in which the officer or employee either has a substantial financial interest or is engaged as counsel, consultant, representative, or agent. Section 2-2-102 (5), MCA, in part, states an official act means a vote, decision, recommendation, approval, disapproval, or other action, including inaction, that involves the use of discretionary authority. By developing and promoting additional revenue for the network provider, the secretary is performing an official act that directly and substantially benefits the network provider.

The department considers the recommendation fully implemented by recusing the secretary from all discussions relating to the renewal of the license for the contracted party. However, this does not eliminate the conflict of interest as the contract still requires the secretary to perform the duties that created the conflict. Additional evidence was

requested from the department regarding the duties and the financial transactions that existed during this audit period between the secretary and the network provider. The department would not provide this information. Without this information, additional analysis could not be performed to substantiate the department's assertion the conflict of interest was entirely eliminated. The statutory rules of conduct for public employees are in place to prohibit conflicts of interest between public duty and private interest. When such conflicts exist, there is increased risk of improper activity occurring.

RECOMMENDATION #4

We recommend the Department of Commerce comply with state law and not enter into contractual agreements that cause a conflict of interest or amend the current contract to remove the conflict.

Controls Over Simulcast Revenue Verification

The department does not have controls in place to ensure the completeness and accuracy of simulcast wagering information obtained from contractors and used in financial reporting.

During fiscal years 2014 and 2015, the board received simulcast revenue from wagering on horse races at bars and casinos in the amount of \$266,689 and \$306,035, respectively. The board contracts with an outside company to operate the simulcast pari-mutuel network (network provider). The network provider contracts with a company to provide the wagering system (computer terminals, software, wager tracking, etc.) that allows for simulcast wagering on horse races at bars and casinos. This information is provided to the department to calculate the revenue which is used for financial reporting purposes. The department does not have a process in place to verify the accuracy and completeness of the wagering information provided by the network provider contractor. Without verifying the information from the company or performing additional procedures, the department cannot confirm all of the money due to the board for simulcast wagering activities was actually remitted to the board during the audit period.

Department personnel stated procedures are in place to verify revenue and it would not be cost effective to receive the report needed for assurance over the controls of the network provider contractor, as the cost to obtain the report is \$4,000.

State accounting policy requires agencies to develop internal controls to ensure programs operate in conformance with laws and regulations, and that the related transactions are accurate. The department should strengthen internal controls to ensure the simulcast revenues received, recorded on the state's primary accounting system, and presented on the department's financial schedules are complete and accurate.

RECOMMENDATION #5

We recommend the Department of Commerce strengthen internal controls to ensure the completeness and accuracy of simulcast revenues.

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 Commerce for each of the fiscal years ended June 30, 2015, and 2014, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, liabilities, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the department as of June 30, 2015, and 2014, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund equity of the Department of Commerce for each of the fiscal years ended June 30, 2015, and 2014, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2015, on our consideration of the department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of

internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance and starts on page B-1.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

September 30, 2015

DEPARTMENT OF COMMERCE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Investment Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2014	\$ (2,673,156)	\$ 10,922,807	\$ (3,091,358)	\$ 0	\$ 171,075,136	\$ (330,004)	\$ 489,883,980	\$ 31,717
ADDITIONS								
Budgeted Revenues & Transfers-In		10,274,909	9,136,202		41,013,032	7,192,469		41
Nonbudgeted Revenues & Transfers-In	239	13,300,187	64		25,742,417	88,923	920,178,702	0
Prior Year Revenues & Transfers-In Adjustments		141	(15,522)		178,039			
Direct Entries to Fund Equity	22,591,129	40,163,382	(205,534)		(2,922,839)	(3,793,802)		
Total Additions	22,591,368	63,738,619	8,915,210	0	64,010,649	3,487,590	920,178,702	41
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	8,426,839	75,269,281	10,227,353	12,500	66,284,124	7,165,958		
Nonbudgeted Expenditures & Transfers-Out	13,297,544	94,632	(182)		654,490	126,906	835,597,704	
Prior Year Expenditures & Transfers-Out Adjustments	37	(533,140)	(635,389)		457,426	(29,219)		
Total Reductions	21,724,420	74,830,773	9,591,782	12,500	67,396,040	7,263,645	835,597,704	0
FUND EQUITY: June 30, 2015	\$ (1,806,208)	\$ (169,347)	\$ (3,767,930)	\$ (12,500)	\$ 167,689,745	\$ (4,106,059)	\$ 574,464,978	\$ 31,758

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.

DEPARTMENT OF COMMERCE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Investment Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2013	\$ (3,487,066)	\$ 16,632,287	\$ (838,290)	\$ (14,146)	\$ 177,577,299	\$ (383,049)	\$ 494,836,035	\$ 31,694
ADDITIONS								
Budgeted Revenues & Transfers-In		6,045,646	11,837,425		42,595,603	7,116,339		23
Nonbudgeted Revenues & Transfers-In		11,366	406		27,768,643	24	867,791,098	0
Prior Year Revenues & Transfers-In Adjustments		318	(19,000)		182,234			
Direct Entries to Fund Equity	9,067,321	26,527,880	396,342	19,391	(6,255,778)	(54,912)		
Total Additions	9,067,321	32,585,209	12,215,173	19,391	64,290,703	7,061,451	867,791,098	23
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	8,298,898	38,186,744	15,226,867	5,245	68,628,989	6,789,524		
Nonbudgeted Expenditures & Transfers-Out	380	843,710	369,230		1,492,088	195,657	872,743,153	
Prior Year Expenditures & Transfers-Out Adjustments	(45,868)	(735,765)	(1,127,858)		671,789	23,226		
Total Reductions	8,253,410	38,294,689	14,468,240	5,245	70,792,866	7,008,406	872,743,153	0
FUND EQUITY: June 30, 2014	\$ (2,673,156)	\$ 10,922,807	\$ (3,091,358)	\$ 0	\$ 171,075,136	\$ (330,004)	\$ 489,883,980	\$ 31,717

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.

DEPARTMENT OF COMMERCE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Investment Trust Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS								
Licenses and Permits								
Taxes	\$ 239	\$ 29,445	\$ 57				\$	29,445
Charges for Services		533,568		\$ 3,288,148	\$ 6,907,669			296
Investment Earnings		171,806	194,588	25,122,431		\$ 486,193	\$ 41	10,729,385
Fines and Forfeits		900						25,975,059
Sale of Documents, Merchandise and Property		259,762		73,000				900
Rentals, Leases and Royalties		169,077						332,762
Contributions and Premiums		720						169,077
Grants, Contracts, and Donations		414,929		68,138	88,841	919,692,509		919,693,229
Transfers-in		21,994,985		29,607				571,908
Intra-entity Revenue				61,766	284,882			21,994,985
Federal Indirect Cost Recoveries								29,607
Miscellaneous		45						346,648
Federal			8,926,099	38,290,398				45
Total Revenues & Transfers-In	239	23,575,237	9,120,744	66,933,488	7,281,392	920,178,702	41	47,216,497
Less: Nonbudgeted Revenues & Transfers-In	239	13,300,187	64	25,742,417	88,923	920,178,702	0	1,027,089,843
Prior Year Revenues & Transfers-In		141	(15,522)	178,039				959,310,532
Actual Budgeted Revenues & Transfers-In	0	10,274,909	9,136,202	41,013,032	7,192,469	0	41	162,658
Estimated Revenues & Transfers-In		1,740,338	12,393,064	40,598,576	7,181,152		35	67,616,653
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ 8,534,571	\$ (3,256,862)	\$ 414,456	\$ 11,317	\$ 0	\$ 6	\$ 5,703,488
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS								
Licenses and Permits	\$	1,008					\$	1,008
Charges for Services		6,756		\$ 357,811	\$ (36)			364,531
Investment Earnings		(7,195)	499	140,213		\$	6	133,523
Fines and Forfeits		(82)						(82)
Sale of Documents, Merchandise and Property		(21,115)						(21,115)
Rentals, Leases and Royalties		6,425						6,425
Contributions and Premiums		720						720
Grants, Contracts, and Donations		2,132						2,132
Transfers-in		8,545,894						8,545,894
Intra-entity Revenue				5,239				5,239
Federal Indirect Cost Recoveries				(1)	11,354			11,352
Miscellaneous		28						28
Federal			(3,257,361)	(88,806)				(3,346,167)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ 8,534,571	\$ (3,256,862)	\$ 414,456	\$ 11,317	\$ 0	\$ 6	\$ 5,703,488

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.

DEPARTMENT OF COMMERCE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Investment Trust Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Licenses and Permits							
Taxes	\$ 26,830						\$ 26,830
Charges for Services	470,641	308					308
Investment Earnings	218,996	94					10,129,919
Fines and Forfeits	1,650	211,300					27,482,352
Monetary Settlements			255				1,650
Sale of Documents, Merchandise and Property	39,895						255
Rentals, Leases and Royalties	158,202						39,895
Contributions and Premiums	505						158,202
Grants, Contracts, and Donations	479,749						867,265,548
Transfers-in	4,648,909						479,749
Intra-entity Revenue			750,000				5,398,909
Federal Indirect Cost Recoveries			18,833				18,833
Miscellaneous	11,953		27,713	334,973			362,686
Federal							11,953
Total Revenues & Transfers-In	6,057,330	11,607,129	40,345,906				51,953,035
Less: Nonbudgeted Revenues & Transfers-In		11,818,831	70,546,480				963,330,125
Prior Year Revenues & Transfers-In Adjustments	11,366	406	27,768,643	24		23	895,571,537
Actual Budgeted Revenues & Transfers-In	318	(19,000)	182,234				163,552
Estimated Revenues & Transfers-In	6,045,646	11,837,425	42,595,603				67,595,036
Budgeted Revenues & Transfers-In Over (Under) Estimated	5,740,618	16,380,313	41,236,512				70,475,129
	\$ 305,028	\$ (4,542,888)	\$ 1,359,091	\$ (1,347)	\$ 0	\$ 23	\$ (2,880,093)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Licenses and Permits							
Charges for Services	(3,170)						\$ (3,170)
Investment Earnings	46,965						892,270
Fines and Forfeits	7,158	78,702	846,560	(1,255)			315,033
Monetary Settlements	400		229,150				400
Sale of Documents, Merchandise and Property			(245)				(245)
Rentals, Leases and Royalties	9,796						9,796
Contributions and Premiums	(6,798)						(6,798)
Grants, Contracts, and Donations	(95)						(95)
Transfers-in	251,713						251,713
Intra-entity Revenue	(941)		(6,167)				(941)
Federal Indirect Cost Recoveries			9,193	(92)			(6,167)
Federal			280,600				9,101
Budgeted Revenues & Transfers-In Over (Under) Estimated	305,028	(4,621,590)	1,359,091	(1,347)	0	23	(4,340,990)
	\$ 305,028	\$ (4,542,888)	\$ 1,359,091	\$ (1,347)	\$ 0	\$ 23	\$ (2,880,093)

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Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF COMMERCE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Board Of Horse Racing	Board Of Investments	Business Resources Division	Community Development Division	Housing Division	Director's Office	Montana Facility Finance Authority	Montana Heritage Commission	Montana Promotion Division	Total
Personal Services										
Salaries	\$ 9,015	\$ 2,731,877	\$ 1,957,699	\$ 1,107,850	\$ 2,420,037	\$ 1,239,898	\$ 146,743	\$ 403,525	\$ 1,628,398	\$ 11,645,042
Other Compensation		7,100	650	1,450	3,450		4,800			17,450
Employee Benefits	731	496,974	678,551	382,691	672,103	269,796	29,200	135,331	567,312	3,232,689
Personal Services-Other		47,105			27,782	27,400	12,769			115,056
Total	9,746	3,283,055	2,636,899	1,491,991	3,123,372	1,537,094	193,512	538,856	2,195,710	15,010,237
Operating Expenses										
Other Services	40,146	1,378,558	1,401,124	170,299	4,350,398	30,615	28,126	176,507	5,623,011	13,198,785
Supplies & Materials	176	35,056	132,870	56,536	183,552	56,498	6,735	132,247	150,714	754,384
Communications	154	35,630	95,295	37,211	129,516	28,082	5,158	109,209	4,512,077	4,952,332
Travel	8,293	48,018	177,641	70,932	156,617	21,103	23,611	33,159	141,797	681,170
Rent	111	217,130	214,673	93,252	218,294	110,025	23,153	5,282	231,018	1,112,938
Utilities			1,744					110,685		112,429
Repair & Maintenance		1,729	6,293	3,825	400,986	807	8,999	190,259	7,979	620,877
Other Expenses	123,932	529,380	738,562	287,331	1,757,735	27,746	117,579	121,266	984,483	4,688,014
Goods Purchased For Resale								24,487	31,748	56,235
Total	172,813	2,245,501	2,768,203	719,385	7,197,097	274,876	213,362	903,101	11,682,826	26,177,165
Equipment & Intangible Assets										
Equipment			6,762						11,268	18,030
Total			6,762						11,268	18,030
Local Assistance										
From State Sources									6,171,574	6,171,574
Total									6,171,574	6,171,574
Grants										
From State Sources			11,337,844	40,293,274					2,318,441	53,949,559
From Federal Sources			931,962	5,973,372		470,931				7,376,265
Total			12,269,806	46,266,646		470,931			2,318,441	61,325,824
Benefits & Claims										
From State Sources							400,026			400,026
From Federal Sources					36,879,659					36,879,659
STIP Distrib to Local Govts		835,597,704								835,597,704
Total		835,597,704			36,879,659		400,026			872,877,388
Transfers-out										
Fund transfers			1,470,000	13,300,000		1,020			100,000	14,871,020
Intra-Entity Expense							29,607			29,607
Total			1,470,000	13,300,000		1,020	29,607		100,000	14,900,627
Debt Service										
Bonds		494,758			18,739,367					19,234,125
Total		494,758			18,739,367					19,234,125
Post Employment Benefits										
Other Post Employment Benefits		88,139			113,926	52,149	3,294			257,508
Employer Pension Expense		186,643			164,174	83,636	9,935			444,388
Total		274,783			278,100	135,785	13,229			701,896
Total Expenditures & Transfers-Out	\$ 182,559	\$ 841,895,801	\$ 19,151,670	\$ 61,778,022	\$ 66,217,596	\$ 2,419,706	\$ 849,736	\$ 1,441,957	\$ 22,479,819	\$ 1,016,416,866
EXPENDITURES & TRANSFERS-OUT BY FUND										
General Fund			7,616,243	14,108,178						21,724,421
State Special Revenue Fund	\$ 182,559		9,385,158	41,353,781				1,429,457	22,479,819	74,830,773
Federal Special Revenue Fund			2,150,269	6,316,064	654,519	470,931				9,591,783
Capital Projects Fund							12,500			12,500
Enterprise Fund		\$ 983,228			65,563,076		\$ 849,736			67,396,040
Internal Service Fund		5,314,869				1,948,775				7,263,645
Investment Trust Fund		835,597,704								835,597,704
Total Expenditures & Transfers-Out	182,559	841,895,801	19,151,670	61,778,022	66,217,596	2,419,706	849,736	1,441,957	22,479,819	1,016,416,866
Less: Nonbudgeted Expenditures & Transfers-Out	(8)	835,667,334	(2,492)	13,298,609	576,457	48,015	87,294	(748)	96,633	849,771,094
Prior Year Expenditures & Transfers-Out Adjustments		(12,623)	22,647	(642,005)	51,880	(16,596)	400,026	11,747	(555,359)	(740,284)
Actual Budgeted Expenditures & Transfers-Out	182,567	6,241,090	19,131,516	49,121,418	65,589,259	2,388,288	362,416	1,430,958	22,938,545	167,386,055
Budget Authority	369,155	7,403,385	32,319,666	56,770,557	78,838,874	2,478,085	584,829	1,848,204	24,264,416	204,877,172
Unspent Budget Authority	\$ 186,588	\$ 1,162,295	\$ 13,188,150	\$ 7,649,139	\$ 13,249,616	\$ 89,797	\$ 222,414	\$ 417,246	\$ 1,325,871	\$ 37,491,116
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund			739,038	240,214						979,252
State Special Revenue Fund	\$ 186,588		6,506,615	2,383,674	150,000			29,746	1,325,871	10,582,495
Federal Special Revenue Fund			5,942,497	5,025,251	2,571,961	79,069				13,618,778
Capital Projects Fund							387,500			387,500
Enterprise Fund		\$ 1,143,475			10,527,655		\$ 222,414			11,893,543
Internal Service Fund		18,821				10,728				29,549
Unspent Budget Authority	\$ 186,588	\$ 1,162,295	\$ 13,188,150	\$ 7,649,139	\$ 13,249,616	\$ 89,797	\$ 222,414	\$ 417,246	\$ 1,325,871	\$ 37,491,116

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DEPARTMENT OF COMMERCE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Board of Horse Racing	Board of Investments	Business Resources Division	Community Development Division	Housing Division	Director's Office	Montana Facility Finance Authority	Montana Heritage Commission	Montana Promotion Division	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT										
Personal Services										
Salaries	\$ 8,960	\$ 2,453,431	\$ 2,069,158	\$ 1,195,480	\$ 2,090,243	\$ 1,154,092	\$ 129,737	\$ 400,863	\$ 1,476,113	\$ 10,978,076
Other Compensation		5,600	1,278	2,450	2,450		3,500			15,278
Employee Benefits	920	665,756	655,113	401,560	769,055	351,065	40,076	128,352	519,077	3,530,973
Personal Services-Other		63,122			30,153	21,306	4,774			119,355
Total	9,880	3,187,909	2,725,549	1,599,490	2,891,901	1,526,464	178,086	529,215	1,995,189	14,643,683
Operating Expenses										
Other Services	41,453	1,512,805	2,032,698	274,609	4,935,317	47,672	39,382	135,648	5,534,460	14,554,043
Supplies & Materials	929	47,911	127,756	81,361	156,659	51,614	3,475	165,662	149,641	785,009
Communications		36,585	81,026	39,424	109,749	29,070	7,691	90,399	5,449,937	5,843,881
Travel	7,596	55,434	134,975	65,959	96,774	21,666	19,294	29,394	163,384	594,476
Rent	100	213,557	205,134	104,547	210,759	107,879	18,725	5,395	232,632	1,098,729
Utilities			2,120					96,412		98,532
Repair & Maintenance		1,142	12,540	38,983	275,142	757	8,987	100,889	4,852	443,292
Other Expenses	100,144	503,858	3,238,339	312,150	1,394,791	30,037	42,485	108,521	928,098	6,658,423
Goods Purchased For Resale								13,049	24,911	37,960
Total	150,222	2,371,292	5,834,588	917,033	7,179,191	288,694	140,039	745,369	12,487,916	30,114,345
Equipment & Intangible Assets										
Equipment								12,000	33,346	45,346
Total								12,000	33,346	45,346
Local Assistance										
From State Sources									5,476,316	5,476,316
Total									5,476,316	5,476,316
Grants										
From State Sources			5,640,477	8,970,089			57,000		1,754,367	16,421,932
From Federal Sources			1,374,300	9,009,802	(1,068,099)	453,944				9,769,948
Total			7,014,777	17,979,891	(1,068,099)	453,944	57,000		1,754,367	26,191,880
Benefits & Claims										
To Individuals					53,487					53,487
From Federal Sources					36,156,092					36,156,092
STIP Distrib to Local Govts		872,743,153								872,743,153
Total		872,743,153			36,209,579					908,952,731
Transfers-out										
Fund transfers			1,470,000		750,000				100,000	2,320,000
Intra-Entity Expense							18,833			18,833
Total			1,470,000		750,000		18,833		100,000	2,338,833
Debt Service										
Bonds		2,036,613			21,460,913					23,497,525
Total		2,036,613			21,460,913					23,497,525
Other Post Employment Benefits										
Other Post Employment Benefits		102,941			133,417	64,256	4,735			305,349
Total		102,941			133,417	64,256	4,735			305,349
Total Expenditures & Transfers-Out	\$ 160,102	\$ 880,441,907	\$ 17,044,915	\$ 20,496,413	\$ 67,556,902	\$ 2,333,358	\$ 398,694	\$ 1,286,584	\$ 21,847,134	\$ 1,011,566,009
EXPENDITURES & TRANSFERS-OUT BY FUND										
General Fund			\$ 7,473,588	\$ 779,822						\$ 8,253,410
State Special Revenue Fund	\$ 160,102	\$ 718	5,056,857	9,948,539				\$ 1,281,339	\$ 21,847,134	38,294,689
Federal Special Revenue Fund			4,514,468	9,768,053	\$ (268,226)	\$ 453,944				14,468,240
Capital Projects Fund								5,245		5,245
Enterprise Fund		2,569,044			67,825,128		\$ 398,694			70,792,866
Internal Service Fund		5,128,993				1,879,414				7,008,406
Investment Trust Fund		872,743,153								872,743,153
Total Expenditures & Transfers-Out	160,102	880,441,907	17,044,915	20,496,413	67,556,902	2,333,358	398,694	1,286,584	21,847,134	1,011,566,009
Less: Nonbudgeted Expenditures & Transfers-Out		872,904,754	1,111,901	320	1,428,249	87,148	10,747	139	100,960	875,644,218
Prior Year Expenditures & Transfers-Out Adjustments		24,257	(431,527)	(236,309)	(396,198)	(1,098)	(44)	3,971	(177,527)	(1,214,476)
Actual Budgeted Expenditures & Transfers-Out	160,102	7,512,896	16,364,541	20,732,402	66,524,852	2,247,308	387,991	1,282,474	21,923,701	137,136,266
Budget Authority	384,202	7,757,584	27,404,414	67,164,330	92,376,162	2,372,642	579,441	1,346,951	23,463,381	222,849,107
Unspent Budget Authority	\$ 224,100	\$ 244,688	\$ 11,039,873	\$ 46,431,928	\$ 25,851,310	\$ 125,334	\$ 191,450	\$ 64,477	\$ 1,539,680	\$ 85,712,840
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund			\$ 2,074,484	\$ 302,380						\$ 2,376,863
State Special Revenue Fund	\$ 224,100		5,354,339	40,927,414	\$ 150,000			\$ 64,477	\$ 1,539,680	48,260,009
Federal Special Revenue Fund			3,611,052	5,202,134	2,415,642	\$ 96,056				11,324,883
Enterprise Fund		\$ 116,892			23,285,669		\$ 191,450			23,594,012
Internal Service Fund		127,795				29,278				157,074
Unspent Budget Authority	\$ 224,100	\$ 244,688	\$ 11,039,873	\$ 46,431,928	\$ 25,851,310	\$ 125,334	\$ 191,450	\$ 64,477	\$ 1,539,680	\$ 85,712,840

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.

Montana Department of Commerce

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2015

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 (General, State Special Revenue, Federal Special Revenue, Capital Projects, Debt Service, and Permanent). 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.

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

Expenditures and expenses may include: entire budgeted service contracts even though the 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

- ♦ **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. Department State Special Revenue Funds include; Distressed Woods, Micro-business Loans, School Facilities and Tech Account, Treasure State Endowment Fund, Coal Board, and Montana Heritage Commission.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include assistance programs such as Community Development Block Grants, Housing Tax Credit Exchange, Neighborhood Stabilization, and HOME grants.
- ♦ **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund for costs of historic preservation and supporting improvements in Virginia and Nevada Cities.
- ♦ **Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's programs. The department uses this fund for income from sales of personal property by the Montana Heritage Commission.

Proprietary Fund Category

- ♦ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. Department Internal Service Funds include the Investment Division and the Director's Office.
- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Department Enterprise Funds include; Facility Finance Authority, Board of Housing, Board of Investments Industrial Revenue Bonds, and Section 8 Housing Programs.

Fiduciary Fund Category

Investment Trust Fund – to account for situations where legally separate governments commingle their investments in a pool for the benefit of all participants. The department's investment trust fund includes the Short Term Investment Pool managed by the Board of Investment which accounts for all investing activity for local governments.

2. General Fund Equity Balance

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department'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, 2014 and June 30, 2015.

3. Direct Entries to Fund Equity

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

Direct entries to fund equity in the General, State Special Revenue, Federal Special Revenue Fund, Capital Projects, Internal Service, and Enterprise funds include: correction of an error from a previous period that occurred at least two fiscal years prior; correction of fund balance account, reduction of accrued grant awards; reclassification of prepaid expenses.

Direct entries to fund equity were made in State Special Revenue funds to consolidate Board of Horse Racing activity into one State Special Revenue fund.

Direct entries to fund equity in the Internal Service and Enterprise funds also include: correction of an error related to GASB Statement 45 – Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions and a retroactive change mandated by the GASB in conjunction with the implementation of Statement 68 Accounting and Financial Reporting for Pensions. The restatement for the change in application related to GASB 45 results in a material increase to fund equity of \$361,377; the retroactive change in accounting principle for GASB 68 results in a net decrease to fund equity in the amount of \$5,405,365.

4. Change in Accounting Presentation

As a result of implementing GASB 68, there are additional pension expense accounts.

5. Subsequent Events

On July 1, 2015, transfers were made from the General Fund to the Primary Sector Training State Special Revenue fund, in accordance with Sec.1, Ch.85, L.2015. Primary Sector Training had previously been accounted for in the General Fund.

From July 1, 2015, through September 30, 2015, the Board of Investments received payments from AFF Financing LLC in the amount of \$1,049,518 representing \$1,035,597 in principal and \$38,921 in interest. For the same period, the Board received payments associated with the Orion Finance collective holding of \$405,006 with \$366,398 and \$38,608 applied to principal and interest, respectively.

On August 12, 2015, the Board of Investments funded the \$1.5 million Coal Trust Fund loan commitment with the Department of Natural Resource and Conservation.

On August 18, 2015, the Board of Investments approved a \$24 million in-state loan program request.

Montana Board of Housing is issuing Single Family 2015 Series B bonds in the amount of \$64.4 million with the close scheduled on October 29, 2015.

Montana Board of Housing is completing a bond call in October.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Commerce for each of the fiscal years ended June 30, 2015, and 2014, and the related notes to the financial schedules, and have issued our report thereon dated September 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the department's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of 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 a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify

any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the department's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

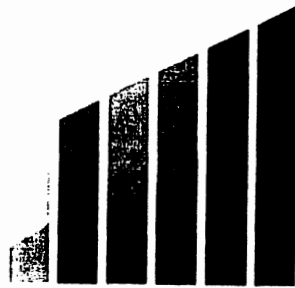
/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

September 30, 2015

DEPARTMENT OF
COMMERCE

DEPARTMENT RESPONSE



MONTANA
DEPARTMENT OF COMMERCE

DIRECTOR'S OFFICE

C-1

RECEIVED
NOV 09 2015
LEGISLATIVE AUDIT DIV.

October 13, 2015

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

RECEIVED
OCT 14 2015
LEGISLATIVE AUDIT DIV.

Dear Ms. Hunthausen:

We have reviewed the recommendations pertaining to the Department of Commerce's Financial-Compliance Audit for the two fiscal years ended June 30, 2015. Our response is as follows:

RECOMMENDATION #1

We recommend the department comply with federal eligibility regulations and department policies for the Section 8 Housing Choice Vouchers Program.

Response:

The department concurs. The department has implemented new internal controls including a quality control program that is staffed independently from the work unit. Also, MDOC TBS8 staff and field agent training is underway to ensure compliance.

RECOMMENDATION #2

We recommend the department comply with the Treasury-State Agreement for the Section 8 Housing Choice Vouchers program.

Response:

The department concurs. Department personnel are working with Dept. of Administration to amend the TSA. In addition the department will change its process so interface disbursements are made within the first five business days of the 1st, and the 15th, of each month.

MEG O'LEARY, DIRECTOR

STEVE BULLOCK, GOVERNOR

<http://commerce.mt.gov>

Commerce@mt.gov

301 S. Park Ave. | P.O. Box 200501 | Helena, MT | 59620-0501 | Phone:406.841.2700 | Fax:406.841.2701 | TDD:406.841.2702

RECOMMENDATION #3

We recommend the department strengthen internal controls in the review procedures of travel reimbursement forms and ensure employees comply with state law regarding reimbursement requests for meal allowances.

Response:

The department concurs. A training video providing instruction on how to correctly complete the forms and request the correct meal allowances is in development and will be provided to department staff. Director's Office accounting staff will be more diligent in their review of travel reimbursement forms. Meal allowances will not be paid until the necessary documentation has been provided.

RECOMMENDATION #4

We recommend the department comply with state law and not enter into contractual agreements that cause a conflict of interest or amend the current contract to remove the conflict.

Response:

The department does not concur with the finding that, on behalf of the Board of Horse Racing, the department entered into an employment contract that created a conflict of interest.

The finding concludes a conflict of interest has been created because the Secretary is compensated by both the Board and a company licensed by the Board. The finding misinterprets the Standards of Conduct outlined in MCA Title 2, Chapter 2, and incorrectly concludes those standards have been violated.

Nothing in Title 2, Chapter 2, prohibits a state employee from receiving compensation from the state and an entity licensed by or contracting with the state. In Montana, the opportunity to pursue employment is a fundamental constitutional right.¹ Thus, the Secretary has a right to pursue employment beyond that of the Board, even if that employment is with an entity that does business with the state.

The finding incorrectly concludes the relationship between the Secretary and the Board violates MCA § 2-2-121(2)(b) and (2)(e). MCA § 2-2-121(2)(b) prohibits the Secretary from engaging in a substantial financial transaction for the Secretary's private business purposes with a person (licensee) whom the Secretary inspects or supervises in the course of official duties.² In order for a conflict to exist, the finding must show the Secretary inspects or supervises the licensee. The Secretary's duties are outlined in contract and MCA § 23-4-106 (attached). Neither the Secretary's contract nor § 23-4-106 indicate the Secretary inspects or supervises the licensee. In addition, the Board has adopted a resolution that prohibits the Secretary from engaging in any discussion regarding the licensee (attached). The Secretary does not inspect or supervise the licensee. The Board itself inspects and supervises the licensee, as it is required to do so by law.³ Nothing in the finding indicates the contrary is true. Therefore, there is not a conflict of interest under Section (2)(b).

¹ *Wadsworth v. State*, 275 Mont. 287 (1995).

² MCA § 2-2-121(2)(b)

³ MCA § 23-4-104(12). See also ARM 32.28.1101, which identifies the director of the simulcast network as the liaison between the licensee and the Board, and requires the director of the simulcast network to supervise the statewide wagering pools, assure that pari-mutuel statutes are complied with, and that money is correctly deposited.

MCA § 2-2-121(2)(e) prohibits the Secretary from performing an official act that directly and substantially benefits economically a business (licensee) in which the Secretary either has a substantial financial interest or is engaged as counsel, consultant, representative, or agent.⁴ In order for a conflict to exist, the finding must show the Secretary performs an official act that directly and substantially benefits the licensee economically. By Board resolution, the Secretary is barred from all discussions regarding the licensee. Thus, the Secretary is precluded from taking any official action relating to the licensee. Further, the Board does not compensate the licensee, so even if the Secretary performed an official act relating to the licensee, it would not directly benefit the licensee economically. The Secretary is not in a position to take official action that directly and substantially benefits the licensee. Again, nothing in the finding indicates the contrary is true. Therefore, there is not a conflict of interest under Section (2)(e).

The Department does not concur with the audit finding because a conflict of interest does not exist between the Secretary and the Board. The Department is complying with state law and will continue to do so.

RECOMMENDATION #5


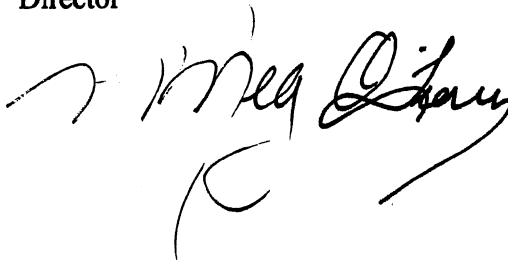
We recommend the department develop and implement controls to ensure the completeness and accuracy of simulcast revenues.

Response:

The department does not concur. The department has implemented controls to verify the amounts wagered at off track betting sites, based on data collected by the tote system used by the Montana simulcast network. The percentages of those wagers owed to the Board of Horse Racing are then calculated by department staff and reconciled to the amounts collected from the OTB sites by the Board. The department is confident these controls ensure the accuracy of the simulcast revenue.

My staff and I will be available to discuss the audit and recommendations with the Legislative Audit Committee at its convenience.

Sincerely,


 Meg O'Leary for Meg O'Leary, Director
 Director
 11.5.15

⁴ MCA § 2-2-121(2)(e).

ATTACHMENTS

2. SERVICES

Contractor, as Executive Secretary, shall perform the following:

- a. Supervise race meets and oversee all activities of all racing officials;
- b. Hire and supervise all state racing officials for MBOHR;
- c. Inspect and approve racing facilities;
- d. Make inquiries into the financial dealing and solvency of any licensee;
- e. Handle complaints and make recommendations to MBOHR in their regard;
- f. Prepare agendas for all MBOHR meetings;
- g. Schedule hearings and have hearing examiners appointed;
- h. Perform other duties as directed by MBOHR;
- i. Hire staff, subject to MBOHR's approval, to assist him/her in performing his/her duties;
- j. Maintain and preserve the official records of MBOHR;
- k. Approve all racing officials;
- l. Disburse funds;
- m. Represent MBOHR with the Montana Department of Commerce;
- n. Maintain budgetary information for MBOHR and the legislature;
- o. Develop and promote additional revenue from Advance Deposit Wagering, Simulcast, and fantasy sports;
- p. Work closely with Montana race tracks to develop new ideas for increasing racing opportunities in Montana; and
- q. Work closely with the Simulcast operator.

23-4-106. Executive secretary -- powers and duties -- staff -- prohibition on racing activities.

(1) The department shall appoint an executive secretary for the board.

(2) The executive secretary, in accordance with rules adopted by the board and provisions of this chapter, shall:

- (a) supervise race meets and activities of racing officials;
- (b) hire all state racing officials for the department;
- (c) inspect race facilities;
- (d) prescribe the duties and salary of state stewards; and
- (e) perform other duties as directed by the board.

(3) The executive secretary may, subject to the approval of the board, hire staff to assist in the performance of the executive secretary's duties.

(4) The executive secretary, a staff member, and any member of the executive secretary's or a staff member's immediate family are prohibited from owning, training, or having any interest in a racehorse or mule running on a Montana track or having any financial interest in any Montana racing association. A racing official hired by the department or approved by the board may not wager at a race meet at which the racing official presides.



Montana Board of Horse Racing

Board Resolution

At the meeting of the Montana Board of Horse Racing on Saturday, July 26, 2014, the following resolution was proposed and approved by the Board:

Resolved:

WHEREAS, the Department of Commerce legal staff identified and notified the Board of a possible conflict of interest involving the Board's executive secretary;

WHEREAS, the Board discussed and reviewed the potential conflict of interest;

WHEREAS, the Board desires to avoid any potential or actual conflict of interest;

The Board is in full support of the Department of Commerce legal staff recommendation to preclude the executive secretary from any Board discussion related to the simulcast operator's license.



Dale Mahlum, Chairman
Montana Board of Horse Racing

July 26, 2014
Date