

MONTANA MEDICAL LEGAL PANEL
AUDITED FINANCIAL STATEMENTS
With Supplemental Information

December 31, 2015 and 2014



Prepared Under Contract With:
MONTANA LEGISLATIVE BRANCH, AUDIT DIVISION
PO Box 201705, Helena MT 59620-1705

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

May 2016

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Montana Medical Legal Panel for the calendar year ended December 31, 2015.

The audit was conducted by Amatics CPA Group, under a contract between the firm and our office. The contents of this report represent the views of the firm and not necessarily the Legislative Auditor.

The panel's written response to the report is included in the back of the audit report.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

16C-05

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**MONTANA MEDICAL LEGAL PANEL
ADMINISTRATIVE OFFICIALS**

Jean Branscum
Joe Williams

Director
Fiscal Director



INDEPENDENT AUDITORS' REPORT

To the Legislative Audit Committee
of the Montana State Legislature
Helena, MT

We have audited the accompanying modified cash basis financial statements of the governmental activities of Montana Medical Legal Panel, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Panel's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Panel's preparation and fair presentation of the financial statements 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 Panel's internal control. 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 evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the governmental activities of Montana Medical Legal Panel as of December 31, 2015 and 2014, and the respective changes in modified cash basis financial position for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Montana Medical Legal Panel's basic financial statements. The schedules of revenues collected and expenditures paid - budget vs. actual for the years ended December 31, 2015 and 2014, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of revenue collected and expenditures paid - budget vs. actual are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of revenue collected and expenditures paid - budget vs. actual are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reported dated May 12, 2016, on our consideration of Montana Medical Legal Panel's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 Montana Medical Legal Panel's internal control over financial reporting and compliance.

Amatics CPA Group

Bozeman, Montana
May 12, 2016

**MONTANA MEDICAL LEGAL PANEL
 STATEMENTS OF ASSETS, LIABILITIES, AND FUND BALANCE -
 MODIFIED CASH BASIS
 December 31, 2015 and 2014**

ASSETS

	December 31	
	2015	2014
ASSETS		
Cash in bank, restricted	\$ 87,849	\$ 116,581
Investments, restricted	206,881	207,358
Total assets	\$ 294,730	\$ 323,939

FUND BALANCE

FUND BALANCE		
Restricted	\$ 294,730	\$ 323,939
Totals fund balance	\$ 294,730	\$ 323,939

See the notes to financial statements.

**MONTANA MEDICAL LEGAL PANEL
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
December 31, 2015 and 2014**

	Years ended December 31	
	2015	2014
REVENUES		
Assessment fees	\$ 620,900	\$ 599,669
Investment income	7,583	6,999
Miscellaneous income	11,011	6,088
Unrealized loss on investments	<u>(7,762)</u>	<u>(5,760)</u>
Total revenues	<u>631,732</u>	<u>606,996</u>
EXPENDITURES		
Current		
Administrative	282,085	267,029
Computer software	4,999	17,537
Liability insurance	2,708	2,708
Medical records and x-rays	35,633	34,188
Meeting rooms	14,320	11,024
Miscellaneous	2,004	1,200
Office supplies	4,235	4,579
Panelist hearing time	66,014	70,508
Panelist legal counsel	7,958	7,001
Panelist preparation and travel time	126,334	111,156
Panelist travel	80,342	65,800
Postage	12,945	14,115
Professional services	5,000	5,400
Records reproduction	10,524	9,701
Telephone	1,671	1,698
Video conferencing	<u>4,169</u>	<u>-</u>
Total expenditures	<u>660,941</u>	<u>623,644</u>
CHANGE IN FUND BALANCE	(29,209)	(16,648)
Fund balance, beginning of year	<u>323,939</u>	<u>340,587</u>
FUND BALANCE, END OF YEAR	<u>\$ 294,730</u>	<u>\$ 323,939</u>

See the notes to financial statements.

**MONTANA MEDICAL LEGAL PANEL
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Montana Medical Legal Panel ("the Panel") was established by the "Montana Medical Legal Panel Act" as authorized by Montana Code Annotated (MCA) sections 27-6-101 and 104. The Panel is attached to the Montana Supreme Court for administrative purposes only, except that MCA 2-15-121(2) does not apply.

The Montana Medical Legal Panel was created to review all malpractice claims or potential claims against health care providers. The purpose of the Montana Medical Legal Panel is to prevent, whenever possible, the filing of court actions against health care providers and their employees for professional liability situations in which the facts do not permit at least a reasonable inference of malpractice, and to make possible the fair and equitable disposition of such claims against health care providers as are or reasonable may be well founded.

Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Accordingly, revenue is recorded when received rather than when earned and expenditures are recognized when paid rather than when the obligation is incurred.

Fund Accounting and Balances

The Montana Medical Legal Panel is funded with state special revenue funds derived from annual assessments. Accounts are organized in funds according to state law. The Panel uses the following funds:

Governmental Funds:

Special Revenue Fund - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Legislative appropriation is required to spend from this fund.

Per GASB Statement No. 54, fund balance in governmental funds is reported in two general classifications: nonspendable and spendable. Nonspendable represents the portion of fund balance that is not in spendable form such as inventories and long term notes and loans receivable. Spendable fund balance is further categorized as restricted, committed, assigned, and unassigned.

As of December 31, 2015 and 2014, fund balances of the governmental special revenue funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The Panel had no nonspendable fund balances as of December 31, 2015 and 2014.

**MONTANA MEDICAL LEGAL PANEL
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting and Balances (Continued)

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The Panel's fund balance is restricted by enabling legislation.

Committed - amounts that can be used only for specific purposes determined by state legislation and appropriated to the Panel. The Panel had no committed fund balances as of December 31, 2015 and 2014.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Panel had no assigned fund balances as of December 31, 2015 and 2014.

Unassigned - all other spendable amounts. The Panel had no unassigned fund balances as of December 31, 2015 and 2014.

When both restricted and unrestricted resources are available in a fund, the assumed order of spending is restricted first, next committed, next assigned, and finally unassigned.

Cash and Investments

The Montana Medical Legal Panel considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents. As of December 31, 2015 and 2014, there were no cash equivalents.

Investments with maturities of one year or less consist of mutual funds held at Edward Jones. The Montana Medical Legal Panel values these investments at fair value.

Under professional standards, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at fair values in the statements of assets, liabilities and net assets - modified cash basis. Unrealized gains and losses are included in the change in fund balance.

Assessment Fees

The Montana Medical Legal Panel is funded by an annual assessment fee levied against licensed physicians, dentists, podiatrists, hospitals, and other health care facilities in an amount sufficient to meet all panel costs. Annual assessments are apportioned among each group of health care providers according to the number of claims brought against each type of provider.

**MONTANA MEDICAL LEGAL PANEL
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014**

2. CASH AND CASH EQUIVALENTS

Cash in the bank consists of the following deposit accounts as of December 31:

	2015	2014
Valley Bank - checking account	\$ 480	\$ 9,497
First Community Bank - money market account	2,825	22,624
First Interstate Bank - money market account	84,544	84,460
	\$ 87,849	\$ 116,581

Individual accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per bank, per depositor. Balances throughout the year did not exceed this amount.

The following table presents the cost and the fair value of investments at December 31:

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Short-term bond funds	\$ 200,000	\$ 206,881	\$ 214,837	\$ 207,358

Montana statutes authorize the Montana Medical Legal Panel to invest in direct obligations of the U.S. government in savings or time deposits in a state or national bank, building or loan association, or credit union located in Montana; in investments of the Montana Short Term Investment Pool management by the Montana Board of Investments; or in repurchase agreements. The Panel has implemented the provisions of GASB Statement No. 40, Deposits and Investment Risk Disclosures. The investment risk disclosures are described in the following paragraphs.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfil its obligations. The short-term bond funds have credit risk as measured by major credit rating services. This risk is that the issuer of securities held in the short-term bond funds may default in making timely principal and interest payments. The short-term bond funds held a four star Morningstar rating as of December 31, 2015 and 2014.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in possession of the outside party. As of December 31, 2015 and 2014, all investments at Edward Jones are covered by Securities Investor Protection Corporation (SIPC).

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Panel does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**MONTANA MEDICAL LEGAL PANEL
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014**

3. RELATED PARTIES

Jean Branscum is the executive vice president of the Montana Medical Association and the director of the Montana Medical Legal Panel. The Montana Medical Association bills the Montana Medical Legal Panel for services and facilities provided to that Organization. This administrative fee is subject to the approval of the Chief Justice of the Montana Supreme Court. The Montana Medical Association was paid administrative fees of \$282,085 and \$267,029 for the years ended December 31, 2015 and 2014, respectively.

4. RISK MANAGEMENT

The Panel is exposed to risk of loss primarily through the possible errors and omissions pertaining to claims filed with the Panel. This risk is transferred through the purchase of a professional liability policy from a private insurance carrier.

5. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 12, 2016, the date on which the financial statements were available to be issued.

**MONTANA MEDICAL LEGAL PANEL
SCHEDULE OF REVENUES COLLECTED AND EXPENDITURE PAID
BUDGET VS. ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>TOTAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES			
Assessment fees	\$ 620,900	\$ 586,506	\$ 34,394
Investment income	7,583	5,516	2,067
Unrealized loss on investments	(7,762)	-	(7,762)
Miscellaneous income	<u>11,011</u>	<u>7,133</u>	<u>3,878</u>
	<u>631,732</u>	<u>599,155</u>	<u>32,577</u>
EXPENDITURES			
Current			
Administrative	282,085	282,085	-
Computer software	4,999	35,000	30,001
Legal defense	-	10,000	10,000
Liability insurance	2,708	3,000	292
Medical records and x-rays	35,633	37,600	1,967
Meeting rooms	14,320	11,000	(3,320)
Miscellaneous	2,004	3,500	1,496
Office supplies	4,235	5,000	765
Panelist hearing time	66,014	75,000	8,986
Panelist legal counsel	7,958	7,500	(458)
Panelist prep and travel time	126,334	117,000	(9,334)
Panelist travel	80,342	67,000	(13,342)
Postage	12,945	15,000	2,055
Professional services	5,000	6,500	1,500
Record reproduction	10,524	11,000	476
Telephone	1,671	2,100	429
Temporary personnel	-	5,000	5,000
Video conferencing	<u>4,169</u>	<u>-</u>	<u>(4,169)</u>
	<u>660,941</u>	<u>693,285</u>	<u>32,344</u>
Excess (expenditures) revenues	<u>\$ (29,209)</u>	<u>\$ (94,130)</u>	<u>\$ 64,921</u>

See accompanying independent auditors' report.

**MONTANA MEDICAL LEGAL PANEL
SCHEDULE OF REVENUES COLLECTED AND EXPENDITURE PAID
BUDGET VS. ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>TOTAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES			
Assessment fees	\$ 599,669	\$ 580,207	\$ 19,462
Investment income	6,999	3,474	3,525
Unrealized loss on investments	(5,760)	-	(5,760)
Miscellaneous income	<u>6,088</u>	<u>5,177</u>	<u>911</u>
	<u>606,996</u>	<u>588,858</u>	<u>18,138</u>
EXPENDITURES			
Current			
Administrative	267,029	267,029	-
Computer software	17,537	35,000	17,463
Legal defense	-	10,000	10,000
Liability insurance	2,708	2,600	(108)
Medical records and x-rays	34,188	30,000	(4,188)
Meeting rooms	11,024	10,500	(524)
Miscellaneous	1,200	2,000	800
Office supplies	4,579	4,000	(579)
Panelist hearing time	70,508	65,100	(5,408)
Panelist legal counsel	7,001	12,000	4,999
Panelist prep and travel time	111,156	124,400	13,244
Panelist travel	65,800	67,000	1,200
Postage	14,115	14,800	685
Professional services	5,400	5,400	-
Record reproduction	9,701	10,300	599
Telephone	1,698	2,150	452
Temporary personnel	<u>-</u>	<u>5,000</u>	<u>5,000</u>
	<u>623,644</u>	<u>667,279</u>	<u>43,635</u>
Excess (expenditures) revenues	<u>\$ (16,648)</u>	<u>\$ (78,421)</u>	<u>\$ 61,773</u>

See accompanying independent auditors' report.



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

To the Legislative Audit Committee
of the Montana State Legislature
Helena, Montana

We have audited, in accordance with the 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, the financial statements of the governmental activities of the Montana Medical Legal Panel as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Montana Medical Legal Panel's basic financial statements, and have issued our report thereon dated May 12, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Montana Medical Legal Panel's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Montana Medical Legal Panel's internal control. Accordingly, we do not express an opinion on the effectiveness of the Montana Medical Legal Panel'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 Panel's financial statements 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 control 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 Montana Medical Legal Panel's financial statements 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 statement 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*.

Per MCA 27-6-207, during a Panel audit the report must include determination of the adequacy, sufficiency, and reasonableness of the annual surcharge or assessment. We have determined the assessment for the year ended December 31, 2015 to be adequate, sufficient, and reasonable.

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 provide an opinion on the effectiveness of the Panel'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 Panel's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Amatics CPA Group

Bozeman, Montana
May 12, 2016

MONTANA MEDICAL LEGAL PANEL

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Telephone (406) 443-1110 · Fax (406) 443-4042

May 19, 2016

Ms. Tori Hunthausen
Legislative Auditor
Office of the Legislative Auditor
PO Box 201705
Helena, MT 59620-1705

Dear Ms. Hunthausen:

On behalf of the Montana Medical Legal Panel, I wish to express my appreciation for the efforts of the Amatics CPA Group in carrying out the 2015 financial audit in both a timely and efficient manner.

As always, we continue to seek ways to make the work of the MMLP as effective as possible while also controlling costs.

Sincerely,



Jean A. Branscum
Director