

MONTANA CHIROPRACTIC LEGAL PANEL

AUDITED FINANCIAL STATEMENTS

June 30, 2016 and 2015

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

August 2016

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Chiropractic Legal Panel for the two fiscal years ended June 30, 2016.

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

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

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

16C-10

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**MONTANA CHIROPRACTIC LEGAL PANEL
ADMINISTRATIVE OFFICIALS**

Gail Tronstad

Director



INDEPENDENT AUDITORS' REPORT

To the Director
Montana Chiropractic Legal Panel
Helena, MT

We were engaged to audit the accompanying cash basis financial statements of the governmental activities of Montana Chiropractic Legal Panel, as of and for the years ended June 30, 2016 and 2015, 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 cash basis of accounting described in Note 1; this includes determining that the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the 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 of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The Montana Chiropractic Legal Panel did not have sufficient internal controls to provide reasonable assurance over the amount of management fee expense for 2016 and 2015, stated in the accompanying financial statements at \$7,805 and \$9,756 for the years ended June 30, 2016 and 2015, respectively. The Panel's records do not permit the application of other auditing procedures over management fee expense.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements referred to in the first paragraph.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reported dated August 22, 2016, on our consideration of Montana Chiropractic 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 Chiropractic Legal Panel's internal control over financial reporting and compliance.

Amatics CPA Group

Bozeman, Montana
August 22, 2016

MONTANA CHIROPRACTIC LEGAL PANEL
STATEMENTS OF ASSETS, LIABILITIES, AND SURPLUS - CASH BASIS
June 30, 2016 and 2015

ASSETS

	June 30	
	2016	2015
ASSETS		
Cash and cash equivalents	\$ <u>17,212</u>	\$ <u>13,710</u>
Total assets	\$ <u>17,212</u>	\$ <u>13,710</u>

LIABILITIES AND SURPLUS

SURPLUS		
Surplus	\$ <u>17,212</u>	\$ <u>13,710</u>
Totals fund balance	\$ <u>17,212</u>	\$ <u>13,710</u>

The accompanying notes are an integral part of these financial statements.

**MONTANA CHIROPRACTIC LEGAL PANEL
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN SURPLUS - CASH BASIS**

	Years ended June 30	
	2016	2015
REVENUES		
Assessment fees	\$ <u>15,110</u>	\$ <u>-</u>
Total revenues	<u>15,110</u>	<u>-</u>
EXPENSES		
Audit	-	4,375
Computer and internet	1	-
Copying and printing	783	589
Hearing expenses	2,338	1,344
Legal fees	-	35
Management fee	7,805	9,756
Office expense	217	85
Outside services	-	120
Postage	361	608
Rent	-	215
Supplies	<u>103</u>	<u>166</u>
Total expenses	<u>11,608</u>	<u>17,293</u>
CHANGE IN SURPLUS	3,502	(17,293)
Surplus, beginning of year	<u>13,710</u>	<u>31,003</u>
SURPLUS, END OF YEAR	<u>\$ 17,212</u>	<u>\$ 13,710</u>

The accompanying notes are an integral part of these financial statements.

MONTANA CHIROPRACTIC LEGAL PANEL
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Montana Chiropractic Legal Panel ("the Panel") was established by the Montana Chiropractic Legal Panel Act as authorized by Montana Code Annotated (MCA) sections 27-12-101 and 104. The Panel is a quasi-governmental entity and is allocated to the Montana Supreme Court for administrative purposes only, except that MCA 2-15-121(2) does not apply.

The Montana Chiropractic Legal Panel was created to review all malpractice claims or potential claims against chiropractic physicians, except claims subject to a valid arbitration agreement allowed by law. The purpose of the Montana Chiropractic Legal Panel is to prevent, whenever possible, the filing of court actions against chiropractic physicians 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 chiropractic physicians as are or reasonably may be well founded.

Basis of Accounting

The accompanying financial statements have been prepared on the 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.

Reporting Entity

In accordance with government accounting and financial reporting standards, there are no component units to be included with the Montana Chiropractic Legal Panel.

Assessment Fees

The Montana Chiropractic Legal Panel is funded by an annual assessment fee levied on all licensed and active chiropractic physicians at the beginning of each fiscal year, beginning July 1. The amount of the assessment is set annually by the director and is equally assessed against all chiropractic physicians. A fund surplus at the end of the year that is not required for the administration of the Montana Chiropractic Legal Panel must be retained by the director and used to finance the administration during the next fiscal year, in which event the director shall reduce the next annual assessment to an amount estimated to be necessary for the proper administration of Montana Chiropractic Legal Panel during that fiscal year. The fund and any income from it must be held in trust and deposited in an account by the director.

Cash and Cash Equivalents

The Montana Chiropractic Legal Panel considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents. Due to their highly liquid nature, carrying value approximates fair value.

Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to June 30, 2016 to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended June 30, 2016. Management has performed this analysis through August 22, 2016, the date on which the financial statements were available to be issued.



INDEPENDENT AUDITOR'S 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 Director
Montana Chiropractic Legal Panel

We were engaged to audit, 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 Chiropractic Legal Panel as of and for the years ended June 30, 2016 and 2015 and the related notes to the financial statements, which collectively comprise Montana Chiropractic Legal Panel's basic financial statements, and have issued our report thereon dated August 22, 2016. Our report disclaims an opinion on such financial statements because of the scope limitation matter described in the Basis for Disclaimer of Opinion paragraph of our report.

Internal Control over Financial Reporting

In connection with our engagement to audit the financial statements of Montana Chiropractic Legal Panel, we considered the 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 Panel's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montana Chiropractic 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.

Per MCA 27-12-207, during a Panel audit the report must include a determination of the adequacy, sufficiency, and reasonableness of the annual assessment. Due to the scope limitation during the audit, we were unable to conclude on the assessment.

Montana Chiropractic Legal Panel's Responses to Findings

Montana Chiropractic Legal Panel's responses to the findings identified in our engagement are described in the accompanying schedule of findings and responses. The Panel's responses were not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on them.

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
August 22, 2016

**MONTANA CHIROPRACTIC LEGAL PANEL
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2016 and 2015**

Finding 2016-1, 2015-1: Material Weakness in Internal Control over Financial Reporting—Failure to properly segregate authority, custody, and record keeping in the cash disbursements process.

Criteria: Internal controls should be in place to provide reasonable assurance that misappropriation of assets does not occur and that cash is accounted for properly.

Condition: The Director has charged an administrative manager with approving invoices. This contractor is not an employee of the Panel; rather, she is employed by the Director in a separate business. The Director records cash disbursements in the accounting software and the contractor signs the checks. Due to the nature of this manager/employee relationship, the contractor is not in a position to be reviewing and approving the Panel's expenditures.

Cause: There were not adequate internal controls in place to provide reasonable assurance that misappropriation of assets did not take place and cash is accounted for properly.

Effect or Potential Effect: Lack of segregation of duties increases the risk that misappropriation of assets and material misstatements will occur and not be detected by the Panel's internal controls.

Recommendation: Someone separate from the person recording the cash disbursements in the accounting software should approve invoices and sign checks. Additionally, the individual approving invoices and signing checks should be in the proper position of authority and involvement to do so.

Panel's Response: Management services for the MCLP are provided by one individual, the director. The Panel is administratively attached to the Montana Supreme Court and the director is appointed by the Court. There is not a board of directors and there are no additional employees.

In an attempt to rectify this finding from past audits, I contracted with an individual through my firm, Premier Planning Plus, to review invoices and sign checks. This was the wisest choice I could make under the existing circumstances.

Finding 2016-2, 2015-2: Material Weakness in Internal Control over Financial Reporting—Failure to properly segregate authority, custody, and record keeping in the cash receipts process.

Criteria: Internal controls should be in place to provide reasonable assurance that misappropriation of assets does not occur and that cash is accounted for properly.

Condition: The Director is charged with preparing and sending assessment invoices. Incoming cash receipts are opened by a receptionist and remitted to the Director, who records the cash receipts in the accounting software. While a receptionist opens the mail with the cash receipts and takes the deposit to the bank, she does not make a listing of payments received or reconcile the receipts with the deposit.

Cause: There were not adequate internal controls in place to provide reasonable assurance that misappropriation of assets did not take place and cash is accounted for properly.

MONTANA CHIROPRACTIC LEGAL PANEL
SCHEDULE OF FINDINGS AND RESPONSES (Continued)
June 30, 2016 and 2015

Finding 2016-2, 2015-2 (Continued)

Effect or Potential Effect: Lack of segregation of duties increases the risk that misappropriation of assets and material misstatements will occur and not be detected by the Panel's internal controls.

Recommendation: Someone separate from the person recording the cash receipts in the accounting software should be making a list of incoming cash receipts then reconciling that list with what is deposited.

Panel's Response: This also was a finding of past audits although in the past the director opened the mail, recorded the assessment income and made the deposit. Again, in an attempt to rectify this situation I engaged the help of a receptionist through my office rental agreement to open the mail and record each payment with a check # and the amount of the check on the assessment form. Bank deposit slips include the name of the remitter. The deposits can be reconciled although not through the use of a list as noted in the findings.

In 2016, I have implemented a process of date stamping the assessment forms in addition to recording the check # and amount of check on the form. Additionally I have added the date stamp on the deposit slip to provide a means to reconcile payments. While this is not a list as requested it is what is achievable through the services of my rental agreement.

Finding 2016-3, 2015-3: Material Weakness in Internal Control over Financial Reporting—Failure to obtain proper review and approval for management fees paid to the Director.

Criteria: Internal controls should be in place to provide reasonable assurance that misappropriation of assets does not occur and that cash is accounted for properly.

Condition: The Director issues itemized invoices to the Montana Chiropractic Legal Panel for hours/work completed and reimbursable expenses. The Director then issues the check to pay for the invoices. The invoices are reviewed and checks are signed by an individual who works for the Director in another entity, but this individual is not employed by the Panel, nor knowledgeable about the Panel's operations and activity.

Cause: There were not adequate internal controls in place to provide proper segregation of duties.

Effect or Potential Effect: Lack of appropriate review and approval of management fees and reimbursable expenses paid to the Director increases the risk that misappropriation of assets and material misstatements will occur and not be detected by the Panel's internal controls.

Recommendation: Someone with knowledge of the Panel's operations should be reviewing and approving the amount paid to the Director for management fees and reimbursable expenses each month, particularly those amounts above the base monthly management fee.

MONTANA CHIROPRACTIC LEGAL PANEL
SCHEDULE OF FINDINGS AND RESPONSES (Continued)
June 30, 2016 and 2015

Finding 2016-3, 2015-3 (Continued)

Panel's Response: The individual contracted to review the director's management fees is the manager of a program for a large, quasi-government entity. She is knowledgeable of administrative hours to complete tasks and supervises this type of approvals in her daily employment situation.

Monthly management invoices include the day and the hours worked with explanation of work completed. This is recorded in one-quarter hour increments.

Reimbursement invoices include original receipts.

Finding 2016-4, 2015-4: Material Weakness in Internal Control over Financial Reporting—Lack of review of bank statements and reconciliations

Criteria: Internal controls should be in place to provide reasonable assurance that misappropriation of assets does not occur and that cash is accounted for properly.

Condition: The Director reconciles the bank account monthly. There is no secondary review of the bank statements or bank reconciliations.

Cause: There were not adequate internal controls in place to provide for review of the bank reconciliation and monthly activity.

Effect or Potential Effect: Lack of oversight of the bank account activity increases the risk that misappropriation of assets and material misstatements will occur and not be detected by the Panel's internal controls.

Recommendation: Someone involved in the Panel's operations should be reviewing the reconciliation and bank statement on a monthly basis.

Panel's Response: Since the director is the sole individual appointed for the management of the Panel and there is not a Board of Directors, I do not have an avenue for someone else to be responsible for this task.

MONTANA CHIROPRACTIC LEGAL PANEL
SCHEDULE OF PRIOR AUDIT RECOMMENDATIONS
June 30, 2016 and 2015

Finding 2014-001, 2013-001: Material Weakness in Internal Control over Financial Reporting—Failure to properly segregate authority, custody, and record keeping in the cash disbursements process.

Criteria: Internal controls should be in place to provide reasonable assurance that misappropriation of assets does not occur and that cash is accounted for properly.

Condition: Presently, one person is charged with approving invoices, recording cash disbursements in the accounting software and signing checks.

Cause: There were not adequate internal controls in place to provide reasonable assurance that misappropriation of assets did not take place and cash is accounted for properly.

Effect or Potential Effect: Lack of segregation of duties increases the risk that misappropriation of assets and material misstatements will occur and not be detected by the Panel's internal controls.

Recommendation: Someone separate from the person recording the cash disbursements in the accounting software should approve invoices and sign checks.

Current Status: An individual employed by the Director in a separate entity now reviews invoices and signs checks. However, this does not provide adequate segregation of duties due to the nature of the relationship and the individual's lack of involvement in the Panel's operations. See current finding 2016-1, 2015-1.

Finding 2014-002, 2013-002: Material Weakness in Internal Control over Financial Reporting—Failure to properly segregate authority, custody, and record keeping in the cash receipts process.

Criteria: Internal controls should be in place to provide reasonable assurance that misappropriation of assets does not occur and that cash is accounted for properly.

Condition: Presently, one person is charged with receiving cash, recording the cash receipt in the accounting software, sending out invoices and taking deposits to the bank.

Cause: There were not adequate internal controls in place to provide reasonable assurance that misappropriation of assets did not take place and cash is accounted for properly.

Effect or Potential Effect: Lack of segregation of duties increases the risk that misappropriation of assets and material misstatements will occur and not be detected by the Panel's internal controls.

Recommendation: Someone separate from the person recording the cash receipts in the accounting software should be receiving cash and taking deposits to the bank.

Current Status: A shared receptionist opens the mail and takes deposits to the bank, however no reconciliation or review is performed. See current finding 2016-2, 2015-2.

MONTANA CHIROPRACTIC LEGAL PANEL
SCHEDULE OF PRIOR YEAR AUDIT RECOMMENDATIONS (Continued)
June 30, 2016 and 2015

Finding 2014-003, 2013-003: Material Weakness in Internal Control over Financial Reporting—Failure to obtain proper review and approval for management fees paid to the Director.

Criteria: Internal controls should be in place to provide reasonable assurance that misappropriation of assets does not occur and that cash is accounted for properly.

Condition: Presently, the Director issues invoices to the Montana Chiropractic Legal Panel for hours worked and reimbursable expenses and then issues and signs the check to pay the invoices.

Cause: There were not adequate internal controls in place to provide proper segregation of duties.

Effect or Potential Effect: Lack of review and approval of management fees and reimbursable expenses paid to the Director increases the risk that misappropriation of assets and material misstatements will occur and not be detected by the Panel's internal controls.

Recommendation: Someone should be reviewing and approving the amount paid to the Director for management fees and reimbursable expenses each month.

Current Status: An individual employed by the Director in a separate entity is reviewing the management fee invoices. However, this does not provide adequate segregation of duties due to the nature of the relationship and the individual's lack of involvement in the Panel's operations. See current finding 2016-3, 2015-3.

Finding 2014-004, 2013-004: Material Weakness in Internal Control over Financial Reporting—Failure to properly reconcile the bank account.

Criteria: Internal controls should be in place to provide reasonable assurance that misappropriation of assets does not occur and that cash is accounted for properly.

Condition: Presently, the bank account is not being reconciled to QuickBooks.

Cause: There were not adequate internal controls in place to provide for reconciliation of the bank account.

Effect or Potential Effect: Lack of appropriate reconciliation of the bank account increases the risk that misappropriation of assets and material misstatements will occur and not be detected by the Panel's internal controls.

Recommendation: Someone should be reconciling the bank account to QuickBooks on a monthly basis with a separate individual reviewing the reconciliation and bank statement.

Current Status: The bank account is now being reconciled by the Director on a monthly basis. No one separate from the Director is reviewing the reconciliation and bank statement. See current finding 2016-2, 2015-2.