

**STATE OF MONTANA  
CONSUMER COUNSEL**

**FINANCIAL-COMPLIANCE AUDIT FOR THE  
TWO FISCAL YEARS ENDED JUNE 30, 2017**

# LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:  
Cindy Jorgenson  
Joe Murray

December 2017

The Legislative Audit Committee  
of the Montana State Legislature:

Enclosed is the report on the financial audit of the Montana Consumer Counsel for the two fiscal years ended June 30, 2017.

The audit was conducted by Rudd & Company under a contract between the firm and our office. The comments contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

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

Respectfully submitted,

*/s/ Angus Maciver*

Angus Maciver  
Legislative Auditor

17C-11

STATE OF MONTANA  
CONSUMER COUNSEL

CONTENTS

	<u>Page</u>
Elected and appointed officials	3
<b>AUDITED FINANCIAL SCHEDULES</b>	
Independent auditors' report	4 – 5
Schedule of Changes in Fund Equity for the fiscal year ended June 30, 2017	6
Schedule of Changes in Fund Equity for the fiscal year ended June 30, 2016	7
Schedule of Total Revenues and Transfers-in for the fiscal year ended June 30, 2017	8
Schedule of Total Revenues and Transfers-in for the fiscal year ended June 30, 2016	9
Schedule of Total Expenditures and Transfers-out for the fiscal year ended June 30, 2017	10
Schedule of Total Expenditures and Transfers-out for the fiscal year ended June 30, 2016	11
Notes to financial schedules	12 – 15
<b>INDEPENDENT AUDITORS' REPORTS FOR GAO</b>	
Independent auditors' report on: Internal control over financial reporting and on compliance and other matters based on an audit of financial schedules performed in accordance with <i>Government Auditing Standards</i>	16 – 17
Agency response	18

**ELECTED AND APPOINTED OFFICIALS  
LEGISLATIVE CONSUMER COMMITTEE  
2016-2017**

**SENATORS**

Robyn Driscoll (Appointed 04/15)  
Jennifer Fielder (Appointed 04/17)  
Kris Hansen (Appointed 12/15)  
Sue Malek (Appointed 04/17)  
Janna Taylor (Appointed 04/15)

**REPRESENTATIVES**

Mike Cuffe (Appointed 05/13)  
Andrea Olsen (Appointed 05/15)

Consumer Counsel  
Robert Nelson



RUDD & COMPANY<sup>PC</sup>

certified public accountants | business consultants

## INDEPENDENT AUDITORS' REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

### Report on the Financial Schedules

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 Consumer Counsel for each of the fiscal years ended June 30, 2017 and 2016, 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 financial schedules 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 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 control relevant to the entity'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 entity'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 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 Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial schedules, the financial schedules are prepared by the Consumer Counsel in accordance with state accounting policy, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the State of Montana. 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 Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion 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 each fund of the Consumer Counsel as of June 30, 2017 and 2016, or changes in financial position or cash flows thereof 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 fund equity of each fund of the Consumer Counsel as of June 30, 2017 and 2016, and their respective total revenues & transfers-in and expenditures & transfers-out for the years then ended in accordance with the accounting policy of the State of Montana as described in Note 1.

### **Other Reporting Required by Government Auditing Standards**

In Accordance with *Governmental Auditing Standards*, we have also issued our report dated December 6, 2017 on our consideration of the Consumer Counsel's internal control over financial reporting and 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 the 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 Consumer Counsel's internal control over financial reporting and compliance.

*Rudd & Company, PLLC*

Helena, Montana  
December 6, 2017

CONSUMER COUNSEL  
SCHEDULE OF CHANGES IN FUND EQUITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

FOR ALL FUNDS

	<u>State Special Revenue Fund</u>
FUND EQUITY: July 1, 2016	\$ <u>1,186,329</u>
ADDITIONS	
Direct Entries to Fund Equity	<u>1,237,430</u>
Total Additions	<u>1,237,430</u>
REDUCTIONS	
Budgeted Expenditures & Transfers-Out	1,142,229
Nonbudgeted Expenditures & Transfers-Out	(706)
Prior Year Expenditures & Transfers-Out Adjustments	<u>48,110</u>
Total Reductions	<u>1,189,632</u>
FUND EQUITY: June 30, 2017	\$ <u><u>1,234,126</u></u>

See Notes to the Financial Schedules

CONSUMER COUNSEL  
SCHEDULE OF CHANGES IN FUND EQUITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

FOR ALL FUNDS

	<u>State Special Revenue Fund</u>
FUND EQUITY: July 1, 2015	\$ <u>1,291,713</u>
ADDITIONS	
Direct Entries to Fund Equity	<u>1,137,644</u>
Total Additions	<u>1,137,644</u>
REDUCTIONS	
Budgeted Expenditures & Transfers-Out	1,243,641
Nonbudgeted Expenditures & Transfers-Out	(754)
Prior Year Expenditures & Transfers-Out Adjustments	<u>142</u>
Total Reductions	<u>1,243,029</u>
FUND EQUITY: June 30, 2016	\$ <u><u>1,186,329</u></u>

See Notes to the Financial Schedules



CONSUMER COUNSEL  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

FOR ALL FUNDS

TOTAL REVENUES & TRANSFERS-IN BY CLASS

Total Revenues & Transfers-In

Less: Nonbudgeted Revenues & Transfers-In

Prior Year Revenues & Transfers-In Adjustments

Actual Budgeted Revenues & Transfers-In

Estimated Revenues & Transfers-In

Budgeted Revenues & Transfers-In Over (Under) Estimated

BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS

Budgeted Revenues & Transfers-In Over (Under) Estimated

CONSUMER COUNSEL  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

FOR ALL FUNDS

TOTAL REVENUES & TRANSFERS-IN BY CLASS

Total Revenues & Transfers-In

Less: Nonbudgeted Revenues & Transfers-In

Prior Year Revenues & Transfers-In Adjustments

Actual Budgeted Revenues & Transfers-In

Estimated Revenues & Transfers-In

Budgeted Revenues & Transfers-In Over (Under) Estimated

BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS

Budgeted Revenues & Transfers-In Over (Under) Estimated

See Notes to the Financial Schedules

CONSUMER COUNSEL  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

FOR ALL FUNDS

	<u>ADMINISTRATION PROGRAM</u>	<u>Total</u>
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	\$ 434,425	\$ 434,425
Employee Benefits	131,225	131,225
Total	<u>565,650</u>	<u>565,650</u>
Operating Expenses		
Other Services	500,316	500,316
Supplies & Materials	13,076	13,076
Communications	10,181	10,181
Travel	20,514	20,514
Rent	38,810	38,810
Other Expenses	41,086	41,086
Total	<u>623,982</u>	<u>623,982</u>
Total Expenditures & Transfers-Out	\$ <u>1,189,632</u>	\$ <u>1,189,632</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
State Special Revenue Fund	\$ <u>1,189,632</u>	\$ <u>1,189,632</u>
Total Expenditures & Transfers-Out	1,189,632	1,189,632
Less: Nonbudgeted Expenditures & Transfers-Out	(706)	(706)
Prior Year Expenditures & Transfers-Out Adjustments	<u>48,110</u>	<u>48,110</u>
Actual Budgeted Expenditures & Transfers-Out	1,142,229	1,142,229
Budget Authority	<u>2,019,314</u>	<u>2,019,314</u>
Unspent Budget Authority	\$ <u>877,085</u>	\$ <u>877,085</u>
UNSPENT BUDGET AUTHORITY BY FUND		
State Special Revenue Fund	\$ <u>877,085</u>	\$ <u>877,085</u>
Unspent Budget Authority	\$ <u>877,085</u>	\$ <u>877,085</u>

See Notes to the Financial Schedules

CONSUMER COUNSEL  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

FOR ALL FUNDS

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	<u>ADMINISTRATION PROGRAM</u>	<u>Total</u>
Personal Services		
Salaries	\$ 439,990	\$ 439,990
Employee Benefits	122,333	122,333
Total	<u>562,323</u>	<u>562,323</u>
Operating Expenses		
Other Services	560,426	560,426
Supplies & Materials	11,619	11,619
Communications	10,474	10,474
Travel	31,087	31,087
Rent	29,400	29,400
Other Expenses	37,699	37,699
Total	<u>680,706</u>	<u>680,706</u>
Total Expenditures & Transfers-Out	\$ <u>1,243,029</u>	\$ <u>1,243,029</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
State Special Revenue Fund	\$ <u>1,243,029</u>	\$ <u>1,243,029</u>
Total Expenditures & Transfers-Out	1,243,029	1,243,029
Less: Nonbudgeted Expenditures & Transfers-Out	(754)	(754)
Prior Year Expenditures & Transfers-Out Adjustments	142	142
Actual Budgeted Expenditures & Transfers-Out	1,243,641	1,243,641
Budget Authority	1,954,494	1,954,494
Unspent Budget Authority	<u>\$ 710,853</u>	<u>\$ 710,853</u>
UNSPENT BUDGET AUTHORITY BY FUND		
State Special Revenue Fund	\$ <u>710,853</u>	\$ <u>710,853</u>
Unspent Budget Authority	<u>\$ 710,853</u>	<u>\$ 710,853</u>

See Notes to the Financial Schedules

**CONSUMER COUNSEL**  
**NOTES TO FINANCIAL SCHEDULES**  
**June 30, 2016 and 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Accounting***

The Montana Consumer Counsel uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (State Special Revenue). In applying the modified accrual basis, the Montana Consumer Counsel 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 Montana Consumer Counsel to record the cost of employees' annual and sick leave when used or paid.

Expenditures and expenses may include: entire budgeted service contracts even though the Montana Consumer Counsel 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 Montana Consumer Counsel uses the following funds:

**Governmental Fund Category:**

State Special Revenue Fund –to account for proceeds of specific revenue sources legally restricted to expenditures for specific state program purposes. Legislative appropriation is required to spend from this fund.

The State provides funding for the Montana Consumer Counsel through revenue-sharing.

**CONSUMER COUNSEL**  
**NOTES TO FINANCIAL SCHEDULES**  
**June 30, 2016 and 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Vacation and Sick Leave***

Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules of the Montana Consumer Counsel. Expenditures for termination pay are currently absorbed in the annual operational costs of the Montana Consumer Counsel. At June 30, 2017 and 2016, the Montana Consumer Counsel had liabilities for compensated absences of \$90,752 and \$82,881, respectively.

**2. PENSION PLAN**

***Plan Description***

The Public Employees' Retirement System (PERS) is a statewide retirement plan established in 1945 and governed by Title 19, Chapters 2 and 3 of the Montana Code Annotated. The PERS is a mandatory multiple-employer, cost-sharing plan administered by the Public Employees' Retirement Administration (PERA).

PERS provides retirement, disability, and death benefits to plan members and their beneficiaries.

Benefits are based on eligibility, years of service, and highest average compensation. Members' rights become vested after five years of service.

The plan is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. The report is available at the following address:

100 North Park Avenue Suite 200, P.O. Box 200131, Helena, MT 59620-0131

**CONSUMER COUNSEL  
NOTES TO FINANCIAL SCHEDULES  
June 30, 2016 and 2017**

**2. PENSION PLAN (Continued)**

***Funding Policy***

Contribution rates for the plan are required and determined by State law. The PERS rates for employees and employers expressed as a percentage of covered payroll, were as follows:

	<u>Employer</u>	<u>Employee</u>	<u>Total</u>
2017 (all members effective 7/1/2016)	8.47%	7.9%	16.37%
2016 (all members effective 7/1/2015)	8.37%	7.9%	16.27%
2015 (all members effective 7/1/2014)	8.27%	7.9%	16.17%
2014 (all members effective 7/1/2013)	8.17%	7.9%	16.07%

The amounts contributed to the plan by the Montana Consumer Counsel were as follows:

	<u>Employer Contributions</u>
June 30, 2017	\$ 35,425
June 30, 2016	\$ 34,464
June 30, 2015	\$ 35,111
June 30, 2014	\$ 33,002

**3. DIRECT ENTRIES TO FUND EQUITY**

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

**CONSUMER COUNSEL**  
**NOTES TO FINANCIAL SCHEDULES**  
**June 30, 2016 and 2017**

**4. OPERATING LEASE**

The Montana Consumer Counsel entered into a lease agreement for office space on May 1, 2013 and terminating on April 30, 2016. In the absence of a written agreement, tenancy was month-to-month for May and June 2016. Current lease agreement began July 1, 2016 and terminates on June 30, 2019. Total rent expense was \$37,800 and \$29,400 for the fiscal years ended 2017 and 2016, respectively. Future minimum lease payments due under this lease are \$37,800 for fiscal year 2019, and \$37,800 for fiscal year 2018.





RUDD & COMPANY<sup>SM</sup>

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INDEPENDENT AUDITOR'S 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 financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial schedules of the Consumer Counsel, for the fiscal years ended June 30, 2017 and 2016, as listed in the table of contents, and have issued our report thereon dated December 6, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial schedules, we considered the Consumer Counsel'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 opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the Consumer Counsel's internal control. Accordingly, we do not express an opinion on the effectiveness of the Consumer Counsel'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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 Consumer Counsel'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*.

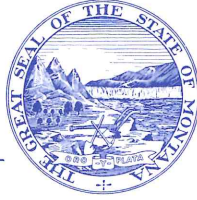
## **Purpose of this Report**

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Rued & Company, PLLC*

Helena, Montana  
December 6, 2017

# Montana Consumer Counsel



Robert A. Nelson  
*Consumer Counsel*

Jason T. Brown, *Attorney*  
Lawrence P. Nordell, *Economist*  
Paul Schulz, *Rate Analyst*  
Suzanne Snow, *Office Manager*  
Jaime Stamatson, *Economist*

Telephone: (406) 444-2771  
Fax No: (406) 444-2760  
111 North Last Chance Gulch  
Suite 1B  
PO Box 201703  
Helena, Montana 59620-1703

December 6, 2017

Rudd & Company PLLC  
1003 11<sup>th</sup> Avenue, Suite A  
Helena, Montana 59601

RE: Consumer Counsel Audit Response

Dear Rudd & Company PLLC

We have reviewed the draft audit report for the Consumer Counsel. We are pleased that the Counsel meets accounting standards and that no recommendations for improvement were necessary.

Sincerely,

A handwritten signature in blue ink, appearing to read "Robert A. Nelson".

Robert A. Nelson  
Consumer Counsel