

**STATE OF MONTANA
LEGISLATIVE BRANCH
EXCLUDING THE CONSUMER COUNSEL
FINANCIAL-COMPLIANCE AUDIT FOR THE
TWO FISCAL YEARS ENDED JUNE 30, 2019**

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

November 2019

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the financial audit of the Montana Legislative Branch for the two fiscal years ended June 30, 2019.

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

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

19C-11

STATE OF MONTANA
LEGISLATIVE BRANCH
EXCLUDING THE CONSUMER COUNSEL
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**LEGISLATIVE BRANCH
EXCLUDING THE CONSUMER COUNSEL
ELECTED AND APPOINTED OFFICIALS
AS OF JUNE 30, 2019**

LEGISLATIVE COUNCIL AND LEGISLATIVE SERVICES DIVISION

REPRESENTATIVES

Kim Abbott
Seth Berglee
Wylie Galt
Greg Hertz
Shane Morigeau
Casey Schreiner - Presiding Officer

SENATORS

Mark Blasdel - Vice Presiding Officer
Margaret Macdonald
JP Pommichowski
Scott Sales
Jon Sesso
Fred Thomas

EXECUTIVE DIRECTOR: Susan Byorth Fox

LEGISLATIVE AUDIT COMMITTEE AND LEGISLATIVE AUDIT DIVISION

REPRESENTATIVES

Kim Abbott
Dan Bartel
Tom Burnett
Denise Hayman - Vice Presiding Officer
Emma Kerr-Carpenter
Matt Regier

SENATORS

Dee Brown - Presiding Officer
Jason Ellsworth
John Esp
Pat Flowers
Tom Jacobson
Mary McNally

LEGISLATIVE AUDITOR: Angus Maciver

LEGISLATIVE FINANCE COMMITTEE AND LEGISLATIVE FISCAL DIVISION

REPRESENTATIVES

Nancy Ballance
David Bedey
Mary Caferro
Kimberly Dudik - Presiding Officer
Jim Hamilton
Kenneth Holmlund
Mike Hopkins
Llew Jones
Ryan Lynch
Bill Mercer

SENATORS

Janet Ellis
Tom Jacobson
Bob Keenan
Ryan Osmundson - Vice Presiding Officer
Dan Salomon
Jon Sesso

LEGISLATIVE FISCAL ANALYST: Amy Carlson



INDEPENDENT AUDITORS' REPORT

The Legislative Audit Committee
of the Montana State Legislature:

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 Legislative Branch, excluding the Consumer Counsel (the Legislative Branch), for each of the fiscal years ended June 30, 2019 and 2018, 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. Management is also responsible for the design, implementation, and maintenance of internal control 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 Legislative Branch 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 Legislative Branch as of June 30, 2019 and 2018, or changes in financial position or cash flows thereof for the years then ended.

Unmodified Opinion 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 Legislative Branch as of June 30, 2019 and 2018, 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 November 21, 2019 on our consideration of the Legislative Branch'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 Legislative Branch's internal control over financial reporting and compliance.

Rudd & Company, PLLC

Helena, Montana
November 21, 2019

LEGISLATIVE BRANCH
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Capital Projects Fund</u>
FUND EQUITY: July 1, 2018	\$ (702,414)	\$ 1,972,148	\$ (200,000)
ADDITIONS			
Budgeted Revenues & Transfers-In	19,448	2,195,842	
Nonbudgeted Revenues & Transfers-In	230	43,205	
Prior Year Revenues & Transfers-In Adjustments		(58)	
Direct Entries to Fund Equity	<u>21,210,767</u>	<u>(118,751)</u>	<u>441,540</u>
Total Additions	<u>21,230,445</u>	<u>2,120,237</u>	<u>441,540</u>
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	21,746,411	3,168,603	241,540
Nonbudgeted Expenditures & Transfers-Out		<u>870</u>	
Total Reductions	<u>21,746,411</u>	<u>3,169,473</u>	<u>241,540</u>
FUND EQUITY: June 30, 2019	<u>\$ (1,218,381)</u>	<u>\$ 922,912</u>	<u>\$ -</u>

See Notes to the Financial Schedules

LEGISLATIVE BRANCH
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Capital Projects Fund</u>
FUND EQUITY: July 1, 2017	\$ <u>(912,861)</u>	\$ <u>2,039,450</u>	\$ <u>-</u>
ADDITIONS			
Budgeted Revenues & Transfers-In	3,271	3,097,338	
Nonbudgeted Revenues & Transfers-In	490	231,229	
Prior Year Revenues & Transfers-In Adjustments	129	(690)	
Direct Entries to Fund Equity	<u>15,032,204</u>	<u>70,671</u>	<u>833,200</u>
Total Additions	<u>15,036,094</u>	<u>3,398,548</u>	<u>833,200</u>
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	14,394,915	2,966,605	1,033,200
Nonbudgeted Expenditures & Transfers-Out	3	500,811	
Prior Year Expenditures & Transfers-Out Adjustments	<u>430,729</u>	<u>(1,567)</u>	
Total Reductions	<u>14,825,648</u>	<u>3,465,849</u>	<u>1,033,200</u>
FUND EQUITY: June 30, 2018	\$ <u><u>(702,414)</u></u>	\$ <u><u>1,972,148</u></u>	\$ <u><u>(200,000)</u></u>

See Notes to the Financial Schedules

LEGISLATIVE BRANCH
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Charges for Services		\$ 1,681,111	\$ 1,681,111
Investment Earnings		19,068	19,068
Sale of Documents, Merchandise and Property	\$ 19,448	126,287	145,735
Transfers-in		412,522	412,522
Miscellaneous	<u>230</u>		<u>230</u>
Total Revenues & Transfers-In	19,678	2,238,988	2,258,666
Less: Nonbudgeted Revenues & Transfers-In	230	43,205	43,435
Prior Year Revenues & Transfers-In Adjustments		<u>(58)</u>	<u>(58)</u>
Actual Budgeted Revenues & Transfers-In	19,448	2,195,842	2,215,290
Estimated Revenues & Transfers-In	<u>26,000</u>	<u>2,465,520</u>	<u>2,491,520</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (6,552)</u>	<u>\$ (269,678)</u>	<u>(276,230)</u>
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Charges for Services		\$ (263,252)	\$ (263,252)
Investment Earnings		16,900	16,900
Sale of Documents, Merchandise and Property	\$ (6,552)	118,287	111,735
Transfers-in		<u>(141,613)</u>	<u>(141,613)</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (6,552)</u>	<u>\$ (269,678)</u>	<u>\$ (276,230)</u>

See Notes to the Financial Schedules

LEGISLATIVE BRANCH
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Charges for Services		\$ 2,174,105	\$ 2,174,105
Investment Earnings		25,884	25,884
Sale of Documents, Merchandise and Property	\$ 3,400	638,009	641,408
Transfers-in		489,880	489,880
Miscellaneous	490		490
Total Revenues & Transfers-In	<u>3,890</u>	<u>3,327,877</u>	<u>3,331,767</u>
Less: Nonbudgeted Revenues & Transfers-In	490	231,229	231,719
Prior Year Revenues & Transfers-In Adjustments	129	(690)	(561)
Actual Budgeted Revenues & Transfers-In	<u>3,271</u>	<u>3,097,338</u>	<u>3,100,608</u>
Estimated Revenues & Transfers-In	<u>5,000</u>	<u>2,933,994</u>	<u>2,938,994</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (1,729)</u>	<u>\$ 163,344</u>	<u>\$ 161,614</u>
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Charges for Services		\$ 41,748	\$ 41,748
Investment Earnings		24,109	24,109
Sale of Documents, Merchandise and Property	\$ (1,729)	(111,584)	(113,314)
Transfers-in		209,071	209,071
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (1,729)</u>	<u>\$ 163,344</u>	<u>\$ 161,614</u>

See Notes to the Financial Schedules

LEGISLATIVE BRANCH
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	AUDIT & EXAMINATION	FISCAL ANALYSIS & REVIEW	LEGIS. COMMITTEES & ACTIVITIES	LEGISLATIVE SERVICES	LEGISLATIVE SERVICES FEED BILL	LEGISLATURE - HOUSE	LEGISLATURE - SENATE	Total
Personal Services								
Salaries	\$ 2,983,806	\$ 1,456,288	\$ 57,700	\$ 4,413,398	\$ 113,198	\$ 1,823,252	\$ 1,211,992	\$ 12,059,635
Other Compensation						1,268,962	642,467	1,911,429
Employee Benefits	1,094,262	493,706	12,807	1,503,610	29,299	1,658,367	836,052	5,628,104
Total	<u>4,078,069</u>	<u>1,949,994</u>	<u>70,507</u>	<u>5,917,009</u>	<u>142,498</u>	<u>4,750,581</u>	<u>2,690,510</u>	<u>19,599,167</u>
Operating Expenses								
Other Services	46,554	17,891	22,291	1,023,175	246,855	44,013	21,106	1,421,884
Supplies & Materials	40,236	5,326	2,576	375,143	3,467	46,081	34,807	507,635
Communications	17,114	5,355	1,771	304,311	18,620	3,504	1,591	352,265
Travel	57,618	27,409	109,979	39,573	41,940	123,547	65,548	465,615
Rent	4,706	3,704		270,152	250,713	458	599	530,332
Repair & Maintenance	8,450			383,833	502	75	2,898	395,757
Other Expenses	46,880	5,838	343,256	197,223	1,030	15,554	14,413	624,193
Total	<u>221,557</u>	<u>65,523</u>	<u>479,872</u>	<u>2,593,409</u>	<u>563,127</u>	<u>233,232</u>	<u>140,962</u>	<u>4,297,682</u>
Equipment & Intangible Assets								
Equipment				15,750				15,750
Intangible Assets				99,1087				991,087
Total				<u>1,006,837</u>				<u>1,006,837</u>
Capital Outlay								
Buildings								
Total								
Transfers-out								
Fund transfers	112,522			141,216				253,738
Total	<u>112,522</u>			<u>141,216</u>				<u>253,738</u>
Total Expenditures & Transfers-Out	<u>\$ 4,412,147</u>	<u>\$ 2,015,517</u>	<u>\$ 550,379</u>	<u>\$ 9,658,471</u>	<u>\$ 705,624</u>	<u>\$ 4,983,814</u>	<u>\$ 2,831,472</u>	<u>\$ 25,157,424</u>
EXPENDITURES & TRANSFERS-OUT BY FUND								
General Fund	\$ 2,205,169	\$ 2,013,403	\$ 550,379	\$ 8,456,551	\$ 705,624	\$ 4,983,814	\$ 2,831,472	\$ 21,746,411
State Special Revenue Fund	2,206,978	2,115		960,380				3,169,473
Capital Projects Fund				241,540				241,540
Total Expenditures & Transfers-Out	<u>4,412,147</u>	<u>2,015,517</u>	<u>550,379</u>	<u>9,658,471</u>	<u>705,624</u>	<u>4,983,814</u>	<u>2,831,472</u>	<u>25,157,424</u>
Less: Nonbudgeted Expenditures & Transfers-Out				870				870
Prior Year Expenditures & Transfers-Out Adjustments								
Actual Budgeted Expenditures & Transfers-Out	<u>4,412,147</u>	<u>2,015,517</u>	<u>550,379</u>	<u>9,657,601</u>	<u>705,624</u>	<u>4,983,814</u>	<u>2,831,472</u>	<u>25,156,554</u>
Budget Authority	4,947,575	2,142,187	657,161	9,840,912	1,424,227	7,954,658	5,032,509	31,999,229
Unspent Budget Authority	<u>\$ 535,428</u>	<u>\$ 126,670</u>	<u>\$ 106,782</u>	<u>\$ 183,311</u>	<u>\$ 718,603</u>	<u>\$ 2,970,844</u>	<u>\$ 2,201,037</u>	<u>\$ 6,842,674</u>
UNSPENT BUDGET AUTHORITY BY FUND								
General Fund	\$ 534,662	\$ 107,444	\$ 106,782	\$ 82,967	\$ 718,603	\$ 2,970,844	\$ 2,201,037	\$ 6,722,340
State Special Revenue Fund	765	19,226		100,344				120,335
Capital Projects Fund								
Unspent Budget Authority	<u>\$ 535,428</u>	<u>\$ 126,670</u>	<u>\$ 106,782</u>	<u>\$ 183,311</u>	<u>\$ 718,603</u>	<u>\$ 2,970,844</u>	<u>\$ 2,201,037</u>	<u>\$ 6,842,674</u>

See Notes to the Financial Schedules

LEGISLATIVE BRANCH
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	AUDIT & EXAMINATION	FISCAL ANALYSIS & REVIEW	LEGIS. COMMITTEES & ACTIVITIES	LEGISLATIVE SERVICES	LEGISLATIVE SERVICES FEED BILL	LEGISLATURE - HOUSE	LEGISLATURE - SENATE	Total
Personal Services								
Salaries	\$ 2,685,784	\$ 1,268,433	\$ 95,147	\$ 4,131,960	7,565	\$ 96,923	\$ 47,628	\$ 8,333,438
Other Compensation						33,631	16,815	50,446
Employee Benefits	897,871	397,467	26,760	1,308,502	\$ 1,732	1,129,140	568,114	4,329,588
Total	<u>3,583,655</u>	<u>1,665,901</u>	<u>121,906</u>	<u>5,440,462</u>	<u>9,297</u>	<u>1,259,693</u>	<u>632,557</u>	<u>12,713,472</u>
Operating Expenses								
Other Services	46,219	1,888	10,113	1,162,687	7,309	1,231	5,303	1,234,749
Supplies & Materials	10,879	1,404	1,171	195,573	2,170	2,318	11,032	224,547
Communications	14,019	5,389	3,459	232,365	4,490	542	12	260,277
Travel	41,261	46,065	179,718	37,819	21,537	28,280	13,525	368,204
Rent	4,706	3,704		255,377	386,798	458		651,043
Repair & Maintenance	29,982			240,838	72	3,026	115	274,033
Other Expenses	62,112	16,409	311,835	119,147	6,974	2,385	2,125	520,986
Total	<u>209,178</u>	<u>74,859</u>	<u>506,295</u>	<u>2,243,805</u>	<u>429,351</u>	<u>38,240</u>	<u>32,111</u>	<u>3,533,840</u>
Equipment & Intangible Assets								
Equipment				219,855				219,855
Intangible Assets				1,790,190				1,790,190
Total				<u>2,010,045</u>				<u>2,010,045</u>
Transfers-out								
Fund transfers				638,710	114,860	113,720	200,050	1,067,340
Total				<u>638,710</u>	<u>114,860</u>	<u>113,720</u>	<u>200,050</u>	<u>1,067,340</u>
Total Expenditures & Transfers-Out	\$ <u>3,792,833</u>	\$ <u>1,740,760</u>	\$ <u>628,201</u>	\$ <u>10,333,023</u>	\$ <u>553,508</u>	\$ <u>1,411,653</u>	\$ <u>864,719</u>	\$ <u>19,324,697</u>
EXPENDITURES & TRANSFERS-OUT BY FUND								
General Fund	\$ 2,177,219	\$ 1,730,850	\$ 628,201	\$ 7,459,497	\$ 553,508	\$ 1,411,653	\$ 864,719	\$ 14,825,648
State Special Revenue Fund	1,615,614	9,910		1,840,325				3,465,849
Capital Projects Fund				1,033,200				1,033,200
Total Expenditures & Transfers-Out	<u>3,792,833</u>	<u>1,740,760</u>	<u>628,201</u>	<u>10,333,023</u>	<u>553,508</u>	<u>1,411,653</u>	<u>864,719</u>	<u>19,324,697</u>
Less: Nonbudgeted Expenditures & Transfers-Out				500,814				500,814
Prior Year Expenditures & Transfers-Out Adjustments	(3,691)	(376)	4,506	94	114,860	113,720	200,050	429,163
Actual Budgeted Expenditures & Transfers-Out	<u>3,796,524</u>	<u>1,741,136</u>	<u>623,695</u>	<u>9,832,115</u>	<u>438,648</u>	<u>1,297,933</u>	<u>664,669</u>	<u>18,394,720</u>
Budget Authority	4,151,836	1,842,386	690,649	10,787,267	776,509	2,576,144	1,649,327	22,474,118
Unspent Budget Authority	\$ <u>355,312</u>	\$ <u>101,250</u>	\$ <u>66,954</u>	\$ <u>955,152</u>	\$ <u>337,861</u>	\$ <u>1,278,211</u>	\$ <u>984,658</u>	\$ <u>4,079,398</u>
UNSPENT BUDGET AUTHORITY BY FUND								
General Fund	\$ 211,436	\$ 94,410	\$ 66,954	\$ 463,400	\$ 337,861	\$ 1,278,211	\$ 984,658	\$ 3,436,930
State Special Revenue Fund	143,876	6,840		250,212				400,928
Capital Projects Fund				241,540				241,540
Unspent Budget Authority	\$ <u>355,312</u>	\$ <u>101,250</u>	\$ <u>66,954</u>	\$ <u>955,152</u>	\$ <u>337,861</u>	\$ <u>1,278,211</u>	\$ <u>984,658</u>	\$ <u>4,079,398</u>

See Notes to the Financial Schedules

**LEGISLATIVE BRANCH
EXCLUDING THE CONSUMER COUNSEL
NOTES TO FINANCIAL SCHEDULES
June 30, 2018 and 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Legislative Branch uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund categories (General, State Special Revenue and Capital Projects). In applying the modified accrual basis, the Legislative Branch 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 Legislative Branch 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 Legislative Branch 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 Legislative Branch 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 Legislative Branch uses the following funds:

Governmental Funds:

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 legally restricted to expenditures for specific state program purposes. The Legislative Branch's State Special Revenue Funds include Legislative Audit Services, Legislative Branch IT Reserve Account, Legislative Branch Retirement Reserve Account, Montana Codes Annotated, State Government Broadcasting and Legislative Fiscal Division (HB661, 2017 Session).

**LEGISLATIVE BRANCH
EXCLUDING THE CONSUMER COUNSEL
NOTES TO FINANCIAL SCHEDULES
June 30, 2018 and 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (continued)

Capital Project Fund – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary or trust funds. The Legislative Branch uses this fund to account for the Session Systems Replacement project.

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 Legislative Branch. Expenditures for termination pay are currently absorbed in the annual operational costs of the Legislative Branch. At June 30, 2019 and 2018, the Legislative Branch had liabilities for compensated absences of \$1,491,205 and \$1,323,696, 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 statement 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

**LEGISLATIVE BRANCH
EXCLUDING THE CONSUMER COUNSEL
NOTES TO FINANCIAL SCHEDULES
June 30, 2018 and 2019**

2. PENSION PLAN (Continued)

Plan Description (continued)

The Montana Teachers' Retirement System (TRS) serves active and retired teachers and educators in the State of Montana. Its primary purpose is to administer their pension plan, which includes (but is not limited to) payment of retirement benefits, collection of member contributions and enrollment of new members. The TRS is a Defined Benefit Plan qualified under Internal Revenue Code (IRC) 401(a).

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

1500 Sixth Avenue, P. O. Box 200139, Helena, MT 59620-0139

Funding Policy

Contribution rates for the PERS 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:

	Employer	Employee	Total
2019	8.67%	7.9%	16.57%
2018	8.57%	7.9%	16.47%

The TRS funding policy also provides for monthly employee and employer contributions at rates specified by State law. Plan members, for the fiscal years ending June 30, 2018 and 2019, were required to contribute 8.15% of their earned compensation. State agency employers were required to contribute 11.25% for fiscal year 2018 and 11.35% for fiscal year 2019. The State's General Fund also contributes an additional .11% of total earned compensation of all TRS members.

**LEGISLATIVE BRANCH
EXCLUDING THE CONSUMER COUNSEL
NOTES TO FINANCIAL SCHEDULES
June 30, 2018 and 2019**

2. PENSION PLAN (Continued)

Funding Policy (continued)

The employer amounts contributed to the plans by the Legislative Branch were as follows:

	<u>PERS</u>	<u>TRS</u>
June 30, 2019	\$ 914,760	\$ 993
June 30, 2018	\$ 702,484	\$ 317
June 30, 2017	\$ 798,747	\$ 2,898
June 30, 2016	\$ 677,663	\$ 1,911

In fiscal year 2015, *GASB 68 Accounting and Financial Reporting for Pensions* was implemented. While it applies to the Legislative Branch, the net pension obligation (NPO) will be presented in the Basic Financial Statements within the Comprehensive Annual Financial Report (CAFR), but is not presented in this regulatory framework presentation. The NPO for the legislative branch for the fiscal years ended June 30, 2019 is \$12,172,000 and \$6,909 for PERS and TRS, respectively.

3. GENERAL FUND BALANCE (negative balances)

The negative fund equity in the General Fund does not indicate overspent appropriation authority. The Legislative Branch has authority to pay obligations from the statewide General Fund within its appropriation limits. The Legislative Branch expends cash or other assets from the statewide fund when it pays General Fund obligations. The Legislative Branch's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity for each of the fiscal years ended June 30, 2018 and June 30, 2019.

4. DIRECT ENTRIES TO FUND EQUITY

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

**LEGISLATIVE BRANCH
EXCLUDING THE CONSUMER COUNSEL
NOTES TO FINANCIAL SCHEDULES
June 30, 2018 and 2019**

5. TRANSFERS-OUT

Statute provides for two Legislative Branch reserve accounts. State law allows for any portion of the 30% of the unexpended and unencumbered money that was appropriated to the Legislative Branch be deposited in the accounts in the state special revenue fund. The money in one reserve account is statutorily appropriated, and to be used only for major Legislative Branch information technology projects. The other statutory appropriation is to be used for staff retirement termination pay.

6. LITIGATION

The Legislative Branch has pending litigation related to the following matter(s):

Pending matter regarding litigation filed via email on April 1, 2019, by Mr. Jim Kephart involving Senator Mary McNally, former chair of the Legislative Audit Committee, Legal Counsel for the Legislative Audit Division, and two employees of the Montana Department of Revenue. Costs to date for agency legal services for fiscal year ended June 30, 2019, was \$3,135.

The Legislative Branch has resolved/settled litigation related to the following matter(s):

Settled litigation related to a February 11, 2016, public records request regarding Senator Jennifer Fielder and the Legislative Services Division (LSD). A joint stipulation for voluntary dismissal with prejudice was filed with the District Court on January 2, 2019. As a part of the stipulated voluntary dismissal, the Legislative Services Division agreed to pay the petitioner's attorney fees in the amount of \$4,000. Costs for agency legal services for the fiscal years ended June 30, 2018, and 2019, were \$28,167.05 and \$7,038.54, respectively.

**LEGISLATIVE BRANCH
EXCLUDING THE CONSUMER COUNSEL
NOTES TO FINANCIAL SCHEDULES
June 30, 2018 and 2019**

6. LITIGATION (continued)

Legislative Branch- Intervention (resolved) in litigation related to the following matter(s):

The Montana Senate through the passage of Senate Resolution 2 (2017) directed the Legislative Services Division Legal Services Office to file all necessary motions in order to intervene in the proceedings of Christine Kaufmann, Linda McCulloch, Montanans for Experienced Judges, Jesse O'Hara, and Al Smith, Executive Director of the MTLA, v. Steve Bullock, Governor of Montana, Cause No. BDV 2016-1055. The Legislative Services Division Legislative Services Office filed motions to intervene in this case and the Department of Justice volunteered to represent the Montana State Senate before the Montana Supreme Court. Senate Majority Leadership incurred legal services costs that totaled \$4,600.87 for fiscal year ended June 30, 2018.

The Legislative Branch contracted for nonlitigation related legal human resource and personnel services during the 2019 biennium. The costs for these services for the fiscal years ended June 30, 2018, and 2019, were \$5,474.05 and \$9,548.63, respectively.



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 Legislative Branch, excluding the Consumer Counsel (the Legislative Branch), for the fiscal years ended June 30, 2019 and 2018, as listed in the table of contents, and have issued our report thereon dated November 21, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the Legislative Branch'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 Legislative Branch's internal control. Accordingly, we do not express an opinion on the effectiveness of the Legislative Branch'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. 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 Legislative Branch'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.

Rudd & Company, PLLC

Helena, Montana
November 21, 2019



Montana Legislative Services Division
Office of the Executive Director

PO BOX 201706
Helena, MT 59620-1706
(406) 444-3064
FAX (406) 444-3036

November 21, 2019

Rudd & Company, PLLC
P.O. Box 1989
Helena MT 59624

RE: Legislative Branch Audit Response

Dear Rudd & Company, PLLC:

We have reviewed the draft audit report for the Legislative Branch, excluding the Consumer Counsel, and are pleased with the conclusion that our agency accounting meets all tested standards and that no recommendations for improvement were necessary.

The dedication and cooperation of a number of people have made this positive audit possible. In particular, the staff of the Financial and Human Resources Office has consistently ensured that high standards of accounting are met and maintained and they have worked hard to provide you with all of the materials that you required.

Thank you for your work in conducting this audit.

Sincerely,

A handwritten signature in blue ink that reads "Susan B. Fox".

Susan Byorth Fox
Executive Director

CI0425 9325sfxa.