A Report
to the
Montana
Legislature

Financial-Compliance Audit

Office of the Secretary of State

For the Two Fiscal Years Ended June 30, 2018

June 2019

Legislative Audit Division

18-19

Legislative Audit Committee

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§5-13-202(2), MCA

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Financial-Compliance Audits

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

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LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

June 2019

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report for the Office of the Secretary of State (office) for each of the two fiscal years ended June 30, 2018, and 2017. Included in this report are three recommendations related to leased vehicle use, accounting errors, and segregation of duties.

The office's written response is included in the report beginning at page C-1. We considered the partially concurring response to Recommendation #1 related to misuse of a state vehicle. The response notes "The agency sought and was granted permission from the Governor's budget director for a long-term Motor Pool vehicle lease to support agency missions." We did not question authorization of the lease; this permission does not authorize the employee to commute to a telework site more than 30 miles from the residence. The response also notes "Legislative Audit Division has recommended the expansion of state agency-wide telework and encouraged state agencies to identify opportunities to utilize the value of telework and alternative worksite, including vehicles." In our September 2003 limited scope performance audit of Telework in Montana State Government (#03P-01), we recommended the Governor encourage expansion of a state agency-wide telework program and designate the Department of Administration as the lead agency in implementing the program. Recommendation #1, however, addresses the use of a state vehicle to commute, not the use of telework. We maintain our position as reported.

We also considered the nonconcurring response to Recommendation #3 related to relationships affecting segregation of duties. While the office does not believe a deficiency in internal controls exists, as discussed on pages 8 and 9, we found the office did not address relationships between employees with the potential to impact segregation of duties. We maintain our position as reported. We thank the Secretary and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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Elected, Appointed, and Administrative Officials

Office of the Secretary of State

Corey Stapleton, Secretary of State

Christi Jacobsen, Chief of Staff

Julie Lake, Chief Operations Officer

Sue Ames, Office Manager

Dana Corson, Elections Director

Kellee English, IT Director

Joe DeFilippis, Business Services/Records & Information Management Director

Ray Dagnall, Records & Information Management/Administrative Rules Manager

Will Selph, Land Board & Policy Advisor

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Montana Legislative Audit Division

Financial-Compliance Audit

Office of the Secretary of State

For the Two Fiscal Years Ended June 30, 2018

June 2019 18-19 Report Summary

The Office of the Secretary of State was awarded $3 million in federal funding from the 2018 Help America Vote Act Elections Security Grant (HAVA) during fiscal year 2018. During our audit, we identified accounting errors associated with this federal grant, impacting the reliability of the office's financial information. In addition, we determined a leased vehicle was used to commute a total of 27,000 miles; this use is not allowed by state law.

Context

The Office of the Secretary of State (office) provides a variety of services to the public in Montana. The office registers businesses and files documents for business entities operating in the state of Montana. It also files, stores, maintains, and preserves permanent records of the state. The office publishes the Montana Administrative Register and the Administrative Rules of Montana. The office is also responsible for the commissioning of notaries public in Montana.

The office's main source of revenue is charges for services, derived from fees charged for corporate and Uniform Commercial Code (UCC) filings. The majority of expenditures consist of personal services and operating expenses.

During the audit we focused our audit efforts on the office's activity related to charges for services revenue, personal services, contracted expenditures, office expenses, and recording construction work in progress for the office's computer system. We audited this activity through sampling and analytical procedures, as well as testing the office's significant internal controls. We completed testing over a variety of selected state laws and policy, including procurement of legal services. In addition, we reviewed significant events subsequent to June 30, 2018, including procurement of printing services.

Results

Our current audit report contains three recommendations related to leased vehicle use, accounting errors, and segregation of duties. We issued qualified opinions on the Schedule of Changes in Fund Equity and Schedule of Total Revenues & Transfers-In for the fiscal year ended June 30, 2018, as a result of misstatements related to federal activity. For decision-making purposes, the information on these schedules should be used with caution. We issued unmodified opinions on the remaining schedules, meaning the information can be used for decision-making purposes.

Recommendation Concurrence	
Concur	1
Partially Concur	1
Do Not Concur	1
Source: Agency audit response included in final report.	

For a complete copy of the report (18-19) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to **lad@mt.gov**; or check the web site at **https://leg.mt.gov/lad/audit-reports**
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail **LADHotline@mt.gov.**

Chapter I – Introduction and Background

Introduction

We performed a financial-compliance audit of the Office of the Secretary of State (office) for each of the fiscal years ended June 30, 2018, and 2017. The objectives of this audit were to:

1. Determine whether the office's financial schedules present fairly its results of operations and changes in fund equity for each of the fiscal years ended June 30, 2018, and 2017.
2. Obtain an understanding of the office's internal control systems to the extent necessary to support our audit of the office's financial schedules and, if appropriate, make recommendations for improvement in the internal and management controls of the office.
3. Determine whether the office complied with selected laws and regulations.

During the audit we focused our audit efforts on the office's activity related to charges for services revenue, personal services, contracted expenditures, office expenses and recording construction work in progress for the office's computer system. We audited this activity through sampling and analytical procedures, as well as testing the office's significant internal controls. We completed testing over a variety of selected state laws and policies, including procurement of legal services. In addition, we reviewed significant events subsequent to June 30, 2018, including procurement of printing services.

Background

Article VI, Section 1, of the Montana Constitution authorizes the Secretary of State as an officer of the executive branch of state government. Section 2-15-401, MCA, sets forth the Secretary of State's duties. The Secretary of State serves as chief election officer of the state, maintains uniformity in the application of the election laws and retains electronic records through the Elections and Government Services Division. In addition, the Secretary of State serves as a member of the Board of Land Commissioners and the Board of Examiners. The office was authorized 54.5 FTE for fiscal year 2018, 37 of which were filled at fiscal year-end. Table 1 illustrates the FTE positions filled at fiscal year-end 2018 by division.

Table 1

FTE Positions Filled by Division

Fiscal Year-End 2018

Division	FTE Positions Filled
Operations	14
Administrative Rules of Montana	1
Business Services	13
Notary Services	2
Elections and Government	3
Records and Information Management	4

Source: Compiled by the Legislative Audit Division from Secretary of State records.

The office provides a variety of services to the public in Montana through the six divisions described below.

Operations provides Human Resource, Executive, Fiscal and Information Technology support to the office.

Administrative Rules of Montana publishes the administrative rules which have been developed under a process outlined in the Montana Administrative Procedure Act. The rules require state agencies to provide notice to the public when they wish to adopt, amend, or repeal administrative rules.

Business Services tracks the registration, renewal, amendment, and cancellation of businesses and trademarks in Montana. The division also tracks Uniform Commercial Code (UCC) and Effective Financing Statement (EFS) filings and liens. In addition, it processes the required annual reports for all Montana corporations and limited liability corporations (LLCs), due each year before April 15th.

Notary Services provides online, and in-person notary classes and administers the notary exam to new notary applicants. The division provides state certification, either apostille or authentication, for documents that are to be sent to or used in a foreign country.

Elections and Government interprets state election laws and oversees state and federal elections. It also provides verification to voters of their voter registration status, voter registration address, polling location, ballot mailing list, and mailed ballot status. In addition, the division provides resources to election officials, tracks statistics relating to voter registration and absentee voters, and updates election results as the precincts report to the Secretary of State's Office on election night.

Records and Information Management is responsible for storing, accessing, microfilming, scanning, preserving, and disposing of public documents generated by state and local governments to ensure continuity and accountability in government.

Chapter II – Findings and Recommendations

Misuse of State Vehicle

The Office of the Secretary of State used a leased vehicle for commuting purposes contrary to state law.

The Office of the Secretary of State (office) entered into a long-term lease agreement with the Montana Department of Transportation–Motor Pool Program (Motor Pool) on January 1, 2017, for a large pickup truck. The terms of the agreement required the office to pay the Motor Pool an approved rental rate. The rate is based on the dual rate structure, which means the office paid a daily rate, plus a usage rate for every mile driven, as summarized in Table 2.

Table 2
Motor Pool Leased Vehicle Rate Structure
Fiscal Years 2017 and 2018

Fiscal Year	Daily Rate	Usage Rate Per Mile
2017	$5.71	$0.197
2018	$8.93	$0.180

Source: Compiled by the Legislative Audit Division from Motor Pool records.

Use of State Vehicle for Commuting

An office employee required by law to maintain a residence in Helena also maintains a telework site outside of Helena. According to office personnel, this employee used the leased vehicle to travel to and from this designated telework site at the employee's familial residence. Department of Administration guidance on use of state-owned vehicles defines travel from an employee's residence to the employee's worksite as commuting. Section 2-17-425, MCA, provides a state-owned vehicle may not be used by a state agency employee to commute from the employee's residence to the employee's worksite except as provided in law. An exception can be authorized when:

- The commute between the employee residence and the employee worksite is less than 30 miles,
- The employee is required to be on call for quick response to an emergency that threatens life or property and on-call duty is a specifically identified duty in the employee's position description, and
- The employee in the position has frequently responded to emergency calls in the past six months.

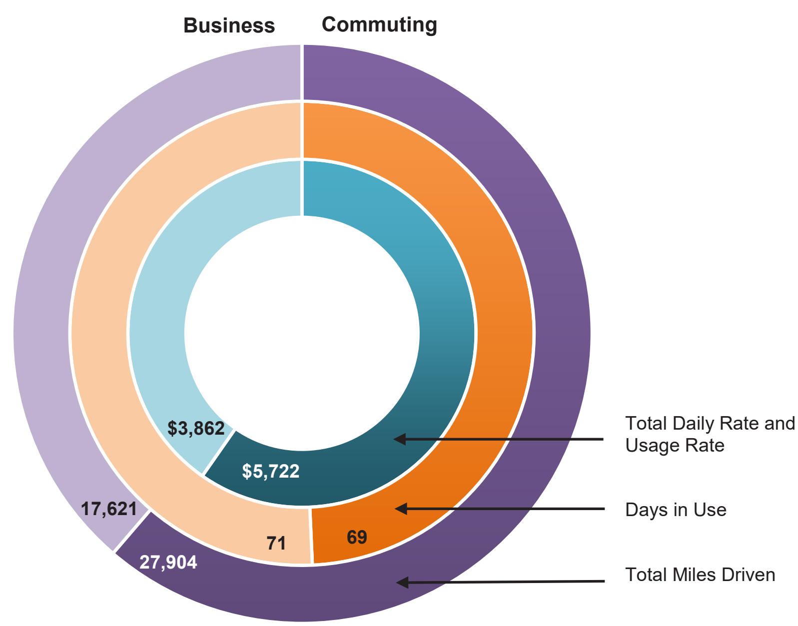
The office did not provide documentation of an authorized exception. Based on our review of the employee's travel and job responsibilities, we found the employee's leased vehicle use did not meet statutory exceptions.

During our audit, we reviewed the use of the vehicle from January 1, 2017, through the end of the audit period, June 30, 2018. We determined the employee used the leased vehicle to commute from the employee's Helena residence to the employee's telework site at the familial residence over 200 miles away and to remote work locations on at least 69 days resulting in over 27,000 excess miles on the vehicle. We estimate the office paid at least $5,722 in usage charges specific to commuting during this 18-month period.

Documentation provided by the office shows the vehicle was used for commuting purposes at least 47 days in fiscal year 2018 and 22 days in fiscal year 2017, in which the majority coincides with the weekend. While the office attributed the vehicle use to a telework agreement, the employee is still subject to the statutory requirement related to use of a state-owned vehicle for commuting. The total cost of the vehicle during our audit period was $12,743. As illustrated in Figure 1, we estimate $5,722, or over 44 percent of that cost, was associated with commuting to the familial residence and the four remote locations.

Figure 1

Comparison of Business and Commuting Vehicle Activity



Source: Compiled by the Legislative Audit Division from Secretary of State and Motor Pool records.

We estimate the office used the vehicle for business purposes approximately 71 of the 546 days the vehicle was leased during the audit period. There were 406 days we cannot attribute to either business or commuting use, representing $3,158 of the total vehicle costs.

In written communication regarding this issue, office management expressed utilization of the employee's familial residence as a telework site offered significant benefits to the state. The communication also explained the employee could reduce mileage and wear and tear on the vehicle by using telework sites in travel status through efficient planning and direct routes.

However, this use is contrary to state law. Section 2-17-425(3), MCA, also indicates using a state-owned vehicle to commute between the employee's residence and a worksite that is more than 30 miles from the residence is not permitted under any circumstance unless that use is authorized by the employee's department director pursuant to rules adopted by the Department of Administration. However, Department of Administration did not adopt rules as their guidance states, "…it was determined that no reasons would justify commuting over 30 miles in a state-owned vehicle."

After notifying the office of their noncompliance with §2-17-425, MCA, the office cancelled the lease, effective April 1, 2019, and returned the vehicle to the motor pool. Section 2-17-432, MCA, indicates a state officer or employee violating the restrictions on vehicle use is guilty of a misdemeanor. As required by §5-13-304(4), MCA, we made a referral to the Attorney General's Office regarding this matter.

Recommendation #1

We recommend the Office of the Secretary of State comply with state laws governing the use of state vehicles.

Internal Controls

State accounting policy requires agencies to develop and implement internal control procedures to ensure programs safeguard agency assets, operate in conformity with laws and regulations, and the related transactions are accurately recorded in the state's accounting records in accordance with generally accepted accounting principles (GAAP). The following two sections outline areas where internal controls were not effective.

Federal Misstatements

Internal controls were not effective in ensuring activity related to a $3,000,000 federal grant was recorded correctly.

The office was awarded $3 million in federal funding from the 2018 Help America Vote Act Elections Security Grant (HAVA), CFDA #90.404, during fiscal year 2018. The purpose of the award is to help automate the election process and increase security over the voting process. The award has a budget period of March 2018 to March 2023. The award allows the office to request the funds at any point during the period of the award. Our audit found the office incorrectly recorded a revenue estimate and associated revenue. These are explained in further detail below.

Revenue Estimate

To record revenue in the state's accounting system the office must record a revenue estimate. The office incorrectly recorded a revenue estimate of $3 million in the Enterprise Fund during fiscal year 2018 for the HAVA grant award. The award was funded by a federal revenue source; therefore, the estimate should be recorded in the Federal Special Revenue Fund. The effects of this misstatement are summarized in Table 3.

Table 3
Schedule of Total Revenues & Transfers-In
For the Fiscal Year Ended June 30, 2018

	Enterprise Fund		
Line Item	**As Stated**	**Over (Under) Stated**	**Correct Amount**
Estimated Revenues & Transfers-In	$ 9,539,195	$ 3,000,000	$ 6,539,195
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (2,783,818)	$ (3,000,000)	$ 216,182
Budgeted Revenues & Transfers-In Over (Under) Estimated by Class Federal	$ (3,000,000)	$ (3,000,000)	$ -

Source: Compiled by the Legislative Audit Division.

In written communication regarding this issue, office management said "When the Office of the Secretary of State received the grant award notification from the U.S. Election Assistance Commission, Form 121-Fund Code was submitted to the State of Montana State Financial Services Division for the grant funds to be accounted for separately. As a contingency, a revenue estimate was set up in the Office of the Secretary of State's proprietary fund for the new grant funds to be drawn down if it occurred that the new grant fund was not created prior to the release of the funds. New fund 03076 was created prior to drawing down of the grant funds so the proprietary revenue wasn't utilized."

Unearned Revenue

While the office received and deposited the federal funds during fiscal year 2018, the office did not expend the federal funds during that fiscal year. State Accounting policy requires revenues that have been received, but not yet earned, be recorded as unearned revenue. Federal grant revenues are earned when expended for program purposes. If not expended as of fiscal year-end, federal grant monies should be recorded as unearned revenue.

Since the office received revenue of $3 million in the Federal Special Revenue Fund, but did not expend it as of fiscal year-end, the office should have recorded the $3 million as unearned revenue. The effects of this misstatement are summarized in Table 4.

Table 4

Schedule of Total Revenues & Transfers-In

For the Fiscal Year Ended June 30, 2018

	Federal Special Revenue Fund		
Line Item	**As Stated**	**Over (Under) Stated**	**Correct Amount**
Federal	$ 3,000,000	$ 3,000,000	$ -
Total Revenues & Transfers-In	$ 3,010,397	$ 3,000,000	$ 10,397
Actual Budgeted Revenues & Transfers-In	$ 3,010,218	$ 3,000,000	$ 10,218
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (15,782)	$ 3,000,000	$ (3,015,782)
Budgeted Revenues & Transfers-In Over (Under) Estimated by Class Federal	$ -	$ 3,000,000	$ (3,000,000)

Schedule of Changes in Fund Equity

For The Fiscal Year Ended June 30, 2018

	Federal Special Revenue Fund		
Line Item	**As Stated**	**Over (Under) Stated**	**Correct Amount**
Budgeted Revenues & Transfers-In	$ 3,010,218	$ 3,000,000	$ 10,218
Total Additions	$ 3,010,397	$ 3,000,000	$ 10,397
Fund Equity: June 30, 2018	$ 3,242,975	$ 3,000,000	$ 242,975

Source: Compiled by the Legislative Audit Division.

Summary

The misstatements discussed in the revenue estimate and unearned revenue sections above are the basis for the opinion qualification described in the Independent Auditor's Report starting on page A-1. For decision-making purposes, the information on these schedules should be used with caution. They are also the basis for the material weakness described in the 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* starting on page B-1.

Without effective internal controls, there is risk errors in the accounting records will not be prevented, or detected and corrected in a timely manner, resulting in misstatements on the financial schedules.

Recommendation #2

We recommend the Office of the Secretary of State enhance policies and procedures to ensure that financial records are complete, accurate, and in accordance with state policy.

Relationships Affecting Segregation of Duties

The office did not address employee relationships affecting segregation of duties.

The risk of errors or irregularities is heightened when relationships exist between employees, or between employees and contractors. The existence of such relationships does not necessarily indicate improper activity has occurred. However, such relationships increase the risk internal controls will be bypassed or that segregation of duties will be compromised.

As part of our audit, we asked the agency to provide a list of identified relationships and the actions taken to manage the effects of each relationship. In a written response to this request, office management did not disclose any relationships. During our audit, we became aware of three office employees related through birth or marriage. All three of the employees worked for the office in fiscal year 2018. In addition, two of these employees were in a supervisor and supervisee relationship starting in fiscal year 2019. This relationship indicates improper segregation of duties. This supervisory relationship existed for a little over a month. The office changed the supervisor after our staff questioned the office about this relationship.

There is a risk the relationship within the office could affect office operations such as creating pressure for the employee to do things asked by the supervisor they would not normally do or would not be ethical. There is also risk the relationship can compromise proper segregation of duties. For example, the supervisor could approve work time that the employee may not have worked.

Office management stated when interviewing and hiring individuals, for both employee and contractor positions, Human Resources identifies to management any potential related party relationships and conflicts of interest. Office management expressed they did not disclose the supervisory relationship to us because it existed outside our audit period. Department personnel also indicated the supervisory role was shared with another office employee. However, if the office was aware of the relationships, they should have taken action to mitigate any potential conflicts prior to our inquiries about the circumstances.

Office controls did not ensure there was a segregation of duties and/or supervision between relatives when an employee was hired. Without effective internal controls, the risk of errors or irregularities is heightened. If left undetected, there is a reasonable possibility these types of relationships can result in material misstatements occurring in the financial records. This material weakness in internal controls is described in the 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* starting on page B-1.

Recommendation #3

We recommend the Office of the Secretary of State enhance internal controls to identify relationships within the office and ensure that proper segregations of duties are implemented.

Independent Auditor's Report and Office's Financial Schedules

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Office of the Secretary of State (office) for each of the fiscal years ended June 30, 2018, and 2017, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the office'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 office's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

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significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

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

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles
As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, deferred outflows of resources, liabilities, deferred inflows of resources, and cash flows.

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

Adverse Opinions on U.S. Generally Accepted Accounting Principles
In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the office as of June 30, 2018, and June 30, 2017, or changes in financial position or cash flows for the years then ended.

Basis for Qualified Opinions on Regulatory Basis of Accounting
The office received the Help America Vote Act Election Security Grant in fiscal year 2018. The office incorrectly recorded a revenue estimate in the Enterprise Fund. In addition, the cash received in the Federal Special Revenue Fund was improperly recorded as federal revenue rather than unearned revenue. The effects of these misstatements are summarized in the table on page A-3.

Schedule of Total Revenues & Transfers-In
For the Fiscal Year Ended June 30, 2018

	Federal Special Revenue Fund		
Line Item	**As Stated**	**Over (Under) Stated**	**Correct Amount**
Federal	$ 3,000,000	$ 3,000,000	$ -
Total Revenues & Transfers-In	$ 3,010,397	$ 3,000,000	$ 10,397
Actual Budgeted Revenues & Transfers-In	$ 3,010,218	$ 3,000,000	$ 10,218
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (15,782)	$ 3,000,000	$ (3,015,782)
Budgeted Revenues & Transfers-In Over (Under) Estimated by Class Federal	$ -	$ 3,000,000	$ (3,000,000)
	Enterprise Fund		
Line Item	**As Stated**	**Over (Under) Stated**	**Correct Amount**
Estimated Revenues & Transfers-In	$ 9,539,195	$ 3,000,000	$ 6,539,195
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (2,783,818)	$ (3,000,000)	$ 216,182
Budgeted Revenues & Transfers-In Over (Under) Estimated by Class Federal	$ (3,000,000)	$ (3,000,000)	$ -

Schedule of Changes in Fund Equity
For the Fiscal Year Ended June 30, 2018

	Federal Special Revenue Fund		
Line Item	**As Stated**	**Over (Under) Stated**	**Correct Amount**
Budgeted Revenues & Transfers-In	$ 3,010,218	$ 3,000,000	$ 10,218
Total Additions	$ 3,010,397	$ 3,000,000	$ 10,397
Fund Equity: June 30, 2018	$ 3,242,975	$ 3,000,000	$ 242,975

Qualified Opinions on Regulatory Basis of Accounting

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinions" paragraph, the Schedule of Changes in Fund Equity and Schedule of Total Revenues & Transfers-In, presents fairly, in all material respects, the results of operations and changes in fund equity of the Office of the Secretary of State for the fiscal year ended June 30, 2018, in conformity with the basis of accounting described in Note 1.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Total Expenditures & Transfers-Out for the each of the fiscal years ended June 30, 2018, and 2017, and the Schedule of Changes in Fund Equity and Schedule of Total Revenues & Transfers-In for the fiscal year ended June 30, 2017, presents fairly, in all material respects, the results of operations and changes in fund equity of the Office of the Secretary of State in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2019, on our consideration of the Office of Secretary of State'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 the office's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

April 10, 2019

SECRETARY OF STATE'S OFFICE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund
FUND EQUITY: July 1, 2017	$ 323,147	$ (56,267)	$ (479,278)
ADDITIONS			
Budgeted Revenues & Transfers-In	3,010,218		6,755,377
Nonbudgeted Revenues & Transfers-In	228		65,895
Prior Year Revenues & Transfers-In Adjustments	(49)		(538)
Direct Entries to Fund Equity		542,325	1,122,430
Total Additions	3,010,397	542,325	7,943,164
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	90,569	486,058	5,567,592
Nonbudgeted Expenditures & Transfers-Out			810,347
Total Reductions	90,569	486,058	6,377,939
FUND EQUITY: June 30, 2018	$ 3,242,975	$ 0	$ 1,085,947

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund
FUND EQUITY: July 1, 2016	$ 408,969	$ (2,845)	$ (52,833)
ADDITIONS			
Budgeted Revenues & Transfers-In	31,354		6,270,364
Nonbudgeted Revenues & Transfers-In	(16)		67,650
Prior Year Revenues & Transfers-In Adjustments			4,629
Direct Entries to Fund Equity		1,450,389	
Total Additions	31,339	1,450,389	6,342,643
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	117,161	1,503,812	6,561,475
Nonbudgeted Expenditures & Transfers-Out			205,777
Prior Year Expenditures & Transfers-Out Adjustments			1,836
Total Reductions	117,161	1,503,812	6,769,089
FUND EQUITY: June 30, 2017	$ 323,147	$ (56,267)	$ (479,278)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Federal Special Revenue Fund	Enterprise Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Charges for Services		$ 6,651,318	$ 6,651,318
Investment Earnings	$ 10,397	31,028	41,426
Sale of Documents, Merchandise and Property		64,639	64,639
Grants, Contracts, and Donations		65,650	65,650
Miscellaneous		8,098	8,098
Federal	3,000,000		3,000,000
Total Revenues & Transfers-In	3,010,397	6,820,734	9,831,131
Less: Nonbudgeted Revenues & Transfers-In	228	65,895	66,123
Prior Year Revenues & Transfers-In Adjustments	(49)	(538)	(587)
Actual Budgeted Revenues & Transfers-In	3,010,218	6,755,377	9,765,595
Estimated Revenues & Transfers-In	3,026,000	9,539,195	12,565,195
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (15,782)	$ (2,783,818)	$ (2,799,600)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Charges for Services		$ 257,373	$ 257,373
Investment Earnings	$ (15,782)	30,472	14,690
Sale of Documents, Merchandise and Property		(67,566)	(67,566)
Miscellaneous		(4,097)	(4,097)
Federal		(3,000,000)	(3,000,000)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (15,782)	$ (2,783,818)	$ (2,799,600)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Federal Special Revenue Fund	Enterprise Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Charges for Services		$ 6,169,596	$ 6,169,596
Investment Earnings	$ 2,629	16,911	19,540
Sale of Documents, Merchandise and Property		76,339	76,339
Grants, Contracts, and Donations		67,791	67,791
Miscellaneous		12,007	12,007
Federal	28,709		28,709
Total Revenues & Transfers-In	31,339	6,342,643	6,373,981
Less: Nonbudgeted Revenues & Transfers-In	(16)	67,650	67,634
Prior Year Revenues & Transfers-In Adjustments		4,629	4,629
Actual Budgeted Revenues & Transfers-In	31,354	6,270,364	6,301,718
Estimated Revenues & Transfers-In	15,700	6,239,317	6,255,017
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 15,654	$ 31,047	$ 46,701
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Charges for Services		$ 31,801	$ 31,801
Investment Earnings	$ 1,945	14,052	15,997
Sale of Documents, Merchandise and Property		(11,161)	(11,161)
Miscellaneous		(3,645)	(3,645)
Federal	13,709		13,709
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 15,654	$ 31,047	$ 46,701

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Business & Government Services	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	$ 2,509,264	$ 2,509,264
Employee Benefits	705,117	705,117
Personal Services-Other	(66,243)	(66,243)
Total	3,148,137	3,148,137
Operating Expenses		
Other Services	1,362,331	1,362,331
Supplies & Materials	132,618	132,618
Communications	129,936	129,936
Travel	45,062	45,062
Rent	242,424	242,424
Utilities	6,026	6,026
Repair & Maintenance	1,416	1,416
Other Expenses	259,179	259,179
Goods Purchased For Resale	498	498
Total	2,179,489	2,179,489
Equipment & Intangible Assets		
Equipment	(6,579)	(6,579)
Intangible Assets	476,080	476,080
Total	469,501	469,501
Transfers-out		
Fund transfers	410,427	410,427
Total	410,427	410,427
Post Employment Benefits		
Other Post Employment Benefits	13,238	13,238
Employer Pension Expense	733,774	733,774
Total	747,012	747,012
Total Expenditures & Transfers-Out	$ 6,954,566	$ 6,954,566
EXPENDITURES & TRANSFERS-OUT BY FUND		
Federal Special Revenue Fund	$ 90,569	$ 90,569
Capital Projects Fund	486,058	486,058
Enterprise Fund	6,377,939	6,377,939
Total Expenditures & Transfers-Out	6,954,566	6,954,566
Less: Nonbudgeted Expenditures & Transfers-Out	810,347	810,347
Prior Year Expenditures & Transfers-Out Adjustments		
Actual Budgeted Expenditures & Transfers-Out	6,144,219	6,144,219
Budget Authority	10,611,165	10,611,165
Unspent Budget Authority	$ 4,466,945	$ 4,466,945
UNSPENT BUDGET AUTHORITY BY FUND		
Federal Special Revenue Fund	$ 3,261,665	$ 3,261,665
Capital Projects Fund	497,370	497,370
Enterprise Fund	707,910	707,910
Unspent Budget Authority	$ 4,466,945	$ 4,466,945

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

SECRETARY OF STATE'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Business & Government Services	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	$ 3,185,222	$ 3,185,222
Employee Benefits	938,777	938,777
Personal Services-Other	(19,662)	(19,662)
Total	4,104,337	4,104,337
Operating Expenses		
Other Services	1,329,286	1,329,286
Supplies & Materials	232,579	232,579
Communications	333,609	333,609
Travel	69,769	69,769
Rent	252,413	252,413
Utilities	2,734	2,734
Repair & Maintenance	7,061	7,061
Other Expenses	144,778	144,778
Goods Purchased For Resale	10,560	10,560
Total	2,382,788	2,382,788
Equipment & Intangible Assets		
Intangible Assets	1,283,513	1,283,513
Total	1,283,513	1,283,513
Post Employment Benefits		
Other Post Employment Benefits	153,709	153,709
Employer Pension Expense	465,715	465,715
Total	619,424	619,424
Total Expenditures & Transfers-Out	$ 8,390,061	$ 8,390,061
EXPENDITURES & TRANSFERS-OUT BY FUND		
Federal Special Revenue Fund	$ 117,161	$ 117,161
Capital Projects Fund	1,503,812	1,503,812
Enterprise Fund	6,769,089	6,769,089
Total Expenditures & Transfers-Out	8,390,061	8,390,061
Less: Nonbudgeted Expenditures & Transfers-Out	205,777	205,777
Prior Year Expenditures & Transfers-Out Adjustments	1,836	1,836
Actual Budgeted Expenditures & Transfers-Out	8,182,448	8,182,448
Budget Authority	9,721,582	9,721,582
Unspent Budget Authority	$ 1,539,134	$ 1,539,134
UNSPENT BUDGET AUTHORITY BY FUND		
Federal Special Revenue Fund	$ 415,823	$ 415,823
Capital Projects Fund	983,428	983,428
Enterprise Fund	139,884	139,884
Unspent Budget Authority	$ 1,539,134	$ 1,539,134

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Office of the Secretary of State
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2018

1. Summary of Significant Accounting Policies

Basis of Accounting

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

The office uses full accrual basis of accounting for its Proprietary (Enterprise) fund category. Under the accrual basis, as defined by state accounting policy, the office records:

- Records revenues in the accounting period when realizable, measurable, and earned.
- Records expenses in the period incurred when measurable.

Expenditures may include: entire budgeted service contracts even though the office 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 office uses the following funds:

Governmental Fund Category

- **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Federal Special Revenue Fund includes activities related to the Help America Vote Act (HAVA) and HAVA Election Security funds.

- **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds. The office uses this fund for activities related to the development of the Secretary of State Information Management System (SIMS).

Proprietary Fund Category

- **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The Office of the Secretary of State provides elections administration, registration and document filing of Montana businesses, publication of administrative rules, records management of public documents generated by state and local governments, notary and certification services, and operational support for the office.

2. Direct Entries to Fund Equity

Direct entries to fund equity in the Capital Projects and Enterprise funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies or mandated by the GASB in conjunction with the implementation of a pronouncement.

In Fiscal Year 2017 and Fiscal Year 2018, the direct entries to fund equity in the Capital Projects fund were made at each fiscal year-end as part of the fiscal year-end cash closing process to reflect the flow of resources within individual funds shared by separate agencies.

In Fiscal Year 2018, direct entries to fund equity in the Enterprise fund were made by the Department of Administration to record GASB 68 employer amounts for the Public Employee Retirement System pension plan for nongovernmental fund types and OPEB liability resulting from the implementation of GASB Statement 75- Accounting and Financial Reporting for Postemployment Benefits implementation. The direct entries to fund equity resulted in a net increase to fund equity in the amount of $1,122,430.

3. Revenues Over (Under)

The Schedule of Total Revenues & Transfers-In for the fiscal year ended June 30, 2018 reports revenue under estimate by ($2,783,818) in the Enterprise fund.

When the Office of the Secretary of State received the grant award notification from the U.S. Election Assistance Commission in Fiscal Year 2018, the office requested that the State of Montana State Financial Services Division create a new federal fund to record the new grant monies. As a contingency, a revenue estimate was set up in the Office of the Secretary of State's proprietary fund so that the new grant funds could be drawn down if it occurred that the new grant fund was not created prior to the release of the funds. The new federal fund was created prior to the release of the grant funds so the proprietary revenue estimate was not utilized.

4. Unspent Budget Authority

The Schedule of Total Expenditures & Transfers-Out presents unspent budget authority for the Federal Special Revenue, Capital Projects, and Enterprise Funds.

The schedule presents unspent budget authority for the Federal Special Revenue fund in the amount of $415,823 for Fiscal Year 2017 and $3,261,665 for Fiscal Year 2018. On March 30, 2018, the U.S. Election Assistance Commission awarded the Montana Office of the Secretary of State $3,000,000 for the purpose of improving security and administration of elections for Federal office. During FY2018, this award remained unspent.

In the Capital Projects fund, there is a reported unspent budget authority in the amount of $983,428 for Fiscal Year 2017 and $497,370 for Fiscal Year 2018. The unspent authority relates to the implementation of a new Secretary of State Information Management System which will replace an aging and outdated legacy mainframe application that contains information on every registered business in Montana, and several smaller applications and databases that support office accounting and other filings. Unspent budget authority for capital projects in the beginning of a project is not unusual as projects typically span over multiple fiscal years. As a result, the unspent authority rolls forward to the next fiscal year.

For the Enterprise fund, the schedule presents unspent budget authority in the amount of $139,884 for Fiscal Year 2017 and $ 707,910 for Fiscal Year 2018. The unspent authority relates to a reduction in personnel services. Through modernizing and streamlining our systems and processes along with finding and implementing efficiencies and innovative solutions with intention of continuous improvement, the Office of the Secretary of State has been able to reduce 18 full-time equivalent positions.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance With *Government Auditing Standards*

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Office of the Secretary of State (office) for each of the fiscal years ended June 30, 2018, and 2017, and the related notes to the financial schedules, and have issued our report thereon dated April 10, 2019. Our report includes qualified opinions on the Schedule of Changes in Fund Equity and Schedule of Total Revenues & Transfers-In for the fiscal year ended June 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the Office of the Secretary of State's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the office's internal control. Accordingly, we do not express an opinion on the effectiveness of the office'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 the 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 have not been identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

- The Office of the Secretary of State's internal controls were not effective in ensuring transactions recorded on the primary accounting system were complete, accurate, and in accordance with state policy. See the finding and recommendation starting on page 5 for a description of this material weakness.
- The Office of the Secretary of State's internal controls were not effective in ensuring relationships within the office were identified and proper segregations of duties and/or supervision were implemented. See the finding and recommendation starting on page 8 for a description of this material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the office'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 on 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*.

The Office of the Secretary of State's Response to Findings

The Office of the Secretary of State's response to the findings identified in our audit is described on page C-1 of this report. The office's response was not subjected to the auditing procedures applied in the audit of the financial schedules and, accordingly, we express no opinion on it.

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

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

April 10, 2019

Office of the
Secretary of State

Office Response

COREY STAPLETON

SECRETARY OF STATE

STATE OF MONTANA

June 6, 2019

RECEIVED

JUN 0 6 2019

LEGISLATIVE AUDIT DIV.

Mr. Angus Maciver, Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, MT 59620-1705

Re: Response to Financial-Compliance Audit 18-19

Dear Mr. Maciver,

Thank you for the opportunity to respond to the Financial-Compliance audit report for the Office of the Secretary of State for the two fiscal years ending June 30, 2018. The three recommendations included in the audit report were reviewed with responses provided below.

Recommendation #1

We recommend the Office of the Secretary of State comply with state laws governing the use of state vehicles.

SOS Response: Partially concur

The Office agrees with the Legislative Audit Division that routine private-personal use of state vehicles is not permitted.

Legislative Audit Division has recommended the expansion of state agency-wide telework and encouraged state agencies to identify opportunities to utilize the value of telework and alternative worksites, including vehicles.

Successfully managing 'windshield time' requires skill and coordination of scheduling and teleconferencing. The Office of the Secretary of State is committed to efficiently serving and conducting regular outreach to the 220,000 businesses, 56 county election offices, and 700,000 registered voters in Montana. The most productive and efficient use of state resources for achieving these goals is the combination of outreach and telework. The agency sought and was granted permission from the Governor's budget director for a long-term Motor Pool vehicle lease to support agency missions.

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tel: (406) 444-2034 · fax: (406) 444-4249 · TTY: (406) 444-9068 · sos.mt.gov

Contemplated Plan for Corrective Action:
To ensure our commitment to be a leading agency in state government, the Office of the Secretary of State will add providing and explaining the state vehicle use rules as part of our employee onboarding process. Implementation will occur prior to July 1, 2019.

Recommendation #2
We recommend the Office of the Secretary of State enhance policies and procedures to ensure that financial records are complete, accurate, and in accordance with state policy.

SOS Response: Concur
The Office of the Secretary of State will revise its internal control plan to correct weaknesses identified in the audit. SOS will complete this review, implement the revisions, and train appropriate staff by July 1, 2019. In accordance with the Montana Operations Manual Policy 375-Fiscal Year End Procedures, Section F(iii), SABHRS Journal 0004062719 was posted to FY2018 to correct the misstatement.

Recommendation #3
We recommend the Office of the Secretary of State enhance internal controls to identify relationships within the office and ensure that proper segregations of duties are implemented.

SOS Response: Do Not Concur
The Office of the Secretary of State has key controls in place to ensure relationships within the office are identified and proper segregation of duties/supervision exist. These controls are enforced and continually reassessed to ensure they are sufficient to identify any related party affiliations/transactions and conflicts of interest. The office follows the guidance contained with the Montana Operations Manual Policy 399-Internal Controls and incorporates the five components of internal controls. Regarding the internal controls for segregation of duties, the following policies and procedures are in place.

Control Environment:
- The office's mission, organizational culture, and core beliefs are clearly defined and communicated to all staff. All employees are accountable for living it every day.
- The focus of weekly staff "touch base" meetings with management is to emphasize ongoing communication of policy and expectations for compliance.
- The office is committed to recruiting, developing, and retaining highly engaged staff.

Risk Assessment:
- Human Resources identifies to management any potential related party relationships and conflicts of interest when interviewing and hiring individuals for both employee and contractor positions.
- A compiled listing of a related party transactions is updated and reviewed on a quarterly basis at a minimum. The listing can be derived from various sources including payroll reports, the accounts payable ledger, etc.

Control Activities:

- The employee's supervisor and next level supervisor review and approve each employee's performance plan document. These are documented and saved in employee personnel files.
- The Chief Fiscal officer adds all task profile ID's to an employee's payroll record in SABHRS.

Information and Communication:

- Management uses performance plan assessments and mid-year reviews to hold individuals accountable for their duties including internal control responsibilities. Each SOS employee meets with their supervisor to set goals and review a performance planning document every calendar year.
- Any employee planned time off and coverage is discussed in weekly staff "touch base" meetings.
- Division budget/actual reports are generated by fiscal staff and distributed monthly to division directors for review.
- Division directors and executive staff are sensitive to potential risks and perform monthly reviews of these financial reports to detect problems.

Monitoring:

- Supervisors approve all employee timesheets and the Human Resource Assistant conducts an additional review on each employee timesheet during the two-week payroll cycle.
- The Chief Operations Officer also reviews the bi-weekly payroll report submitted to the Montana Department of Administration.
- The Chief of Staff and Chief Operations Officer complete a random sample each month to review employee timesheets for accuracy.
- The Chief of Staff and Chief Operations Officer receive excessive leave reports twice a year for review.
- Every month, the Chief Fiscal Officer also prepares a five-year forecasting report that is reviewed with the Chief of Staff and Chief Operating Officer.

Due to these key controls being in place and being continually reviewed and enforced, the Office of the Secretary of State does not believe a deficiency in internal controls exists.

Thank you to you and your staff for the professional work and interactions with our staff during this fiscal audit process and the willingness of the auditors to discuss recommendations and responses to our questions. The Office of the Secretary of State regards the audit process as an opportunity to improve the agency's operations and performance.

Sincerely,

COREY STAPLETON
Secretary of State