



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Office of the
Secretary of State*

*For the Two Fiscal Years Ended
June 30, 2020*

JUNE 2021

LEGISLATIVE AUDIT
DIVISION

20-19

FINANCIAL-COMPLIANCE AUDITS

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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 and many 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, 2019, was issued March 30, 2020. The Single Audit Report for the two fiscal years ended June 30, 2021, will be issued by March 31, 2022.

AUDIT STAFF

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

June 2021

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 fiscal years ended June 30, 2020, and 2019. This report includes the status of prior audit recommendations, Independent Auditor's Report, the office's financial schedules and notes, and our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters. We made no recommendations to the office based on our audit work.

We thank the Secretary of State and her staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

TABLE OF CONTENTS

Elected, Appointed, and Administrative Officials.....	ii
Report Summary	S-1
CHAPTER I – INTRODUCTION, BACKGROUND, AND PRIOR AUDIT	
RECOMMENDATIONS	1
Introduction	1
Background.....	1
Prior Audit Recommendations.....	2
State Vehicle.....	2
Federal Misstatements.....	3
Relationships Affecting Segregation of Duties	3
INDEPENDENT AUDITOR’S REPORT AND OFFICE FINANCIAL SCHEDULES	
Independent Auditor’s Report	A-1
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2020	A-4
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2019	A-5
Schedule of Total Revenues for the Fiscal Year Ended June 30, 2020	A-6
Schedule of Total Revenues for the Fiscal Year Ended June 30, 2019	A-7
Schedule of Total Expenditures for the Fiscal Year Ended June 30, 2020	A-8
Schedule of Total Expenditures for the Fiscal Year Ended June 30, 2019	A-9
Notes to the Financial Schedules	A-11
REPORT ON INTERNAL CONTROL AND COMPLIANCE	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance With <i>Government</i> <i>Auditing Standards</i>	B-1
OFFICE RESPONSE	
Office of the Secretary of State	C-1

ELECTED, APPOINTED, AND ADMINISTRATIVE OFFICIALS

Office of the Secretary of State Christi Jacobsen, Secretary of State (effective January 2021)
Corey Stapleton, Secretary of State (through December 2020)

Administrative Officials (effective January 2021)

Angela Nunn, Director of Operations
Sue Ames, Office Manager*
Dana Corson, Elections Director*
Kellee English, Business Services Director*
Julie Lake, Human Resources Director
Austin James, Chief Legal Counsel*
Angie McLaughlin, Policy Advisor
Richie Melby, Communications Director
Brandi Pierson, Chief Fiscal Officer*

* Continuing position, effective prior to January 2021

Previous Administrative Officials

Christi Jacobsen, Chief of Staff (through December 2020)
Julie Lake, Chief Operations Officer (through December 2020)
Kellee English, IT Director (through February 2020)
Joe DeFilippis, Business Services/Records & Information Management Director
(through August 2020)
Ray Dagnall, Records & Information Management/Administrative Rules
Manager (through March 2021)
Will Selph, Land Board & Policy Advisor (through September 2020)

For additional information concerning the Office of the Secretary of State,
contact:

Angela Nunn
Director of Operations
Office of the Secretary of State
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MONTANA LEGISLATIVE AUDIT DIVISION

Office of the Secretary of State

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2020



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. These include administration of elections, filing administrative rules, and registration of articles of incorporation. In addition, the Secretary of State serves as a member of the Board of Land Commissioners and the Board of Examiners.

The office's main funding source is fees, which are recorded as charges for services revenue in the Enterprise Fund. The office also had federal and capital projects funding during the audit period.

Secretary of State:
Christi Jacobsen

The Office of the Secretary of State (office) was awarded \$6.1 million in federal funding from the 2020 Help America Vote Act Elections Security Grant and 2020 Help America Vote Act Coronavirus Aid, Relief and Economic Security Act Grant during fiscal year 2020. The office fully implemented two of the prior audit recommendations, the remaining recommendation was no longer relevant. In addition, the office finalized the development of the Secretary of State Information Management System, a project funded by the legislature.

AUDITOR'S OPINION (page A-1): UNMODIFIED

We found the office's financial schedules present fairly the activity of the office in all material respects and issued unmodified opinions on the regulatory basis of accounting under which the financial schedules are presented. This means a reader can rely on the information presented and the underlying financial records.

For the full context of the office's financial activity, see the financial schedules and notes beginning on page A-4.

RECOMMENDATIONS:

In this report, we issued the following recommendations:

To the office: 0

To the legislature: 0

In this report, we determined the implementation status of recommendations in the prior audit:

Fully Implemented: 2

Partially Implemented: 0

Not Implemented: 0

No Longer Relevant: 1

SUMMARY OF AUDIT WORK:

During the audit we focused our audit efforts on the office's activity related to charges for services revenue, federal revenue, contracted expenditures, construction work in progress for the office's computer systems, and grants to counties. We audited this activity through sampling and analytical procedures, as well as testing the office's significant internal controls. In addition, we completed testing over a variety of selected state and federal laws and policies.

For the full report or more information, contact the Legislative Audit Division.

leg.mt.gov/lad

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REPORT ON INTERNAL CONTROL AND COMPLIANCE

(page B-1):

In this report, we identified the following:
Material Weaknesses in Internal Control: 0
Significant Deficiencies in Internal Control: 0
Material Non-Compliance: 0
Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

Chapter I – Introduction, Background, and Prior Audit Recommendations

Introduction

We performed a financial-compliance audit of the Office of the Secretary of State (office) for the two fiscal years ended June 30, 2020. 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, 2020, and 2019.
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 applicable state and federal laws and regulations.
4. Determine the implementation status of prior audit recommendations.

During the audit we focused our audit efforts on the office's activity related to charges for services revenue, federal revenue, contracted expenditures, construction work in progress for the office's computer systems, and grants to counties. We audited this activity through sampling and analytical procedures, as well as testing the office's significant internal controls. In addition, we completed testing over a variety of selected state and federal laws and policies.

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. These include administration of elections, filing administrative rules, and registration of articles of incorporation. In addition, the Secretary of State serves as a member of the Board of Land Commissioners and the Board of Examiners.

The office's main funding source is fees, which are recorded as charges for services revenue in the Enterprise Fund. The office also had federal and capital projects funding during the audit period. The following is additional information about the federal and capital projects funding.

In recent years, the office received various federal funding related to elections. This additional funding placed additional responsibilities on the office, and the office is

working through changing office processes in order to ensure these responsibilities are met. As of June 30, 2020, the office spent a portion of these funds, but also has remaining funds available for use in future years. Outlined below is a summary of the funds received and spent, by federal award, as of June 30, 2020.

- ◆ 2018 Help America Vote Act Elections Security Grant - The office was awarded \$3 million in funds during fiscal year 2018. The purpose of the award is to help automate the election process and increase security over the voting process. As of June 30, 2020, the office spent approximately \$1 million of these funds. The office is authorized to spend these funds through September 30, 2024.
- ◆ 2020 Help America Vote Act Elections Security Grant - The office was awarded \$3.1 million in funds during fiscal year 2020. The purpose of the award is to help automate the election process and increase security over the voting process. As of June 30, 2020, the office spent approximately \$962,000 of these funds. The office is authorized to spend these funds through September 30, 2024.
- ◆ 2020 Help America Vote Act Coronavirus Aid, Relief and Economic Security Act Grant - The office was also awarded \$3 million in funds during fiscal year 2020. The purpose of the award is for expenditures related to coronavirus for the 2020 Federal election cycle. As of June 30, 2020, the office did not spend any of these funds. The office was authorized to spend these funds through December 31, 2020.

Capital projects funding provided via Chapter 383, Laws of 2013 (House Bill 10) for Phase 2 of the Secretary of State Information Management System was exhausted during the fiscal year ended June 30, 2019. The office had implemented the system in August of 2016 and continued development until June 30, 2019. As of December 2020, the system is no longer utilized by the office. Instead, the office implemented the Secretary of State Enterprise registry system in December of 2020. The Secretary of State Enterprise registry system was funded by the Enterprise Fund.

Prior Audit Recommendations

The prior financial-compliance audit report contained three recommendations related to use of a state vehicle, internal controls related to federal misstatements, and relationships affecting segregation of duties. We performed work during the current audit to determine the status of the implementation. Below are summaries of the status of the prior audit recommendations.

State Vehicle

The finding focused on the use of a state vehicle. After notifying the office of their noncompliance with §2-17-425, MCA, the office canceled the lease, effective April 1, 2019, and returned the vehicle to the motor pool. The office did not lease any other

vehicles from motor pool during the audit period. With no additional vehicle leases to review, the recommendation is no longer relevant.

Federal Misstatements

The finding focused on federal misstatements related to revenue estimates and unearned revenue. As discussed in Note 1 on page A-11, the financial schedule format was adopted by the Legislative Audit Committee. On June 16, 2020, the Committee approved a change in format to remove the presentation of revenue estimates from the Schedule of Total Revenues. The recommendation is no longer relevant for revenue estimates. Unearned revenue continues to be of importance to the office as two new grants were received during fiscal year 2020. The office correctly recognized the federal funds received, but not yet earned, as unearned revenue. The office implemented a process to review grant funds at fiscal year-end and record unearned revenue in accordance with state accounting policy. The office has fully implemented the recommendation regarding unearned revenue.

Relationships Affecting Segregation of Duties

The finding focused on office management's failure to disclose relationships within the office and office controls not ensuring there was a segregation of duties and/or supervision between relatives. While the office did not concur with the recommendation during the last audit, the office has since implemented a procedure for staff to complete conflict of interest disclosure forms annually and during their first week of employment.

Independent Auditor's Report and Office Financial Schedules

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

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, and Schedules of Total Expenditures for each of the fiscal years ended June 30, 2020, and 2019, for the Office of the Secretary of State, 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

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, 2020, and June 30, 2019, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the financial schedules referred to above, presents fairly, in all material respects, the results of operations and changes in fund equity of the Office of the Secretary of State for each of the fiscal years ended June 30, 2020, and 2019, in conformity with the basis of accounting described in Note 1.

Emphasis of Matter

As discussed in Note 1, the financial schedule format was adopted by the Legislative Audit Committee. On June 16, 2020, the Committee approved a change in format to remove the presentation of revenue estimates from the Schedule of Total Revenues. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2021, on our consideration of the Office of the 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

March 22, 2021

SECRETARY OF STATE'S OFFICE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Federal Special Revenue Fund	Enterprise Fund
FUND EQUITY: July 1, 2019	\$ <u>185,293</u>	\$ <u>2,678,709</u>
ADDITIONS		
Budgeted Revenues	1,458,039	7,390,758
Nonbudgeted Revenues	3,212	2,034
Prior Year Revenues Adjustments	(393)	1,912
Direct Entries to Fund Equity		260,628
Total Additions	<u>1,460,857</u>	<u>7,655,332</u>
REDUCTIONS		
Budgeted Expenditures	1,749,395	6,670,105
Nonbudgeted Expenditures		(942,145)
Prior Year Expenditures Adjustments		786
Total Reductions	<u>1,749,395</u>	<u>5,728,746</u>
FUND EQUITY: June 30, 2020	\$ <u>(103,245)</u>	\$ <u>4,605,295</u>

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, 2019

	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund
FUND EQUITY: July 1, 2018	\$ <u>3,242,975</u>	\$ <u>0</u>	\$ <u>1,085,947</u>
ADDITIONS			
Budgeted Revenues	460,328		7,138,985
Nonbudgeted Revenues	393		588
Prior Year Revenues Adjustments	(3,000,228)		2,255
Direct Entries to Fund Equity		<u>497,370</u>	<u>(23,615)</u>
Total Additions	<u>(2,539,507)</u>	<u>497,370</u>	<u>7,118,212</u>
REDUCTIONS			
Budgeted Expenditures	518,174	497,370	6,486,511
Nonbudgeted Expenditures			(961,235)
Prior Year Expenditures Adjustments			<u>175</u>
Total Reductions	<u>518,174</u>	<u>497,370</u>	<u>5,525,450</u>
FUND EQUITY: June 30, 2019	\$ <u><u>185,293</u></u>	\$ <u><u>0</u></u>	\$ <u><u>2,678,709</u></u>

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
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	<u>Federal Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Total</u>
TOTAL REVENUES BY CLASS			
Charges for Services		\$ 6,901,036	\$ 6,901,036
Investment Earnings	\$ 55,211	58,631	113,842
Sale of Documents, Merchandise and Property		70,605	70,605
Federal Indirect Cost Recoveries		224,973	224,973
Miscellaneous		139,459	139,459
Federal	<u>1,405,646</u>		<u>1,405,646</u>
Total Revenues	<u>1,460,857</u>	<u>7,394,704</u>	<u>8,855,562</u>
Less: Nonbudgeted Revenues	3,212	2,034	5,245
Prior Year Revenues Adjustments	<u>(393)</u>	<u>1,912</u>	<u>1,520</u>
Actual Budgeted Revenues	<u><u>1,458,039</u></u>	<u><u>7,390,758</u></u>	<u><u>8,848,797</u></u>

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
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>Federal Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Total</u>
TOTAL REVENUES BY CLASS			
Charges for Services		\$ 7,001,795	\$ 7,001,795
Investment Earnings	\$ 73,493	77,264	150,757
Sale of Documents, Merchandise and Property		69,850	69,850
Miscellaneous		(7,082)	(7,082)
Federal	<u>(2,613,000)</u>		<u>(2,613,000)</u>
Total Revenues	<u>(2,539,507)</u>	<u>7,141,827</u>	<u>4,602,320</u>
Less: Nonbudgeted Revenues	393	588	980
Prior Year Revenues Adjustments	<u>(3,000,228)</u>	<u>2,255</u>	<u>(2,997,973)</u>
Actual Budgeted Revenues	<u>\$ 460,328</u>	<u>\$ 7,138,985</u>	<u>\$ 7,599,313</u>

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
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

PROGRAM (ORG) EXPENDITURES	Business & Government Services	Total
Personal Services		
Salaries	\$ 2,281,126	\$ 2,281,126
Employee Benefits	676,737	676,737
Personal Services-Other	66,783	66,783
Total	<u>3,024,646</u>	<u>3,024,646</u>
Operating Expenses		
Other Services	1,166,782	1,166,782
Supplies & Materials	116,060	116,060
Communications	72,880	72,880
Travel	33,792	33,792
Rent	84,215	84,215
Utilities	1,353	1,353
Repair & Maintenance	195,945	195,945
Other Expenses	956,927	956,927
Total	<u>2,627,954</u>	<u>2,627,954</u>
Equipment & Intangible Assets		
Intangible Assets	459,000	459,000
Total	<u>459,000</u>	<u>459,000</u>
Grants		
From Federal Sources	1,347,246	1,347,246
Total	<u>1,347,246</u>	<u>1,347,246</u>
Debt Service		
Capital Leases	165	165
Total	<u>165</u>	<u>165</u>
Post Employment Benefits		
Other Post Employment Benefits	6,954	6,954
Employer Pension Expense	12,176	12,176
Total	<u>19,131</u>	<u>19,131</u>
Total Expenditures	<u>\$ 7,478,141</u>	<u>\$ 7,478,141</u>
EXPENDITURES BY FUND		
Federal Special Revenue Fund	\$ 1,749,395	\$ 1,749,395
Enterprise Fund	5,728,746	5,728,746
Total Expenditures	<u>7,478,141</u>	<u>7,478,141</u>
Less: Nonbudgeted Expenditures	(942,145)	(942,145)
Prior Year Expenditures Adjustments	786	786
Actual Budgeted Expenditures	<u>8,419,501</u>	<u>8,419,501</u>
Budget Authority	17,359,110	17,359,110
Unspent Budget Authority	<u>\$ 8,939,609</u>	<u>\$ 8,939,609</u>
UNSPENT BUDGET AUTHORITY BY FUND		
Federal Special Revenue Fund	\$ 7,121,995	\$ 7,121,995
Enterprise Fund	1,817,615	1,817,615
Unspent Budget Authority	<u>\$ 8,939,609</u>	<u>\$ 8,939,609</u>

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
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Business & Government Services	Total
PROGRAM (ORG) EXPENDITURES		
Personal Services		
Salaries	\$ 2,286,565	\$ 2,286,565
Employee Benefits	696,723	696,723
Personal Services-Other	3,578	3,578
Total	2,986,866	2,986,866
Operating Expenses		
Other Services	1,832,831	1,832,831
Supplies & Materials	102,252	102,252
Communications	109,083	109,083
Travel	42,486	42,486
Rent	224,082	224,082
Utilities	5,125	5,125
Repair & Maintenance	995	995
Other Expenses	220,578	220,578
Total	2,537,432	2,537,432
Equipment & Intangible Assets		
Equipment	6,579	6,579
Intangible Assets	780,255	780,255
Total	786,834	786,834
Post Employment Benefits		
Other Post Employment Benefits	10,612	10,612
Employer Pension Expense	219,250	219,250
Total	229,862	229,862
Total Expenditures	\$ 6,540,994	\$ 6,540,994
EXPENDITURES BY FUND		
Federal Special Revenue Fund	\$ 518,174	\$ 518,174
Capital Projects Fund	497,370	497,370
Enterprise Fund	5,525,450	5,525,450
Total Expenditures	6,540,994	6,540,994
Less: Nonbudgeted Expenditures	(961,235)	(961,235)
Prior Year Expenditures Adjustments	175	175
Actual Budgeted Expenditures	7,502,055	7,502,055
Budget Authority	11,645,189	11,645,189
Unspent Budget Authority	\$ 4,143,134	\$ 4,143,134
UNSPENT BUDGET AUTHORITY BY FUND		
Federal Special Revenue Fund	\$ 2,743,412	\$ 2,743,412
Enterprise Fund	1,399,722	1,399,722
Unspent Budget Authority	\$ 4,143,134	\$ 4,143,134

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.

Montana Office of the Secretary of State

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2020

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:

- ◆ revenues in the accounting period when realizable, measurable, and earned.
- ◆ 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. 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 inflow and outflows of resources, liabilities, and cash flows.

The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

On June 16, 2020, Legislative Audit Committee approved changes to the Regulatory Basis Special Purpose Framework for Agency Financial Schedules. The Committee voted to exclude revenue estimate activity from the Total Revenues and Transfers-In

effective for the 2020 audit cycle. As a result of this change, the Office of the Secretary of State's Fiscal Year 2019 and 2020 Schedule of Total Revenues do not report revenue estimate information.

The office uses the following funds:

Governmental Fund Category

- ♦ **Federal Special Revenue Fund** – to account for activities funded by federal revenue received from the U.S. Election Assistance Commission.
- ♦ **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 and publication of administrative rules, ensures the proper management and safeguarding of public records, notary, and certification services, and provides operational support for the office.

2. Direct Entries to Fund Equity

In Fiscal Year 2019, the direct entry to fund equity in the Capital Projects fund was made at 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 Years 2019 and 2020, direct entries to fund equity in the Enterprise fund were made by the Department of Administration to record employer amounts for the Public Employee Retirement System pension plan for nongovernmental fund types and Other Post-Employment Benefits (OPEB) liability. The direct entries to fund equity resulted in a net decrease of (\$23,615) in Fiscal Year 2019 and net increase to fund equity in the amount of \$260,628 in Fiscal Year 2020.

3. Revenues Over (Under)

In Fiscal Year 2018, the Office of the Secretary of State was awarded the HAVA Election Security Grant but did not expend any of the funds received during the fiscal year. In Fiscal Year 2019, an entry was made to record the portion of the federal grant received in advance of any anticipated expenditures as unearned revenue for the Fiscal Year 2018. As a result, for the Fiscal Year Ended June 30, 2019, the Schedule of Total Revenues includes a Prior Year Revenue Adjustment of (\$3,000,228) in the Federal Special Revenue Fund.

4. Unspent Budget Authority

The Schedule of Total Expenditures presents unspent budget authority for the Federal Special Revenue and Enterprise Funds.

The schedule presents unspent budget authority for the Federal Special Revenue fund in the amount of \$2,743,412 for Fiscal Year 2019 and \$7,121,995 for Fiscal Year 2020. The Federal Special Revenue unspent budget authority is comprised almost entirely from recent grant awards that have only been partially spent during Fiscal Years 2019 and 2020. In Fiscal Year 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. At the end of Fiscal Year 2020, \$1,930,964 of the award remained unspent. In Fiscal Year 2020, the U.S. Election Assistance Commission awarded the Montana Office of the Secretary of State an additional \$3,127,978 for the purpose of improving security and administration of elections for Federal office. At the end of Fiscal Year 2020, \$2,165,796 of the award remained unspent. In Fiscal Year 2020, the U.S. Election Assistance Commission also awarded the Montana Office of the Secretary of State \$3,000,000 under the Coronavirus Aid, Relief and Economic Security (CARES) Act to prevent, prepare for, and respond to coronavirus, domestically or internationally, for the 2020 Federal election cycle. During Fiscal Year 2020, this award remained unspent.

For the Enterprise fund, the schedule presents unspent budget authority in the amount of \$1,399,722 for Fiscal Year 2019 and \$1,817,615 for Fiscal Year 2020. The unspent authority is the result of the development and implementation of a new software system and personal services savings. The Office of the Secretary of State is developing and implementing a new Enterprise System which will replace an aging and outdated legacy mainframe application and several smaller applications and databases that support office accounting and filings. In the beginning of project development, it is not unusual to have unspent budget authority as projects typically span over multiple fiscal years. The Enterprise fund unspent authority also relates to a reduction in personal

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

B-1

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

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, and Schedules of Expenditures for each the fiscal years ended June 30, 2020, and 2019, of the Office of the Secretary of State (office), and the related notes to the financial schedules, and have issued our report thereon dated March 22, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the office'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 attention by those charged with governance.

Our consideration of internal controls 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 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*.

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

March 22, 2021

OFFICE OF THE
SECRETARY OF STATE

OFFICE RESPONSE



June 9, 2021

RECEIVED
JUN 11 2021
LEGISLATIVE AUDIT DIV.

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

Re: Response to Financial-Compliance Audit FY19 – FY20

Dear Mr. Maciver,

The Office of the Secretary of State is in receipt of the final report of the Financial-Compliance Audit for the two fiscal years ended June 30, 2020. The Legislative Audit staff's knowledge, professionalism and dedication to a thorough review is greatly appreciated. The audit work is invaluable.

The Office of the Secretary of State accomplished the goal set forth of a report with no recommendations. The Office will continue to evaluate and improve operations.

We look forward to working with you and your team in future audits.

Sincerely,

Christi Jacobsen
Montana Secretary of State