A Report
to the
Montana
Legislature

Financial-Compliance Audit

Office of the Governor and Lieutenant Governor

For the Two Fiscal Years Ended June 30, 2008

October 2008

Legislative Audit Division

08-23

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel

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James Gillett
Angie Grove

October 2008

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Office of the Governor and Lieutenant Governor (office) for the two fiscal years ended June 30, 2008. Our report contains four recommendations to the office to improve the office's compliance with state law and accounting policy. This report also contains disclosure issues related to goods and services provided by other state agencies for the benefit of the Governor's Office and the Interagency Committee for Change By Women. The office's response to each recommendation is contained at the end of the report, beginning on page B-3.

We thank the Governor, Lieutenant Governor, and their staffs for their assistance and cooperation throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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Elected, Appointed, and Administrative Officials

Office of the Governor and Lieutenant Governor

Governor	Brian Schweitzer
Lieutenant Governor	John Bohlinger
Chief of Staff	Bruce Nelson
Centralized Services Administrator	Mary Jo Murray

For additional information concerning the Office of the Governor and Lieutenant Governor contact:

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Report Summary

Governor's Office

This report contains the results of our financial-compliance audit of the Office of the Governor and Lieutenant Governor (office) for the two fiscal years ended June 30, 2008. We issued an unqualified opinion on the fiscal year 2007-08 financial schedules, a qualified opinion on the fiscal year 2006-07 Schedule of Revenues & Transfers-In, and an unqualified opinion on the other fiscal year 2006-07 financial schedules contained in this report. The reader should use caution in relying on the information presented in the fiscal year 2006-07 Schedule of Revenues & Transfers-In, as well as the supporting data on the state's accounting system. The reader can rely on the information presented in the fiscal year 2007-08 financial schedules and in the fiscal year 2006-07 Schedule of Changes in Fund Balance and Schedule of Expenditures & Transfers-Out, as well as, the supporting data on the state's accounting system.

This report contains four recommendations to the office related to compliance with state law and state accounting policy. The prior report for the two fiscal years ended June 30, 2006, contained three recommendations to the office. The office implemented two and partially implemented one.

This report also contains disclosure issues related to goods and services provided by other state agencies for benefit of the Governor's Office and the Interagency Committee for Change by Women.

The listing below serves as a means of summarizing the recommendations contained in the report, the office's response thereto, and a reference to the supporting comments.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Office of the Governor and Lieutenant Governor (office) for the two fiscal years ended June 30, 2008. The objectives of the audit were to:

1. Determine whether the office complied with selected state and federal laws and regulations.
2. Obtain an understanding of the office's control systems to the extent necessary to support an audit of the office's financial schedules and, if appropriate, make recommendations for improvement in management and the internal controls of the office.
3. Determine the status of prior audit recommendations.
4. Determine whether the office's financial schedules present fairly the results of operations for each of the two fiscal years ended June 30, 2008.

In accordance with section 5-13-307, MCA, we analyzed the cost to implement the recommendations and believe the costs are not significant to the office.

Auditing standards require us to communicate, in writing, control deficiencies we identified as a result of audit objective #2 above and considered to be significant or material. A control deficiency exists when the design or operation of a control does not allow management or employees to prevent or detect misstatements on a timely basis. A significant deficiency is one or more control deficiencies that affects managements ability to accurately process transactions. A material weakness is one or more significant deficiencies that adversely affect management's ability to fairly present its financial schedules.

Table 1 below summarizes the status of significant deficiencies and material weaknesses we identified during our audit.

Table 1
Summary of Internal Control Deficiencies

Subject	Significant Deficiency	Material Weakness	Page
Account Coding Errors	Yes	No	6

Areas of concern, if any, regarding compliance with laws and regulations and state accounting policy deemed not to have a significant effect on the successful operations of the office's programs are not specifically included in this report, but have been discussed with management.

Background

The office was created upon acceptance of Montana into the Union in 1889 and is provided for in Article VI of the Constitution of the State of Montana. The office had 63 full-time equivalent (FTE) positions in fiscal year 2007-08. Of those positions, there are 13 statutorily exempt positions and 19 personal staff exempt positions. These positions are exempt from the provisions of the state classification law. The following paragraphs discuss the various programs administered by the office.

Executive Office (23.07 FTE) - provides administrative, legal, and press support for the office. The executive office oversees and directs the activities of executive branch agencies. In addition, the executive office administers the Office of Economic Development.

Lieutenant Governor (3.94 FTE) - performs duties prescribed by law and those delegated by the Governor.

Centralized Services (4.00 FTE) - provides centralized services support for the office.

Office of Budget and Program Planning (20.34 FTE) - assists the governor in planning, preparing, and administering the state budget; develops and evaluates alternative program plans for providing state government services; and, acts as the lead executive branch agency for compliance with the federal Single Audit Act.

Citizens' Advocate Office (1.50 FTE) - provides accessibility to state government for Montana citizens by providing information to citizens and acting as a referral service to state agencies.

Mental Disabilities Board of Visitors (5.00 FTE) - protects the rights of the mentally ill and the developmentally disabled. The Mental Health Ombudsman is also accounted for in this program.

Governor's Residence Operations (1.65 FTE) - maintains the governor's official residence.

Air Transportation (1.50 FTE) - provides transportation for the governor and the governor's staff. The governor's aircraft is available to other state agencies for a fee. Fee revenues are used for aircraft operations and maintenance costs.

Coordinator of Indian Affairs (2.00 FTE) - serves as the governor's liaison with the state Indian tribes, provides information and policy support on issues confronting Indians of Montana, and advises and makes recommendations to the legislative and executive branches on these issues. In addition, the State Tribal Economic Development Commission, which was administratively attached to the governor's office during fiscal year 2006-07, has responsibilities for assisting, promoting, encouraging, developing, and advancing economic prosperity and employment on Indian reservations in Montana. The Commission was transferred to the Department of Commerce in fiscal year 2007-08.

Prior Audit Recommendations

The prior audit report for the two fiscal years ended June 30, 2006, contained three recommendations to the office. The office implemented two and partially implemented one of the recommendations. The recommendation partially implemented relates to Citizens' Advocate Activity. In our prior audit report we recommended the office budget and record Citizens' Advocate activity related to the Department of Public Health and Human Services programs in the state special revenue fund, in accordance with state law and record Citizens' Advocate activity to the proper accounts, in accordance with state accounting policy.

Due to the biennial budget process, the fiscal year 2006-07 budgets had already been completed by the time our recommendation was made. As a result, the office did not implement our recommendation until fiscal year 2007-08. Citizens' Advocate activity was properly budgeted and recorded on the state's accounting system for fiscal year 2007-08 so we make no further recommendation to the office in this report.

Chapter II –Findings and Recommendations

Vacation Leave Payout

The office did not comply with state law related to the accumulation, use and payment of vacation leave.

Section 2-18-617, MCA, limits the accumulation of employees vacation leave to twice the amount an employee earns in a calendar year. Leave accumulated above these amounts is considered "excess" and must be used by the employee within the first 90 days of each calendar year. If the employee requests and management denies the use of excess leave during the 90-day period, forfeiture may be delayed until the end of the calendar year. In no case does the law allow for excess leave to be held past the end of the calendar year and subsequently paid out.

In fiscal year 2007-08, the office credited an employee's vacation leave balance for 278.56 excess hours that had previously been forfeited and subsequently paid the employee for these hours at termination. The employee was compensated $12,931 more than allowed by state law.

The office consulted with the Department of Labor and Industry's Chief Legal Counsel who authorized the restoration of 278.56 forfeited leave hours. State law allows vacation leave balances to be used, paid at termination or forfeited if the leave is not taken as required by law. The office should ensure any excess leave is forfeited as required by state law.

Recommendation #1

We recommend the office comply with state law related to forfeiture of vacation leave.

Compensatory Leave Balances

The office did not comply with administrative rule related to the use of exempt compensatory leave.

Administrative rule limits the amount of exempt compensatory time an employee can use to extend their termination date up to a maximum of 120 hours, with agency approval.

In fiscal year 2007-08, the Governor's Office allowed a terminating employee to extend his termination date by using 217 compensatory hours, 97 more than allowed by administrative rule. By extending his termination date, the employee was compensated $3,110 more than allowed by administrative rule. Office staff agreed to extend his termination date, but the employee was to be on-call, helping out his replacement during this time. The employee did not have a set work schedule and did not charge any of his work time, but instead used up his compensatory leave balance. The office should ensure termination dates are extended up to a maximum of 120 hours, as required by administrative rule.

Recommendation #2

We recommend the office comply with administrative rule related to compensatory leave used to extend termination dates.

Account Coding Errors

During our audit of the office, we tested revenue and expenditure transactions to determine whether amounts recorded on the state's accounting system were reasonable. The following section documents instances where revenue and expenditure amounts were not recorded correctly on the state's accounting system. We found these errors were the result of significant internal control deficiencies because controls were not designed to prevent or detect misstatements related to proper account coding. When the office selected the account classifications to use to record these activities they did not adequately consider state accounting policy or how the accounts rolled up on the state's accounting records.

Donations Revenue

State accounting policy requires all property, money, or other noncapitalized assets given, bequeathed, escheated, or abandoned to the state, except from federal sources, to be recorded as grants, contracts, and donations class of revenue. In fiscal year 2006-07, the office received donations from outside parties and recorded the revenues in the miscellaneous revenue class. State policy requires donations to be recorded as grants, contracts, and donations revenue. The miscellaneous revenue classification is for revenue that cannot be recorded in other, more specific categories.

Office personnel stated they were in a hurry to deposit the donations so did not consider how the revenue account rolled up on the accounting records when selecting which account to use to record these revenues. As a result, the Grants, Contracts, Donations, and Abandonments revenue on the Schedule of Revenues & Transfers-In is understated by $7,871 in the State Special Revenue Fund and Miscellaneous revenue is overstated by the same amount in fiscal year 2006-07.

Other Expenses

State accounting policy requires expenditures not more specifically classified in other categories to be recorded as "other" expenses. The office purchased marketing or promotional items to use as gifts at trade shows and recorded the same type of expenditures as supplies and materials and others as "other" expenses. State accounting policy defines the supplies and materials expenditure class as consumable commodities purchased for inventory or immediate consumption. It includes articles and commodities that are consumed or materially altered when used. The principle types of supplies include operating supplies, office supplies and small tools.

The office did not take into consideration how the expenditure account rolled up on the accounting records when selecting which account to use to record these expenditures. As a result, Supplies and Materials Operating Expenses are overstated by $4,116 on the Schedule of Expenditures & Transfers-Out and Other Expenses are understated by the same amount in fiscal year 2006-07.

Summary

These two accounting errors may have been prevented or detected by office staff if monitoring and testing procedures for established internal controls had been in place.

State accounting policy outlines management's responsibility for establishing and maintaining agency internal controls to safeguard and account for the resources entrusted to them to carry out government programs. State policy requires agencies to implement internal control procedures, to ensure all transactions necessary for compliance with generally accepted accounting principles are recorded in the Statewide Accounting, Budgeting and Human Resources System (SABHRS) before fiscal year-end. To assist agencies with the implementation process, the Department of Administration issued an Internal Control Guidebook. The guide includes an internal control evaluation and monitoring plan, which recommends agencies monitor and test its controls and evaluate and report the results of its testing.

The office has developed internal control procedures and is currently putting procedures on an intranet site so all employee's have access to them. Once the procedures are available to all personnel, the office plans to train all affected employees prior to implementing procedures to monitor and test internal controls so they can evaluate and report the results.

Recommendation #3

We recommend the office:

A. Establish internal control procedures to prevent or detect misstatements related to proper account coding.

B. Complete its implementation of internal control procedures by monitoring and testing its internal controls.

Compliance With State Travel Law and Policy

The office did not comply with state law and policy when reimbursing employees for foreign travel.

Section 2-18-501(4), MCA, states all elected officials, appointed members of boards, commissions, councils, and department directors, and all other state employees must be reimbursed for the cost of meals and lodging within the rates established by the Department of Administration (DOA) when traveling in the normal course of their duties to designated areas. The law requires the department to use the United States Department of State maximum travel per diem allowances for foreign areas in establishing the rates. State policy established by the DOA references to federal schedules by area. However, the office did not use the rates by area in all cases. In some cases, they used rates included in another set of rules allowed by the United States Department of State, which are not included in state policy and in the DOA referenced materials.

In fiscal years 2007-08 and 2006-07 the office paid $434 more in per diem and $1,600 more in lodging for foreign travel than allowed by state law and policy. In some cases, office staff stated travel arrangements had been made by the University of Montana World Trade Center and not by their office so employee's stayed at the hotel where the conference was held. In other cases, the office paid rates allowed for the closest area. However, the federal schedule includes a rate for other areas when the specific area is not listed and state policy does not grant exceptions to this schedule. The office should work with the DOA when reimbursing employees for travel rates not included in state policy.

Recommendation #4

We recommend the office work with the Department of Administration when paying foreign travel to ensure they comply with state law and policy.

Chapter III – Disclosure Issues

Goods and Services Provided by Other State Agencies for the Benefit of the Governor's Office

Personal Services

During our audit, we requested a list of goods and services provided by other state agencies for the benefit of the office. Office staff indicated they do not maintain records on services provided by other agencies, but were able to recall receiving various loaned employees, dating back to 1973. The loaned employees included: lawyers, administrative assistants, public information officers, a policy advisor, and an energy advisor. The salaries and benefits of these loaned employees were not paid by the Governor's Office, but by other state agencies. These loaned employees worked anywhere from one day to several years on loan to the office. Many of the employees were loaned to the office to provide assistance during busy times. Other employees were loaned because officials believed the position was best placed at the office, even though another state agency received funding for the position.

The Department of Administration has guidelines for loaned employees. The guidelines recommend the receiving agency or division have a vacant position and a written agreement should be in place between the employee and the agencies involved. In addition, the guidelines state during the period of the loan, the receiving agency is responsible for all salary and benefits. During our audit period, the office did not follow these guidelines for loaned employees.

Office staff stated they do not use the guidelines since they are not state policy and the other agencies should be responsible for the employee's salary and benefits. We believe the office should be paying the employees salaries and benefits when the employee works solely for the benefit of the office. None of the salaries and benefits for loaned employees are included on the office's Schedules of Expenditures & Transfers-Out, but are reflected on the financial records of the agencies that paid the salaries and benefits.

Equipment

In fiscal year 2005-06, the Department of Revenue (DOR) and Department of Transportation (DOT) each agreed to purchase computer equipment for the office. The office follows a four-year rotation for computer replacement. In fiscal year 2005-06, the Office of Budget and Program Planning computers were scheduled to be replaced, but the amount budgeted for the equipment replacement was not sufficient to meet the cost of the computer equipment needed. The total value of the computer equipment purchased by DOR and DOT for the office was $19,441. These expenditures were not included on the office's Schedule of Expenditures & Transfers-Out, but reflected on the DOR and DOT schedules. Office staff stated this was the result of the Tax Policy and Research (TPR) function moving from the DOR to the office. TPR needed specialized computer equipment that the office did not have.

Interagency Committee for Change by Women (ICCW)

ICCW's financial activities are not recorded on the state's accounting system. The ICCW receives funds from sponsors that are used to provide awards and refreshments at awards ceremonies. Most of the time, ICCW is able to cover their costs, but occasionally has funds left over. If they do not receive adequate contributions to cover costs, its personal services expenses and even some of its operating costs (i.e., paper or photo copies) are covered by state agencies. The ICCW currently has approximately $2,000 in its savings and checking accounts.

The ICCW is not a legally separate entity from the state of Montana and its relationship with the state of Montana would indicate the committee depends on the primary government:

- Its membership is comprised of representatives from state government, appointed by state agency directors.
- Its Chair is appointed by the Governor.
- Its existence is provided for through executive order.
- Its purpose is to propose changes to state government consistent with the goals of the executive order.

The Governmental Accounting Standards Board (GASB) requires all funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of a primary government. In addition, it states a special-purpose government (or any other organization) that is not legally separate should be considered, for financial reporting purposes, part of the primary government that holds the corporate powers. Section 17-1-102, MCA, requires all state agencies to input all necessary transactions to the accounting system before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles.

The ICCW was created by executive order. The executive order does not specifically classify the ICCW as an advisory council or attach the ICCW to an agency for administrative purposes. Office staff are not sure where the ICCW would be administratively attached since the order does not say, but do not believe it should be attached to the office. Because the order is not clear, we do not know whether the ICCW financial activities should be recorded at the state's accounting system. The executive order should be clear as to whether the committee is part of the state.

Summary

We disclose these two issues for the information of the legislature and as a result, we make no recommendation at this time.

Independent Auditor's Report and Office Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel

Deputy Legislative Auditors
James Gillett
Angie Grove

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Office of the Governor and Lieutenant Governor for each of the fiscal years ended June 30, 2008, and 2007. The information contained in these financial schedules is the responsibility of the office's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the office's assets and liabilities.

The office accounted for certain Citizens' Advocate revenues and expenditures in the Federal Special Revenue Fund rather than the State Special Revenue Fund in fiscal year 2006-07. The office also misclassified the revenue on the state's accounting system. As a result, Federal revenue in the Federal Special Revenue Fund is overstated and Charges for Services revenue in the State Special Revenue Fund is understated by $7,702 on the Schedule of Revenues & Transfers-In for fiscal year 2006-07.

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In our opinion, except for the effects of the matter discussed in the preceding paragraph, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Office of the Governor and Lieutenant Governor for each of the fiscal years ended June 30, 2008, and 2007, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

August 19, 2008

GOVERNOR'S OFFICE
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund
FUND BALANCE: July 1, 2007	$ (520,904)	$ 414,384	$ 4,059
ADDITIONS			
Budgeted Revenues & Transfers-In	351	187,255	
Nonbudgeted Revenues & Transfers-In	733		
Direct Entries to Fund Balance	5,988,820	(327,172)	(4,059)
Total Additions	5,989,904	(139,917)	(4,059)
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	6,032,089	149,364	
Prior Year Expenditures & Transfers-Out Adjustments	2,495		
Total Reductions	6,034,584	149,364	0
FUND BALANCE: June 30, 2008	$ (565,584)	$ 125,103	$ 0

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.

GOVERNOR'S OFFICE
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund
FUND BALANCE: July 1, 2006	$ (506,103)	$ 701,115	$ 17,557
ADDITIONS			
Budgeted Revenues & Transfers-In	12	114,117	7,703
Nonbudgeted Revenues & Transfers-In	706	7,946	
Prior Year Revenues & Transfers-In Adjustments		6,212	
Direct Entries to Fund Balance	5,642,129	(160,440)	
Total Additions	5,642,847	(32,165)	7,703
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	5,678,472	248,633	21,201
Nonbudgeted Expenditures & Transfers-Out	112	7,871	
Prior Year Expenditures & Transfers-Out Adjustments	(20,936)	(1,938)	
Total Reductions	5,657,648	254,566	21,201
FUND BALANCE: June 30, 2007	$ (520,904)	$ 414,384	$ 4,059

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.

GOVERNOR'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	State Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Taxes	$ 733		$ 733
Charges for Services		$ 21,556	21,556
Miscellaneous	351		351
Grants, Contracts, Donations and Abandonments		165,699	165,699
Total Revenues & Transfers-In	1,084	187,255	188,339
Less: Nonbudgeted Revenues & Transfers-In	733		733
Prior Year Revenues & Transfers-In Adjustments			0
Actual Budgeted Revenues & Transfers-In	351	187,255	187,606
Estimated Revenues & Transfers-In	4,207	155,299	159,506
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (3,856)	$ 31,956	$ 28,100
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Taxes	$ (1,207)		$ (1,207)
Charges for Services		$ (8,244)	(8,244)
Miscellaneous	(2,649)		(2,649)
Grants, Contracts, Donations and Abandonments		40,200	40,200
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (3,856)	$ 31,956	$ 28,100

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.

GOVERNOR'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Taxes	$ 706			$ 706
Charges for Services		$ 3,425		3,425
Investment Earnings		3,776		3,776
Miscellaneous	12	7,946		7,958
Grants, Contracts, Donations and Abandonments		113,128		113,128
Federal			$ 7,703	7,703
Total Revenues & Transfers-In	718	128,275	7,703	136,696
Less: Nonbudgeted Revenues & Transfers-In	706	7,946		8,652
Prior Year Revenues & Transfers-In Adjustments		6,212		6,212
Actual Budgeted Revenues & Transfers-In	12	114,117	7,703	121,832
Estimated Revenues & Transfers-In	3,062	185,812	20,000	208,874
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (3,050)	$ (71,695)	$ (12,297)	$ (87,042)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Taxes	$ (567)			$ (567)
Charges for Services		$ (16,575)		(16,575)
Investment Earnings		276		276
Miscellaneous	(2,483)			(2,483)
Grants, Contracts, Donations and Abandonments		(55,396)		(55,396)
Federal			$ (12,297)	(12,297)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (3,050)	$ (71,695)	$ (12,297)	$ (87,042)

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.

GOVERNOR'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	AIR TRANSPORTATION PROGRAM	CENTRALIZED SERVICES PROGRAM	CITIZENS' ADVOCATE OFFICE	COORDINATOR OF INDIAN AFFAIRS	EXECUTIVE RESIDENCE OPERATIONS	EXECUTIVE OFFICE PROGRAM	LIEUTENANT GOVERNOR'S OFFICE	MENTAL DISABILITIES OF BOARD VISITORS	OFFICE OF BUDGET & PROGRAM PLANNING	TOTAL
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT										
Personal Services										
Salaries	$ 80,875	$ 201,253	$ 63,127	$ 133,084	$ 41,726	$ 1,364,561	$ 227,565	$ 227,984	$ 1,204,746	$ 3,544,921
Employee Benefits	36,715	64,913	25,764	35,507	21,397	386,570	68,264	81,719	335,062	1,055,911
Total	117,590	266,166	88,891	168,591	63,123	1,751,131	295,829	309,703	1,539,808	4,600,832
Operating Expenses										
Other Services	10,795	34,964	3,036	433	6,129	536,866	8,496	24,969	57,836	683,524
Supplies & Materials	77,238	22,442	44	2,842	43,788	25,281	680	6,858	13,902	193,075
Communications	917	4,409	7,870	3,289	1,417	82,066	4,728	7,003	12,605	124,304
Travel	11,394	61		3,940		83,770	16,134	22,354	6,882	144,535
Rent				4,778		94,058	14,485	4,617	53,006	170,944
Repair & Maintenance	59,392			513	4,166	12,872	884	2,214	4,940	84,981
Other Expenses	304	1,141	42	2,032	2,020	124,533	3,810	3,146	40,315	177,343
Total	160,040	63,017	10,992	17,827	57,520	959,446	49,217	71,161	189,486	1,578,706
Transfers										
Accounting Entity Transfers				4,410						4,410
Total				4,410						4,410
Total Expenditures & Transfers-Out	$ 277,630	$ 329,183	$ 99,883	$ 190,828	$ 120,643	$ 2,710,577	$ 345,046	$ 380,864	$ 1,729,294	$ 6,183,948
EXPENDITURES & TRANSFERS-OUT BY FUND										
General Fund	$ 277,630	$ 329,183	$ 78,883	$ 190,828	$ 120,643	$ 2,664,028	$ 345,046	$ 380,864	$ 1,647,479	$ 6,034,584
State Special Revenue Fund			21,000			46,549			81,815	149,364
Total Expenditures & Transfers-Out	277,630	329,183	99,883	190,828	120,643	2,710,577	345,046	380,864	1,729,294	6,183,948
Less: Nonbudgeted Expenditures & Transfers-Out										
Prior Year Expenditures & Transfers-Out Adjustments	3,535	10		23	77	(1,581)	45	326	60	2,495
Actual Budgeted Expenditures & Transfers-Out	274,095	329,173	99,883	190,805	120,566	2,712,158	345,001	380,538	1,729,234	6,181,453
Budget Authority	290,835	339,392	100,197	192,266	124,094	2,779,699	345,790	381,046	7,141,745	11,695,064
Unspent Budget Authority	$ 16,740	$ 10,219	$ 314	$ 1,461	$ 3,528	$ 67,541	$ 789	$ 508	$ 5,412,511	$ 5,513,611
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund	$ 9,940	$ 10,219	$ 314	$ 1,461	$ 3,528	$ 39,091	$ 789	$ 508	$ 2,407,838	$ 2,473,688
State Special Revenue Fund	6,800					28,450			2,404,673	2,439,923
Federal Special Revenue Fund									500,000	500,000
Internal Service Fund									100,000	100,000
Unspent Budget Authority	$ 16,740	$ 10,219	$ 314	$ 1,461	$ 3,528	$ 67,541	$ 789	$ 508	$ 5,412,511	$ 5,513,611

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.

GOVERNOR'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	AIR TRANSPORTATION PROGRAM	CENTRALIZED SERVICES PROGRAM	CITIZENS' ADVOCATE OFFICE	COORDINATOR OF INDIAN AFFAIRS	EXECUTIVE RESIDENCE OPERATIONS	EXECUTIVE OFFICE PROGRAM	LIEUTENANT GOVERNOR'S OFFICE	MENTAL DISABILITIES OF BOARD VISITORS	OFFICE OF BUDGET & PROGRAM PLANNING	TOTAL
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT										
Personal Services										
Salaries	$ 76,616	$ 124,184	$ 63,246	$ 130,909	$ 42,602	$ 1,286,277	$ 213,034	$ 195,861	$ 1,029,448	$ 3,162,177
Employee Benefits	24,093	37,449	23,223	41,173	19,742	336,686	60,776	67,934	285,470	896,546
Total	100,709	161,633	86,469	172,082	62,344	1,622,963	273,810	263,795	1,314,918	4,058,723
Operating Expenses										
Other Services	11,032	7,370	2,831	43,532	3,644	753,557	9,476	24,124	53,883	909,449
Supplies & Materials	79,396	23,209	22	6,163	34,681	44,362	2,348	6,364	12,008	208,553
Communications	1,318	5,413	8,498	4,983	1,022	90,010	5,778	6,540	18,918	142,480
Travel	10,726	114		11,837	154	125,061	15,972	21,155	4,224	189,243
Rent	7,320			3,912		76,945	11,813	3,868	42,960	146,818
Repair & Maintenance	77,902			453	9,180	7,694	727	2,154	3,667	101,777
Other Expenses	919	2,593		5,709	2,081	125,948	2,070	2,346	34,706	176,372
Total	188,613	38,699	11,351	76,589	50,762	1,223,577	48,184	66,551	170,366	1,874,692
Total Expenditures & Transfers-Out	$ 289,322	$ 200,332	$ 97,820	$ 248,671	$ 113,106	$ 2,846,540	$ 321,994	$ 330,346	$ 1,485,284	$ 5,933,415
EXPENDITURES & TRANSFERS-OUT BY FUND										
General Fund	$ 289,322	$ 200,332	$ 76,619	$ 156,103	$ 113,106	$ 2,791,590	$ 321,994	$ 330,346	$ 1,378,236	$ 5,657,648
State Special Revenue Fund				92,568		54,950			107,048	254,566
Federal Special Revenue Fund			21,201							21,201
Total Expenditures & Transfers-Out	289,322	200,332	97,820	248,671	113,106	2,846,540	321,994	330,346	1,485,284	5,933,415
Less: Nonbudgeted Expenditures & Transfers-Out						7,871		113		7,984
Prior Year Expenditures & Transfers-Out Adjustments	(3,083)	395		498	137	(21,063)	1	162	78	(22,875)
Actual Budgeted Expenditures & Transfers-Out	292,405	199,937	97,820	248,173	112,969	2,859,732	321,993	330,071	1,485,206	5,948,306
Budget Authority	319,228	224,598	98,081	2,256,694	122,194	2,979,403	322,286	337,051	3,472,640	10,132,175
Unspent Budget Authority	$ 26,823	$ 24,661	$ 261	$ 2,008,521	$ 9,225	$ 119,671	$ 293	$ 6,980	$ 1,987,434	$ 4,183,869
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund	$ 6,823	$ 24,661	$ 260	$ 8,325	$ 9,225	$ 46,708	$ 293	$ 6,980	$ 728,433	$ 831,708
State Special Revenue Fund	20,000			196		72,963			681,311	774,470
Federal Special Revenue Fund			1	2,000,000					477,690	2,477,691
Internal Service Fund									100,000	100,000
Unspent Budget Authority	$ 26,823	$ 24,661	$ 261	$ 2,008,521	$ 9,225	$ 119,671	$ 293	$ 6,980	$ 1,987,434	$ 4,183,869

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 Governor and Lieutenant Governor
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2008

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 (General, State Special Revenue, and Federal Special Revenue). 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 department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the office to record the cost of employees' annual and sick leave when used or paid.

Expenditures and expenses may include: entire budgeted service contracts even though the 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 is in accordance with the policy of 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

- **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. The office's State Special Revenue funds primarily include the Environmental Resource Indemnity Trust and the State Tribal Economic Development.
- **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. The office's Federal Special Revenue funds include Citizens' Advocate activities.

2. General Fund Balance (negative balances)

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The office has authority to pay obligations from the statewide General Fund within its appropriation limits. The office expends cash or other assets from the statewide fund when it pays General Fund obligations. The office's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2007 and June 30, 2008.

3. Direct Entries to Fund Balance

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

4. Citizens' Advocate Office Activity

The office bills the Department of Public Health and Human Services based on the volume of calls received for the Temporary Assistance for Needy Families, Food Stamps, and Medicaid programs. In fiscal year 2006-07, the office recorded federal revenue in the federal special revenue fund. In accordance with state law and state accounting policy, this activity should be accounted for as charges for services revenue and expenditures in the state special revenue fund.

5. State Tribal Economic Development Commission

The State Tribal Economic Development Commission conducts assessments of the economic needs and priorities of each reservation and provides recommendations for accelerating economic development on these reservations. Senate Bill 173 enacted by the 2007 Legislature transferred the commission from the office to the Department of Commerce effective July 1, 2007.

6. Unspent Budget Authority

The significant unspent budget amounts on the Schedules of Total Expenditures & Transfers-Out relate to the following programs:

- **Office of Budget and Program Planning** – fiscal year 2007-08 amounts relate to the personal services contingency authorized by House Bill 447 enacted by the 59th Legislature. The fiscal year 2006-07 amounts relate to the personal services contingency authorized by House Bill 13 enacted by the 60th Legislature. This authority is transferred to other state agencies as needed for personal services authority.
- **Coordinator of Indian Affairs** – the $2 million in Federal Special Revenue Fund authority was appropriated by House Bill 18 enacted by the 59th Legislature in fiscal years 2006-07. The authority is provided for federal awards, in the event the program applies for and receives a federal grant award.

7. Personal Services Expenditures

The personal services expenditures included on the Schedules of Expenditures & Transfers-Out for each of the fiscal years ended June 30, 2008 and 2007 do not include the salaries and benefits of employees loaned to the office by other state agencies. We estimated salaries and benefits of employees loaned to be approximately $58,425 and $53,293 in fiscal years 2007-08 and 2006-07, respectively.

Office of the Governor and Lieutenant Governor

Office Response

Office of the Governor
State of Montana

Brian Schweitzer
Governor

John Bohlinger
Lt. Governor

October 2, 2008

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OCT 2 2008
LEGISLATIVE AUDIT DIV.

Ms. Tori Hunthausen, Legislative Auditor
Legislative Audit Division
P.O. Box 201705
Helena, MT 59602-1705

Dear Ms. Hunthausen:

The following are the responses to the recommendations contained in the audit of the Montana Office of the Governor and Lieutenant Governor for the two fiscal years ending June 30, 2008.

Recommendation #1: We recommend the office comply with state law related to forfeiture of vacation leave.

Response: Concur.

Recommendation #2: We recommend the office comply with administrative rule related to compensatory leave used to extend termination dates.

Response: Concur.

Recommendation #3: We recommend the office:

A. Establish internal control procedures to prevent or detect misstatements related to proper account coding:
B. Complete its implementation of internal control procedures by monitoring and testing its internal control.

Response:

A. Concur. New internal controls procedures have been developed and are in the process of implementation. We do not believe, however, that even the best implemented internal control procedures, which are designed primarily to prevent fraud, waste and abuse, can be effective in preventing minor account code errors, especially in small agencies.

B. Concur. We anticipate the implementation and training of staff on internal controls will be complete by December, 2008.

State Capitol • P.O. Box 200801 • Helena, Montana 59620-0801
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Recommendation #4: We recommend the office work with the Department of Administration when paying foreign travel to ensure they comply with state law and policy.

> Response: Concur. The Department of Administration is drafting legislation to allow properly justified exceptions to be granted to the federal out of country rate lists as is currently allowed to lodging caps for in-state and out of state/in-country travel. We request that the Audit Committee consider supporting this legislation.

Thank you.

Sincerely,

Bruce Nelson

Bruce Nelson
Chief of Staff.