



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

## *State Auditor's Office*

*For the Two Fiscal Years Ended  
June 30, 2018*

MARCH 2019

LEGISLATIVE AUDIT  
DIVISION

18-20

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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

March 2019

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the State Auditor's Office for the two fiscal years ended June 30, 2018. During the audit, we focused our audit effort primarily on insurance and security revenues, including premium insurance tax, licenses, permits and fees. We also audited the related expenditures activity including payments of local assistance in support of Firefighters' Unified Retirement System, the Volunteer Firefighters' Pension trust fund, and Municipal Police Officers' Retirement System administered by Montana Public Employees' Retirement Administration. Our report contains no recommendations to the office.

The office's written response is included in the audit report on page C-1. We thank the Commissioner 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

**State Auditor's Office** Matthew M. Rosendale, Sr., State Auditor – Commissioner of Securities & Insurance  
Kristin Hansen, Deputy State Auditor/Chief Legal Counsel  
Lynne Egan, Deputy Securities Commissioner  
Bob Biskupiak, Deputy Insurance Commissioner  
Staci Litschauer, Central Services Administrator

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# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL-COMPLIANCE AUDIT

### State Auditor's Office

For the Two Fiscal Years Ended June 30, 2018

MARCH 2019

18-20

REPORT SUMMARY

The Office of the Montana State Auditor protects Montana's consumers by ensuring fairness, transparency, and access for Montanans in the securities and insurance industries. Companies in these industries paid license and permit fees to the office totaling approximately \$23 million in both fiscal years. In fiscal year 2018, the office also collected \$106 million and \$105 million in Taxes from these same companies. Approximately 65 percent of the total revenues are deposited in the General Fund annually.

### Context

The Mission of the State's Auditor's Office (office) is to protect Montana's consumers through insurance and securities regulation. The elected Montana State Auditor serves as the Commissioner of Securities and Insurance.

The office is organized into three divisions: Central Management, Insurance, and Securities. The Insurance Division investigates insurance code and rule violations, collects taxes, resolves complaints, issues insurance licenses, reviews insurance rates, and provides continuing education. The Securities Division is responsible for the administration and enforcement of the Securities Act of Montana. This includes registration of securities issuers, sales people, investment advisers, broker-dealers, and investment adviser representatives, and conducting investigations.

Total revenues collected by the office were approximately \$137 million and \$138 million in fiscal years 2018 and 2017, respectively. Primary revenue sources include insurance premium tax and securities and insurance licenses, permits, and fees. Approximately 65 percent or more of the total revenues are deposited into the General Fund annually.

Total annual expenditures approximate \$50 million. Primary office expenditures include local assistance, which represents state contributions to firefighters and police retirement systems.

We focused our audit effort primarily on insurance and securities revenues, including premium insurance tax, licenses, permits and fees. We also audited the related expenditures activity including payments of local assistance in support of the Firefighters' Unified Retirement System, the Volunteer Firefighters' Compensation Act, and the Municipal Police Officers' Retirement System administered by the Montana Public Employees' Retirement Administration. Throughout the audit, we reviewed and tested the office's control systems and determined compliance with selected state laws and regulations.

### Results

The current report contains no recommendations. The prior report also contained no recommendations.

For a complete copy of the report (18-20) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE  
Call toll-free 1-800-222-4446, or e-mail [lad@mt.gov](mailto:lad@mt.gov).





# Chapter I – Introduction

## **Introduction**

We performed a financial-compliance audit of the State Auditor’s Office (office) for the two fiscal years ended June 30, 2018. The objectives of the audit were:

1. To obtain an understanding of the office’s control structure to the extent necessary to support the audit of its financial schedules and, where necessary, make recommendations for improvement in the office’s management and internal controls.
2. To determine the office’s compliance with selected state laws and regulations during the two fiscal years ending June 30, 2018.
3. To determine whether the office’s financial schedules present fairly the results of operations and changes in fund equity and property held in trust for each of the fiscal years ended June 30, 2018, and June 30, 2017.

We addressed these objectives by focusing our audit effort primarily on insurance and securities revenues, including premium insurance tax, licenses, permits, and fees. We also audited the related expenditures activity including payments of local assistance in support of the Firefighters’ Unified Retirement System, the Volunteer Firefighters’ Compensation Act, and the Municipal Police Officers’ Retirement System administered by the Montana Public Employees’ Retirement Administration. Throughout the audit, we reviewed and tested the office’s control systems and determined compliance with selected state laws and regulations. The report contains no recommendations.

## **Office Background and Organization**

The State Auditor is the Commissioner of Insurance and Securities. The State Auditor also serves as a member of the State Land Board and the Crop Hail Insurance Board. The office licenses and regulates insurance companies and agents within the state, and regulates and registers securities dealers.

The following divisions or activities that are presented on the Schedules of Expenditures & Transfers-Out are explained below. Total authorized full-time equivalent (FTE) staff for the programs and activities was 83.12 during the audit period, which includes 2.00 FTE modified positions that are not included in the Insurance Division counts. The office had 71 positions filled at fiscal year-end 2018.

**Central Management Division:** (18 FTE) This division is responsible for the administrative, budgeting, personnel, and accounting functions of the office. The division also provides support for the State Auditor as he fulfills his duties on the State

Land Board and the Crop Hail Insurance Board. At fiscal year-end 2018, the division had 14 positions filled.

**Insurance Division:** (53.50 FTE) This division regulates the insurance industry in Montana. Its duties include: resolving insurance consumer inquiries and complaints about agents, coverage, and companies; licensing and reviewing the rates and financial condition of insurance companies; collecting the insurance premium tax; approving forms used by insurance companies; licensing, testing, and administering a continuing education program for insurance agents; and investigating insurance code and rule violations. At fiscal year-end 2018, the division had 46 positions filled.

**Local Assistance to Counties:** The office is responsible for distributing General Fund moneys to the Montana Public Employees' Retirement Administration for the Firefighters' Unified Retirement System, the Volunteer Firefighters' Compensation Act, and the Municipal Police Officers' Retirement System. The Local Assistance to Counties Program has no approved FTE and is primarily administered through the FTE of the Central Management program.

**Securities Division:** (11.62 FTE) This division is responsible for the administration and enforcement of the Securities Act of Montana. The division is responsible for the registration of securities issuers, salespeople, investment advisers, broker-dealers, and investment adviser representatives. It also investigates instances of unregistered or fraudulent securities transactions. At fiscal year-end 2018, the division had 11 positions filled.

# **Independent Auditor's Report and Office 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 & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the State Auditor's 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

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 inflows of resources, and liabilities.

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.

*Unmodified Opinions on Regulatory Basis of Accounting*

In our opinion, the Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, presents fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the State Auditor's Office for each of the fiscal years ended June 30, 2018, and 2017, 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 January 23, 2019, on our consideration of the State Auditor's Office'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

January 23, 2019

STATE AUDITOR'S OFFICE  
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	State Special Revenue Fund	Agency Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2017	\$ <u>(30,728,238)</u>	\$ <u>2,331,921</u>	\$ <u>0</u>	\$ <u>11,860,139</u>
PROPERTY HELD IN TRUST: July 1, 2017			\$ <u>27,510</u>	
<b>ADDITIONS</b>				
Budgeted Revenues & Transfers-In	83,121,011	47,228,489		
Nonbudgeted Revenues & Transfers-In	6,813,694	22,166		(115,444)
Prior Year Revenues & Transfers-In Adjustments	(830)	(63,662)		
Direct Entries to Fund Equity	(60,732,728)	(33,209,468)		
Additions to Property Held in Trust			15,000	
Total Additions	<u>29,201,146</u>	<u>13,977,525</u>	<u>15,000</u>	<u>(115,444)</u>
<b>REDUCTIONS</b>				
Budgeted Expenditures & Transfers-Out	34,832,184	7,781,341		
Nonbudgeted Expenditures & Transfers-Out	7,747	7,353,750		597,999
Prior Year Expenditures & Transfers-Out Adjustments	24,358	24,964		
Reductions in Property Held in Trust			22,500	
Total Reductions	<u>34,864,289</u>	<u>15,160,055</u>	<u>22,500</u>	<u>597,999</u>
FUND EQUITY: June 30, 2018	\$ <u>(36,391,381)</u>	\$ <u>1,149,391</u>	\$ <u>0</u>	\$ <u>11,146,696</u>
PROPERTY HELD IN TRUST: June 30, 2018			\$ <u>20,010</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-9.

STATE AUDITOR'S OFFICE  
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund	State Special Revenue Fund	Agency Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2016	\$ (30,461,076)	\$ 2,756,401	\$ 0	\$ 11,427,398
PROPERTY HELD IN TRUST: July 1, 2016			\$ 20,010	
<b>ADDITIONS</b>				
Budgeted Revenues & Transfers-In	83,093,828	46,621,628		
Nonbudgeted Revenues & Transfers-In	7,058,850	474,286		597,741
Prior Year Revenues & Transfers-In Adjustments	(166,343)	(70,759)		
Direct Entries to Fund Equity	(59,200,549)	(32,060,763)		
Additions to Property Held in Trust			7,500	
Total Additions	<u>30,785,786</u>	<u>14,964,392</u>	<u>7,500</u>	<u>597,741</u>
<b>REDUCTIONS</b>				
Budgeted Expenditures & Transfers-Out	31,045,875	7,984,592		
Nonbudgeted Expenditures & Transfers-Out	140	7,474,072		165,000
Prior Year Expenditures & Transfers-Out Adjustments	6,933	(69,792)		
Total Reductions	<u>31,052,948</u>	<u>15,388,872</u>	<u>0</u>	<u>165,000</u>
FUND EQUITY: June 30, 2017	\$ (30,728,238)	\$ 2,331,921	\$ 0	\$ 11,860,139
PROPERTY HELD IN TRUST: June 30, 2017			<u>27,510</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-9.



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

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Private Purpose Trust Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>					
Licenses and Permits	\$ 7,716,900	\$ 15,740,973			\$ 23,457,873
Taxes	75,239,223	31,017,381			106,256,604
Charges for Services	2,948	147,984			150,932
Fines and Forfeits	161,109				161,109
Grants, Contracts, and Donations		21,900		\$ (115,444)	\$ (93,544)
Transfers-in	6,813,694				6,813,694
Intra-entity Revenue		203,300			203,300
Miscellaneous		55,455			55,455
Total Revenues & Transfers-In	<u>89,933,875</u>	<u>47,186,993</u>	<u>0</u>	<u>(115,444)</u>	<u>137,005,423</u>
Less: Nonbudgeted Revenues & Transfers-In	6,813,694	22,166		(115,444)	6,720,416
Prior Year Revenues & Transfers-In Adjustments	(830)	(63,662)			(64,493)
Actual Budgeted Revenues & Transfers-In	<u>83,121,011</u>	<u>47,228,489</u>	<u>0</u>	<u>0</u>	<u>130,349,500</u>
Estimated Revenues & Transfers-In	90,580,011	47,587,273	4,000		138,171,284
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (7,459,000)</u>	<u>\$ (358,784)</u>	<u>\$ (4,000)</u>	<u>\$ 0</u>	<u>\$ (7,821,784)</u>
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>					
Licenses and Permits	\$ 1	\$ (0)			\$ 1
Taxes	0	(0)			0
Charges for Services	0	9,364			9,365
Fines and Forfeits	(1)				(1)
Transfers-in	(7,459,000)				(7,463,000)
Intra-entity Revenue		60,322	(4,000)		60,322
Miscellaneous	(1)	(428,470)			(428,471)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (7,459,000)</u>	<u>\$ (358,784)</u>	<u>\$ (4,000)</u>	<u>\$ 0</u>	<u>\$ (7,821,784)</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-9.

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

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Private Purpose Trust Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>					
Licenses and Permits	\$ 7,362,006	\$ 15,666,350			\$ 23,028,356
Taxes	75,356,549	30,426,030			105,782,579
Charges for Services	6,448	198,573			205,021
Fines and Forfeits	202,481				202,481
Grants, Contracts, and Donations		82,618		597,741	680,359
Transfers-in	7,058,850	391,592			7,450,443
Intra-entity Revenue		233,163			233,163
Miscellaneous		26,830			26,830
Total Revenues & Transfers-In	89,986,335	47,025,155	0	597,741	137,609,231
Less: Nonbudgeted Revenues & Transfers-In	7,058,850	474,286		597,741	8,130,877
Prior Year Revenues & Transfers-In Adjustments	(166,343)	(70,759)			(237,102)
Actual Budgeted Revenues & Transfers-In	83,093,828	46,621,628	0	0	129,715,456
Estimated Revenues & Transfers-In	89,305,829	46,618,930	700		135,925,459
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (6,212,001)	\$ 2,698	\$ (700)	\$ 0	\$ (6,210,003)
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>					
Licenses and Permits	\$ (1)	\$ (10)			\$ (11)
Taxes	0	44			45
Charges for Services	0	(466)			(466)
Fines and Forfeits	0				0
Transfers-in	(6,212,000)		(700)		(6,212,700)
Intra-entity Revenue		1			1
Miscellaneous	(1)	3,129			3,128
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (6,212,001)	\$ 2,698	\$ (700)	\$ 0	\$ (6,210,003)

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-9.

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

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Central Management	Insurance	Local Assistance to Counties	Securities	Total
Personal Services					
Salaries	\$ 937,613	\$ 2,868,909		\$ 681,692	\$ 4,488,214
Employee Benefits	309,825	969,724		218,747	1,498,296
Total	<u>1,247,438</u>	<u>3,838,633</u>		<u>900,439</u>	<u>5,986,511</u>
Operating Expenses					
Other Services	78,065	355,879		54,397	488,341
Supplies & Materials	133,164	10,617		4,838	148,618
Communications	80,315	33,829		8,382	122,526
Travel	18,917	62,145		21,697	102,759
Rent	115,623	345,895		76,579	538,096
Repair & Maintenance	16,807				16,807
Other Expenses	71,383	61,168		17,483	150,033
Total	<u>514,274</u>	<u>869,532</u>		<u>183,376</u>	<u>1,567,181</u>
Equipment & Intangible Assets					
Equipment	9,725				9,725
Total	<u>9,725</u>				<u>9,725</u>
Local Assistance					
From other sources			\$ 34,856,542		34,856,542
Total			<u>34,856,542</u>		<u>34,856,542</u>
Benefits & Claims					
From State Sources				259,866	259,866
From Other Sources		597,999			597,999
Total		<u>597,999</u>		<u>259,866</u>	<u>857,865</u>
Transfers-out					
Fund transfers		454,408		6,890,111	7,344,519
Total		<u>454,408</u>		<u>6,890,111</u>	<u>7,344,519</u>
Total Expenditures & Transfers-Out	\$ <u>1,771,437</u>	\$ <u>5,760,572</u>	\$ <u>34,856,542</u>	\$ <u>8,233,792</u>	\$ <u>50,622,343</u>
<b>EXPENDITURES &amp; TRANSFERS-OUT BY FUND</b>					
General Fund		\$ 7,747	\$ 34,856,542		\$ 34,864,289
State Special Revenue Fund	\$ 1,771,437	5,154,826		\$ 8,233,792	15,160,055
Private Purpose Trust Fund		597,999			597,999
Total Expenditures & Transfers-Out	<u>1,771,437</u>	<u>5,760,572</u>	<u>34,856,542</u>	<u>8,233,792</u>	<u>50,622,343</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(2,326)	1,053,869		6,907,952	7,959,495
Prior Year Expenditures & Transfers-Out Adjustments	1,588	23,329	24,358	47	49,322
Actual Budgeted Expenditures & Transfers-Out	<u>1,772,175</u>	<u>4,683,373</u>	<u>34,832,184</u>	<u>1,325,793</u>	<u>42,613,525</u>
Budget Authority	<u>2,307,323</u>	<u>5,753,354</u>	<u>34,933,536</u>	<u>1,538,342</u>	<u>44,532,555</u>
Unspent Budget Authority	\$ <u>535,148</u>	\$ <u>1,069,981</u>	\$ <u>101,352</u>	\$ <u>212,549</u>	\$ <u>1,919,030</u>
<b>UNSPENT BUDGET AUTHORITY BY FUND</b>					
General Fund			\$ 101,352		\$ 101,352
State Special Revenue Fund	\$ 535,148	\$ 1,069,981		\$ 212,549	\$ 1,817,678
Unspent Budget Authority	<u>\$ 535,148</u>	<u>\$ 1,069,981</u>	<u>\$ 101,352</u>	<u>\$ 212,549</u>	<u>\$ 1,919,030</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-9.

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

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Central Management	Insurance	Local Assistance to Counties	Securities	Total
Personal Services					
Salaries	\$ 965,079	\$ 2,870,450		\$ 677,142	\$ 4,512,671
Employee Benefits	357,139	1,081,027		234,161	1,672,327
Total	<u>1,322,218</u>	<u>3,951,477</u>		<u>911,303</u>	<u>6,184,998</u>
Operating Expenses					
Other Services	103,566	444,786		67,754	616,106
Supplies & Materials	78,718	15,363		(83,652)	10,429
Communications	72,172	29,472		22,901	124,545
Travel	21,772	66,925		23,982	112,679
Rent	118,134	348,739		82,593	549,466
Repair & Maintenance	8,221	1,760		397	10,378
Other Expenses	84,930	70,240		12,776	167,946
Total	<u>487,513</u>	<u>977,285</u>		<u>126,751</u>	<u>1,591,549</u>
Equipment & Intangible Assets					
Equipment	44,522				44,522
Total	<u>44,522</u>				<u>44,522</u>
Local Assistance					
From other sources			\$ 31,045,875		31,045,875
Total			<u>31,045,875</u>		<u>31,045,875</u>
Benefits & Claims					
From State Sources		6,933		117,500	124,433
From Other Sources		165,000			165,000
Total		<u>171,933</u>		<u>117,500</u>	<u>289,433</u>
Transfers-out					
Fund transfers		135,268		7,315,175	7,450,443
Total		<u>135,268</u>		<u>7,315,175</u>	<u>7,450,443</u>
Total Expenditures & Transfers-Out	\$ <u>1,854,253</u>	\$ <u>5,235,963</u>	\$ <u>31,045,875</u>	\$ <u>8,470,729</u>	\$ <u>46,606,820</u>
EXPENDITURES & TRANSFERS-OUT BY FUND					
General Fund		\$ 7,073	\$ 31,045,875		\$ 31,052,948
State Special Revenue Fund	\$ 1,854,253	5,063,890		\$ 8,470,729	15,388,872
Private Purpose Trust Fund		165,000			165,000
Total Expenditures & Transfers-Out	1,854,253	5,235,963	31,045,875	8,470,729	46,606,820
Less: Nonbudgeted Expenditures & Transfers-Out	(1,364)	296,967		7,343,609	7,639,212
Prior Year Expenditures & Transfers-Out Adjustments	4,001	18,660		(85,519)	(62,859)
Actual Budgeted Expenditures & Transfers-Out	1,851,617	4,920,337	31,045,875	1,212,638	39,030,467
Budget Authority	2,348,216	6,129,608	32,026,775	1,828,161	42,332,761
Unspent Budget Authority	\$ 496,599	\$ 1,209,272	\$ 980,900	\$ 615,523	\$ 3,302,293
UNSPENT BUDGET AUTHORITY BY FUND					
General Fund			\$ 980,900		\$ 980,900
State Special Revenue Fund	\$ 496,599	\$ 1,209,272		\$ 615,523	\$ 2,321,394
Unspent Budget Authority	<u>496,599</u>	<u>1,209,272</u>	<u>980,900</u>	<u>615,523</u>	<u>3,302,293</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-9.

**State Auditor's Office**  
**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 (General and State Special Revenue funds). 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 accrual basis accounting for its Fiduciary (Private-Purpose Trust) 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, and records expenses in the period incurred when measurable.

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 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**

- ◆ **General Fund** – to account for all financial resources except those required to be accounted for in another fund. The General Fund includes revenue for insurance premium tax, securities brokerage licenses, fines and penalties, and transfers in from securities and captive insurance state special revenue funds. The expenditures included in the general fund are transfers of funds to Montana Public Employee's Retirement Administration, expenditures to

each city or town that has a fire relief association or a police department that is not a participant in the municipal police officer's retirement system, and Insure Montana Activity.

- ◆ **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. Office State Special Revenue Funds include Insurance and Security Division activity, such as securities portfolio registrations revenue, insurance license revenue, examination fees, industry continuing education programs, and Insure Montana Activity.

### **Fiduciary Fund Category**

- ◆ **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. The office's private-purpose trust fund includes financial deposits required to be held in trust by the office for insurance companies licensed in Montana.
- ◆ **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end. The office's agency funds include Property Held in Trust.

## **2. General Fund Equity Balance**

The negative fund equity 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 equity balances for each of the fiscal years ended June 30, 2017 and June 30, 2018.

## **3. Direct Entries to Fund Equity**

Direct entries to fund equity in the General and State Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. The significant portion of direct entries in both the General Fund and State Special Revenue Fund relate to Insure Montana Program tax credit adjustments.

# 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  
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 & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the State Auditor's 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 January 23, 2019.

### *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

January 23, 2019

STATE AUDITOR'S OFFICE

OFFICE RESPONSE



# COMMISSIONER OF SECURITIES & INSURANCE

MATTHEW M. ROSENDALE, SR.  
COMMISSIONER



OFFICE OF THE MONTANA  
STATE AUDITOR

RECEIVED  
Mar. 26, 2019  
LEGISLATIVE AUDIT DIV.

March 20, 2019

Angus Maciver, Legislative Auditor  
Office of the Legislative Auditor  
P.O. Box 201705  
Helena, Mt. 59620-1705

Dear Mr. Maciver,

The Office of the Commissioner of Securities and Insurance, Montana State Auditor has reviewed the financial compliance audit for the two fiscal years ending June 30, 2018, and has no comments or exceptions to the report.

As Commissioner, I thank you and the audit team for your hard work and professionalism during this audit. We always look upon the audit process as an opportunity to evaluate and improve our operations and performance.

Sincerely,

Matthew M. Rosendale, Sr.  
Commissioner of Securities & Insurance  
Office of the Montana State Auditor