A Report
to the
Montana
Legislature

Financial-Compliance Audit

Office of the Governor and Lieutenant Governor

For the Two Fiscal Years Ended June 30, 2018

July 2019

Legislative Audit
Division

18-23

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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

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Joe Murray

July 2019

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 for the two fiscal years ended June 30, 2018. This report contains two recommendations to the office related to spending non-general fund money first and accounting for nonroutine activity.

The office's written response to the audit recommendations is included in the audit report at page C-1. The office does not concur with Recommendations #1 and #2b. The office's written response to Recommendation #1, related to spending non-general fund money first, begins on page C-1. We considered the information there, and maintain our position as reported. As outlined in the report on page 8, an agency is not required to exhaust restricted appropriations provided by the Legislature. Accordingly, it was possible for the office to charge the operating expenditures in question against its unrestricted state special revenue fund appropriation authority. Additionally, we found no conflict between House Bill 2 and §17-2-108, MCA, that would have required resolution under §1-2-102, MCA.

The office's written response to Recommendation #2b, related to accounting for an upgrade to the office's airplane autopilot, begins on page C-2. We considered the facts, circumstances, and state policy requirements the office outlined in their response as part of the audit. Our consideration of these and other items is outlined on pages 11-13 of the report, and we maintain our position as reported.

We thank the Governor and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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Elected, Appointed, and Administrative Officials

Office of the Governor and Lieutenant Governor

Steve Bullock, Governor

Mike Cooney, Lieutenant Governor

Tracy Stone-Manning, Chief of Staff (through September 2017)

Tom Lopach, Chief of Staff (effective August 2017)

Dan Villa, Budget Director (through September 2018)

Tom Livers, Budget Director (effective September 2018)

Ali Bovingdon, Deputy Chief of Staff

Rhonda Schaffer, Central Services Administrator (through March 2018)

Errolyn Lantz, Central Services Administrator (effective March 2018)

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

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Montana Legislative Audit Division

Financial-Compliance Audit
Office of the Governor and Lieutenant Governor
For the Two Fiscal Years Ended June 30, 2018

July 2019 18-23 Report Summary

In fiscal year 2017, the Office of the Governor and Lieutenant Governor oversaw the allocation of approximately $54 million in funds appropriated by the 2015 Montana Legislature, for employee pay and state share, contingency base, and personal services contingency base funding. Additionally, in fiscal year 2018, the office received $200,000 of one-time-only appropriation authority in the state special revenue fund (SSRF), to partially fund the Office of Economic Development. The office did not fully exhaust this appropriation before charging expenditures to the General Fund, contrary to state law. This noncompliance results in an approximate $52,000 expenditure misclassification between the General Fund and the SSRF and overstated fund equity in the SSRF at June 30, 2018. We issued a qualified opinion on the office's Schedule of Changes in Fund Equity as a result of these errors, indicating a reader should use caution when relying on the amounts presented on the schedule.

Context

The Office of the Governor and Lieutenant Governor (office) oversees the activities of the executive branch of Montana state government, as required by constitutional and statutory mandates. The office was authorized 58.07 full-time equivalent (FTE) positions in fiscal year 2018, to support the activities of its seven programs. Most of these employees are in the Executive Office Program and the Office of Budget and Program Planning. Executive branch oversight, economic development, budget preparation and monitoring, and centralized service activities are administered through these programs.

The office's main funding source is the General Fund, which the office used to fund approximately $12.2 million of expenditures for fiscal years 2017 and 2018. During the audit period, the office also entered into reimbursement agreements with other state agencies and an outside entity, to partially fund the operating and personal services expenditures of certain staff members. The funds received under these agreements are recorded as revenues and transfers-in in the SSRF, and totaled approximately $490,000. In addition, the office received a one-time-only $200,000 SSRF appropriation in fiscal year 2018 to partially fund the expenditures of the Office of Economic Development.

Additionally, the 2015 Montana Legislature appropriated the Governor's Office of Budget and Program Planning (OBPP) approximately $55.4 million in fiscal year 2017, for employee pay and state share, contingency base, and personal services contingency base funding. OBPP allocated all but approximately $1.4 million of this authority to agencies during the fiscal year. The office's allocation of this funding was approximately $192,000.

(continued on back)

Results

Our audit efforts focused primarily on the office's financial activity related to: personal services expenditures; budget authority; revenue estimates; transfers-in; grant, contract, and donation revenues; and direct entries to fund equity. Our work included gaining an understanding of internal controls, completing analytic procedures, comparing recorded revenues to their underlying agreements, and reviewing individually-significant transactions.

Our audit report contains two recommendations to the office. These recommendations relate to compliance with state law and state accounting policy. Through our audit work, we determined the office did not comply with §17-2-108(1), MCA, which requires the office to apply expenditures against appropriated non-general fund money whenever possible before using General Fund appropriations. As a result, the office expended approximately $52,000 more from the General Fund than it should have in fiscal year 2018. These expenditures should have been charged to the SSRF instead, resulting in a misclassification of expenditures and overstated fund equity in the SSRF at June 30, 2018. This overstatement results in a qualified opinion on the Schedule of Changes in Fund Equity for the fiscal year ended June 30, 2018, indicating a reader should use caution when relying on the amounts presented on the schedule as a result of these errors.

We also identified noncompliance with state accounting policy for individually-significant transactions recorded during the audit period. Because of the identified noncompliance, the office's accounting records do not reflect its activity in accordance with generally accepted accounting principles.

Recommendation Concurrence	
Concur	0
Partially Concur	1
Do Not Concur	1

Source: Agency audit response included in final report.

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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, 2018. The objectives of the audit were to:

1. 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.
2. Determine whether the office's financial schedules for each of the two fiscal years ended June 30, 2018, fairly present the result of operations and changes in fund equity.
3. Determine whether the office complied with selected state laws and regulations.

Our audit efforts focused primarily on the office's financial activity related to: personal services expenditures; budget authority; revenue estimates; transfers-in; grant, contract, and donation revenues; and direct entries to fund equity. Our work included gaining an understanding of internal controls, completing analytic procedures, comparing recorded revenues to their underlying agreements, and reviewing individually-significant transactions. We also tested the office's compliance with selected state laws and regulations.

2015 Legislative Session Funding

House Bill (HB) 2 from the 2015 Legislative Session appropriated the Office of Budget and Program Planning (OBPP) approximately $55.4 million of authority in fiscal year 2017, to be allocated to agencies at the discretion of the Governor, Budget Director, or OBPP, depending on the type of authority. Approximately $39 million of the authority was for employee pay and state share costs. The remaining authority was classified as contingency base and personal services contingency base funding, and HB2 contained language indicating the funding could be included in the executive's base budget for the biennium beginning July 1, 2017.

As part of the audit, we gained an understanding of how OBPP allocated out these funds to other agencies. The allocations, by agency and authority type, are presented in Table 1 (see page 2). The allocated appropriation authority, and related expenditures associated with it, are reported on the financial schedules of those agencies. The total unallocated amount reported in Table 1 is presented as unspent budget authority in the office's Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2017, on page A-10.

Table 1

Fiscal Year 2017 Agency Allocations of Employee Pay and State Share and Contingency Appropriations

From 2015 Legislative Session HB 2

Agency	Employee Pay and State Share	Contingency Base	Personal Services Contingency Base	Total
Governor's Office	$ 191,623			$ 191,623
Commissioner of Political Practices	23,394		$ 104,812	128,206
State Auditor's Office	279,674			279,674
Office of Public Instruction	555,364	$ 24,540		579,904
Commissioner of Higher Education		1,820,105	124,685	1,944,790
Department of Justice	2,642,859		75,000	2,717,859
Public Service Regulation	122,366			122,366
Board of Public Education	10,025			10,025
School for the Deaf and Blind	327,457			327,457
Montana Arts Council	24,942			24,942
Library Commission	105,717			105,717
Historical Society	205,284		15,879	221,163
Department of Fish, Wildlife & Parks	2,387,294	1,117,972	472,535	3,977,801
Department of Environmental Quality	1,260,918	100,000		1,360,918
Department of Transportation	7,045,579		265,000	7,310,579
Department of Livestock	488,219		98,176	586,395
Department of Natural Resources and Conservation	1,833,352	1,900,000	40,074	3,773,426
Department of Revenue	2,226,889	500,678	333,603	3,061,170
Department of Administration	490,984	15,000	165,232	671,216
Office of the State Public Defender	855,376	600,000	1,358,264	2,813,640
Department of Agriculture	392,735			392,735
Department of Corrections	4,305,132	28,860	520,578	4,854,570
Department of Commerce	178,615	2,604,722	85,894	2,869,231
Department of Labor and Industry	2,345,255	240,000	895,386	3,480,641
Department of Military Affairs	675,584	350,000	230,000	1,255,584
Department of Public Health and Human Services	10,058,139	658,204	259,057	10,975,400
Total Allocated Amount	$ 39,032,776	$ 9,960,081	$ 5,044,175	$ 54,037,032
Total Appropriated Amount	$ 39,032,776	$ 10,662,415	$ 5,744,175	$ 55,439,366
Unallocated Amount:	$ -	$ 702,334	$ 700,000	$ 1,402,334

Source: Compiled by the Legislative Audit Division from office records.

HB2 contained language limiting the number of statewide full-time equivalent (FTE) positions that could be added to the personal services base, as a result of the personal services base contingency funding, to 10. Table 2 below summarizes the number of FTE positions added to the base, by agency, as reported by OBPP.

Table 2
Full-Time Equivalent Positions Added Through Personal Services Contingency Base Appropriations
From 2015 Legislative Session HB 2

Agency	FTE Count
Commissioner of Political Practices	1
Department of Justice	1
Department of Livestock	1
Office of the State Public Defender	4
Department of Corrections	2
Department of Public Health and Human Services	1
Total	**10**

Source: Compiled by the Legislative Audit Division from office records.

As part of our audit, we gained an understanding of OBPP's procedures to ensure no more than 10 FTE were added to the base. We also selected certain agencies that were allocated personal services base contingency funding, from Table 1, to determine whether OBPP's reported information on FTE added to the base, in Table 2, was accurate. For the agencies selected, we reviewed the budget change documents OBPP used to allocate the contingency funding to the agencies to determine which position numbers were funded by the appropriations. We then reviewed the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) to confirm the positions reported as adding to base were reflected as such in SABHRS and to confirm those reported as not adding to the base were inactive in SABHRS.

Personal Services Contingency Funding

In addition to the appropriations outlined in Table 1 (see page 2), the 2015 and 2017 Legislatures also appropriated OBPP personal services contingency funding, for both the 2017 and 2019 biennia. These appropriations were restricted for use only when personnel vacancies do not occur, retirement costs exceed agency resources, or other personal services contingencies arise. These personal services contingency funds are separate from the personal services base contingency funds listed in Table 1. In total, OBPP was appropriated $1.75 million for the 2017 biennium and $1.45 million for the 2019 biennium. For the 2017 biennium, approximately $787,000 of the appropriated funds were allocated to agencies. The remaining unspent appropriation reverted at June 30, 2017. For the 2019 biennium, as of June 30, 2018, approximately $655,000 of the appropriated funds were allocated to agencies. The remaining unspent appropriation was carried forward into fiscal year 2019.

Office Background

The office was authorized 58.07 full-time equivalent (FTE) positions in fiscal year 2018. The following paragraphs discuss the various divisions administered by the office, as they appear on the Schedule of Total Expenditures and Transfers-Out for the fiscal year ended June 30, 2018, on page A-9.

Executive Office Program (24.00 FTE) provides administrative, legal, and press support for the office and assists the citizens of Montana in their interactions with executive branch agencies. The Governor appoints and supervises directors of each executive department, appoints members to boards and commissions, and establishes advisory councils deemed necessary. In accordance with constitutional and statutory requirements, the Governor submits to the legislature a budget detailing expenditures and revenues. The Governor discharges the executive power vested by the Montana Constitution and oversees implementation of the laws of the state.

The executive office also administers the Office of Economic Development. This office: advises the Governor on policy issues related to economic development; assists the Governor in accomplishing economic development initiatives; leads the state's business recruitment, retention, and expansion efforts; coordinates the development and distribution of a statewide strategic economic development marketing plan; and serves as the state's primary economic development liaison.

Lieutenant Governor's Office (3.00 FTE) carries out the duties prescribed in Montana's Constitution and statutes, and those delegated by the Governor.

Office of Budget and Program Planning (21.00 FTE) assists the Governor in planning, preparing, and administering the state budget. The office also: prepares and monitors revenue estimates; acts as approving authority for operational plan changes, program transfers, and budget amendments; and is the lead executive branch agency for compliance with the federal Single Audit Act. This office also includes the Centralized Services Division, which provides business services to all programs within the office, including budget preparation and monitoring, accounting, human resources, procurement, safety, and information technology support.

Mental Disabilities Board of Visitors (5.00 FTE) protects the rights of the mentally ill and the developmentally disabled. The board conducts reviews of Montana's public mental health programs and the Intensive Behavior Center, and assists individuals receiving services from these programs. The Mental Health Ombudsman is also accounted for in this program. The Ombudsman is appointed by the Governor to represent the interests of Montanans with regard to the need for public mental health

services, to advocate for individuals who are being served, and to assist those who are seeking services for themselves or others, including individuals who are in transition from public to private services.

Executive Residence Operations (1.57 FTE) maintains the Governor's official residence by managing, maintaining, equipping, and stocking the house for the Governor, his family, and the official public functions hosted there.

Air Transportation Program (1.50 FTE) provides transportation for the Governor and the Governor's staff.

Director of Indian Affairs (2.00 FTE) serves as the Governor's liaison with the state Indian tribal nations, 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.

Chapter II – Findings and Recommendations

Non-General Fund Money First

The office charged $52,000 in expenditures to the General Fund when other non-general funds were available, which is contrary to state law.

The Office of the Governor and Lieutenant Governor (office) administers the statutorily-mandated Office of Economic Development. The expenditures for this office were initially budgeted from the General Fund for the 2019 biennium. During the 2017 Regular Legislative Session, House Bill (HB) 2 was amended to appropriate the Office of Economic Development $200,000 of one-time-only state special revenue fund (SSRF) spending authority for fiscal year 2018, as a replacement to General Fund authority. Additionally, Chapter 350, Laws of 2017 (HB642) provided a corresponding $200,000 transfer of cash from the Economic Development SSRF Account at Department of Commerce to the Governor's Operations SSRF Account for fiscal year 2018 to fund the appropriation authority. The SSRF appropriation authority was established in the Internet Budget and Analysis and Reporting System (IBARS) in the unallocated operating expense account, and in the operating expenditure account type within the Statewide Accounting, Budgeting, and Human Resources System (SABHRS).

During fiscal year 2018, the office charged approximately $134,000 of the Office of Economic Development's total $537,000 in expenditures to this SSRF appropriation authority. The remaining expenditures, comprised of approximately $351,000 of personal services and $52,000 of operating expenditures, were charged to General Fund appropriation authority and paid from the General Fund. As a result, approximately $66,000 of the $200,000 SSRF appropriation authority and associated transferred cash remained unspent at June 30, 2018.

As part of the audit, we performed procedures to determine whether it was reasonable for the office to not fully exhaust this SSRF appropriation authority before charging Office of Economic Development expenditures to the General Fund. Our consideration was for the purpose of determining compliance with §17-2-108(1), MCA, which requires the office to apply expenditures against appropriated non-general fund money whenever possible before using General Fund appropriations. Following is our consideration for operating expenditures and personal services expenditures.

Operating Expenditures

As previously noted, the SSRF appropriation authority was established in the operating expenditure account type in SABHRS. Accordingly, the office had sufficient appropriation authority and cash in the SSRF to record all the Office of Economic Development's fiscal year 2018 operating expenditures in the SSRF, and could have done so without any budget amendments.

Based on discussion with office personnel and review of SABHRS, the $52,000 of operating expenditures charged to the General Fund were for rent and Information Technology Services Division (ITSD) costs. These types of costs were the subject of discussion during the 2017 Regular Legislative Session, and while HB2 of the session required there to be separate appropriations established in SABHRS for these costs, it did not identify these costs in separate line items, or classify the appropriations as restricted. The fund type in which the authority was established was based on agency budget proposals. During the 2017 Special Session, the Legislature broke out the appropriation authority for rent and ITSD costs into separate restricted HB2 line items, in the fund type for which the costs were previously budgeted. These restrictions indicate the authority could only be used for the indicated rent or ITSD purposes.

Office personnel indicated the Office of Economic Development rent and ITSD costs were charged to the General Fund, because the restricted HB2 appropriations for those costs were in the General Fund. While this is the case, there is nothing requiring an agency to fully exhaust restricted appropriations. Therefore, even though there were restricted appropriations against which the rent and ITSD costs could have been charged, to comply with §17-2-108(1), MCA, the office should have charged the costs to the SSRF appropriation authority.

Personal Services Expenditures

As outlined above, the SSRF appropriation authority was established in the operating expenditure account category in both IBARS and SABHRS. The original placement of the SSRF budget authority in the unallocated operating expense account in IBARS provides indication of legislative intent for the authority to be spent on operating expenditures. State law establishes a mechanism through which the office could have requested an amendment to its operating budget, as originally approved by the legislature, to allow the office to charge personal services expenditures against the SSRF appropriation. Given the facts and circumstances surrounding this appropriation, it is unclear whether this step should have been taken. Accordingly, we do not take exception to the office not taking steps to charge personal services expenditures to the remaining $14,000 of SSRF appropriation authority.

Summary

Had the office charged all Office of Economic Development operating expenditures against the SSRF appropriation as required by state law, the office's reported SSRF expenditures would have been higher, and General Fund expenditures would have been lower, by approximately $52,000 for fiscal year 2018. Accordingly, the noncompliance creates a misclassification of expenditures between the SSRF and General Fund in the state's accounting records. The effect of the expenditure misclassification on the office's financial schedules is presented in Table 3.

Table 3
Overstatement (Understatement) of Reported Amounts
Fiscal Year 2018

	General Fund	State Special Revenue Fund
Budgeted Expenditures	$52,000	($52,000)
Total Expenditures and Reductions to Fund Equity	$52,000	($52,000)
Direct Entries to Fund Equity	$52,000	$0
Ending Fund Equity	$0	$52,0000

Source: Compiled by the Legislative Audit Division from SABHRS.

While the expenditure misclassification is not significant in the context of the office's total budgeted expenditures, it does have a significant effect on the ending fund equity in the SSRF for fiscal year 2018. On the Schedule of Changes in Fund Equity for the fiscal year ended June 30, 2018, reported on page A-9, the presented Fund Equity at June 30, 2018, in the SSRF column is overstated by approximately $52,000, or 80 percent. Had the expenditures been recorded in the SSRF as required by law, the amount of General Fund cash payments at the office, as reported in the direct entry to fund equity in the General Fund column of schedule of changes, would have been lower by the same amount.

The resulting misstatements of direct entries to fund equity in the General Fund and Ending Fund Equity in the SSRF are the basis for our modified opinion on the office's Schedule of Changes in Fund Equity for the fiscal year ended June 30, 2018, as outlined on page A-1. Additionally, the noncompliance discussed above is reported in our 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* on page B-1.

Recommendation #1

We recommend the Office of the Governor and Lieutenant Governor comply with §17-2-108(1), MCA, by charging expenditures against appropriated non-general fund money whenever possible before using General Fund appropriations.

Accounting for Nonroutine Transactions

The office's accounting records do not accurately report the activity of multiple individually-significant transactions during the audit period.

State law requires agencies, including the office, to record activity in accordance with generally accepted accounting principles (GAAP). To help guide agencies in this process, the Department of Administration has developed various state accounting policies implementing GAAP for the state. As part of the audit, we reviewed the office's accounting for individually-significant transactions, to determine whether the transactions were recorded in accordance with state accounting policy. Based on our review, we identified two instances where activity was recorded contrary to policy, as discussed in greater detail below.

Revenue Accruals

During the audit period, the Governor appointed a new member to serve on the Northwest Power and Conservation Planning Council (council). This individual is classified as an employee of the office, and the office has an agreement with the council to reimburse the salary and operating expenditures for the employee. The office bills the council throughout the year, and records revenues associated with the reimbursements. The office invoiced the council in June 2017 for approximately $24,000 of costs to be reimbursed for May and June, but did not receive payment until July. Under state accounting policy, at June 30, 2017, the revenues associated with this invoice were realizable, measurable, earned, and available, and therefore, should have been recognized in fiscal year 2017. However, the office did not recognize the revenue until fiscal year 2018.

Based on information on file, office accounting personnel at the time did not believe the revenues were available as of June 30, 2017. Under state accounting policy, revenue for this type of activity is considered to be available when it has actually been received or is due to be received within 60 days of fiscal year-end. In this case, the revenues were

due to be received within 60 days of June 30, 2017, and therefore, met the availability criteria in policy.

As a result of the incorrect accounting in fiscal year 2017, the office's revenues are understated in fiscal year 2017, and overstated in fiscal year 2018. We communicated this accounting error to the office as part of the audit, and current office accounting personnel agreed with our analysis. Additionally, we noted the office appropriately recorded a revenue accrual for similar activity at fiscal year-end 2018.

Airplane Autopilot Upgrade

The Department of Administration's State Procurement Bureau negotiates a variety of contracts state agencies may use to procure goods and services. These contracts are commonly referred to as 'term contracts', and are available for a variety of goods and services, including aircraft avionics and their installation. In the summer of 2017, the office requested and received a bid for equipment, and its related installation, to upgrade the autopilot on the office's airplane, under the avionics term contract. The bid was for a total of $71,250, and contained the following payment terms: 1/3 deposit to confirm the order; 1/3 deposit when the project began; and the balance due upon completion of the work. In February 2018, the office accepted the bid, with modified payment terms requiring upfront payment in full for the equipment, with the balance of parts and labor due upon installation of the autopilot at a later date. At that time, the office also issued an approximate $45,000 payment to the vendor for the equipment, in accordance with the modified payment terms.

Per discussion with office personnel, the equipment was initially expected to be ordered and installed before fiscal year-end 2018. However, due to scheduling conflicts, installation did not occur until the subsequent fiscal year, in November 2018. At fiscal year-end 2018, accounting personnel contacted the vendor to obtain information necessary to capitalize the equipment purchased with the February 2018 payment. At that time, they were made aware the vendor had not yet ordered the equipment. Because the office had not yet acquired an asset as of June 30, 2018, associated with its February payment, personnel determined it was not appropriate to record the payment as an expenditure. Instead, personnel reclassified the payment as an advance, or asset, on the state's accounting records.

As part of the audit, we performed procedures to determine whether it was appropriate for the office to reclassify the payment from an expenditure to an advance, considering both the requirements in state accounting policy and the complexities associated with the delays in the vendor's actual purchase and installation of the equipment. While we completed our work, office personnel also reached out to the vendor and State

Procurement for additional information related to the February 2018 payment. Per office personnel, vendor staff indicated the February payment would have been fully refundable. In light of the payment being refundable, office personnel reported they believed reclassifying the payment from an expenditure to an advance was appropriate, indicating the cash associated with the payment was essentially an asset still in the office's control and that the payment was not an obligation for an expenditure of the fiscal year. Office personnel also indicated the agreement with the vendor was a contract for services, and noted that since no services had been provided as of fiscal year-end, state accounting policy indicates the expenditures should not have been recorded in the fiscal year.

We considered this information as part of the audit, and do not believe it was appropriate for the office to report the February payment as an advance at fiscal year-end. Based on our review of the term contract used to purchase the equipment, and information the office obtained from State Procurement, the vendor has no formal refund policy. Additionally, we reviewed the initial bid, e-mail correspondence modifying the payment terms of the initial bid, e-mail correspondence authorizing payment for the equipment, and an invoice indicating payment had been applied to the office's account. Based on our review of these documents, we did not see evidence of the payment being refundable. Given this, and analysis of state accounting policy, we believe the payment was for an obligation of the fiscal year and do not agree with the office's position that the payment issued to the vendor represented cash within the office's control as of June 30, 2018.

We do not believe the agreement with the vendor is a contract for services. The office's agreement with the vendor includes both equipment and service components, and the equipment component is what necessitated the agreement. Had the autopilot equipment not needed to be replaced, no agreement would have been necessary between the vendor and the office. Additionally, approximately 70 percent of the price of the agreement was for the equipment. These factors indicate to us that the agreement was not solely a contract for services. Accordingly, we reviewed state accounting policy requirements for equipment purchases, to determine when the $45,000 payment should have been recorded as an expenditure.

Under state accounting policy, equipment should be recorded as an expenditure in the fiscal year in which the agency issued a purchase order for the equipment, because that is when the agency has committed or obligated itself for the purchase. The office directed the vendor to order the equipment in fiscal year 2018, constituting an in-substance purchase order. Under policy, and absent payment terms or other evidence to the contrary, this is when the office was obligated for the purchase from an accounting

standpoint, regardless of when the vendor actually ordered the equipment. Given the office was obligated for the equipment in fiscal year 2018, and the payment made to the vendor during the fiscal year was for the equipment, the payment should not have been reclassified from an expenditure to an advance at fiscal year-end. Accordingly, the office's accounting records incorrectly report a $45,000 advance balance.

At fiscal year-end, the office also recorded an encumbrance, or reservation of budget authority, for the full amount of the bid, including both its equipment and installation components. The encumbrance process results in recording an expenditure and associated encumbrance liability on the accounting records. We do not question encumbering the installation component, given the criteria to do so under state accounting policy was met. However, we do question encumbering the equipment component, given the equipment should have already been recorded as an actual expenditure of the fiscal year. As a result, the office's accounting records also incorrectly report a $45,000 encumbrance liability balance.

The misstatements in the advance and encumbrance accounts impact only asset and liability balances recorded on the state's accounting records, which are not presented in the financial schedules. Additionally, the misstatements off-set with one another, resulting in no impact on ending fund equity. As such, the amounts reported on the office's financial schedules are not misstated.

Summary

Given the accounting errors discussed above, the office's accounting records do not accurately reflect office activity in accordance with GAAP or state policy requirements. While the revenue errors previously discussed are not large enough to modify our opinions on the office's financial schedules and the autopilot upgrade errors do not impact the data presented the financial schedules, both errors are indication of room for improvement in compliance with state accounting policy.

Recommendation #2

We recommend the Office of the Governor and Lieutenant Governor:

A. *Record revenue accruals in accordance with state accounting policy.*

B. *Record cash payments for valid obligations incurred during the fiscal year as actual expenditures, rather than advances and encumbrances.*

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, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Office of the Governor and Lieutenant Governor (office) for each of the fiscal years ended June 30, 2018, and 2017, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the office's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the office's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

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

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

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets 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.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

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

Basis for Qualified Opinion on Regulatory Basis of Accounting

The office was appropriated $200,000 in the State Special Revenue Fund in fiscal year 2018, with a corresponding cash transfer, to partially fund the activities of the Office of Economic Development. Prior to exhausting this appropriation authority, the office used General Fund authority. This is contrary to state law, which requires the office to apply expenditures against appropriated non-general fund money whenever possible before using General Fund appropriations. As a result, the Direct Entries to Fund Equity line in the General Fund column and ending Fund Equity reported in the State Special Revenue Fund column of the Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2018, are each overstated by approximately $52,000. The offsets to these errors are in the budgeted expenditures line for those funds.

Qualified Opinions on Regulatory Basis of Accounting

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinions" paragraph, the Schedule of Changes in Fund Equity for the fiscal years ended June 30, 2018, presents fairly, in all material respects, the results of operations and changes in fund equity of the Office of the Governor and Lieutenant Governor, in conformity with the basis of accounting described in Note 1.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedule of Changes in Fund Equity presents fairly, in all material respects, the results of operations and changes in fund equity of the Office of the Governor and Lieutenant Governor for the fiscal year ended June 30, 2017, and the Schedules of Total Revenues & Transfers-In and Schedules of Total Expenditures & Transfers-Out, present fairly, in all material respects, the results of operations of the Office of the Governor and Lieutenant Governor for each of the two 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 February 26, 2019, on our consideration of the 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

February 26, 2019

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

	General Fund	State Special Revenue Fund
FUND EQUITY: July 1, 2017	$ (320,543)	$ 26,254
ADDITIONS		
Budgeted Revenues & Transfers-In	1,552	308,043
Nonbudgeted Revenues & Transfers-In	2	
Prior Year Revenues & Transfers-In Adjustments		24,761
Direct Entries to Fund Equity	5,741,636	200,000
Total Additions	5,743,190	532,804
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	5,720,548	442,388
Nonbudgeted Expenditures & Transfers-Out	(8,400)	
Prior Year Expenditures & Transfers-Out Adjustments	18,468	
Total Reductions	5,730,615	442,388
FUND EQUITY: June 30, 2018	$ (307,968)	$ 116,671

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 EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund	State Special Revenue Fund
FUND EQUITY: July 1, 2016	$ (382,587)	$ 60,988
ADDITIONS		
Budgeted Revenues & Transfers-In	5,335	123,565
Nonbudgeted Revenues & Transfers-In	150	30,000
Prior Year Revenues & Transfers-In Adjustments	3,827	3,717
Direct Entries to Fund Equity	6,569,282	(13,189)
Total Additions	6,578,594	144,093
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	6,520,393	178,827
Nonbudgeted Expenditures & Transfers-Out	(7,923)	
Prior Year Expenditures & Transfers-Out Adjustments	4,080	
Total Reductions	6,516,550	178,827
FUND EQUITY: June 30, 2017	$ (320,543)	$ 26,254

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, 2018

	General Fund	State Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Charges for Services	$ 1,540		$ 1,540
Grants, Contracts, and Donations		$ 166,910	166,910
Transfers-in		165,894	165,894
Miscellaneous	14		14
Total Revenues & Transfers-In	1,554	332,804	334,358
Less: Nonbudgeted Revenues & Transfers-In	2		2
Prior Year Revenues & Transfers-In Adjustments		24,761	24,761
Actual Budgeted Revenues & Transfers-In	1,552	308,043	309,595
Estimated Revenues & Transfers-In	1,865	311,648	313,513
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (313)	$ (3,605)	$ (3,918)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Charges for Services	$ (60)		$ (60)
Grants, Contracts, and Donations		$ (2,756)	(2,756)
Transfers-in		(849)	(849)
Miscellaneous	(253)		(253)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (313)	$ (3,605)	$ (3,918)

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, 2017

	General Fund	State Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Charges for Services	$ 8,677		$ 8,677
Grants, Contracts, and Donations		$ 82,556	82,556
Transfers-in		74,726	74,726
Miscellaneous	635		635
Total Revenues & Transfers-In	9,312	157,282	166,594
Less: Nonbudgeted Revenues & Transfers-In	150	30,000	30,150
Prior Year Revenues & Transfers-In Adjustments	3,827	3,717	7,544
Actual Budgeted Revenues & Transfers-In	5,335	123,565	128,900
Estimated Revenues & Transfers-In	4,585	177,350	181,935
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 750	$ (53,785)	$ (53,035)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Charges for Services	$ 1,115	$ (30,000)	$ (28,885)
Grants, Contracts, and Donations		(25,287)	(25,287)
Transfers-in		1,502	1,502
Miscellaneous	(365)		(365)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 750	$ (53,785)	$ (53,035)

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, 2018

	Air Transportation Program	Executive Residence Operations	Executive Office Program	Lieutenant Governor's Office	Mental Disabilities BD Visitors	Office Budget & Program Planning	Office of Indian Affairs	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT								
Personal Services								
Salaries	$ 92,833	$ 70,951	$ 1,714,420	$ 214,818	$ 267,121	$ 1,412,596	$ 93,377	$ 3,866,117
Employee Benefits	26,080	33,054	514,952	66,803	93,799	438,518	29,254	1,202,460
Total	118,912	104,005	2,229,372	281,622	360,920	1,851,114	122,632	5,068,577
Operating Expenses								
Other Services	16,752	8,621	174,630	5,250	7,726	41,666	13,093	267,739
Supplies & Materials	66,485	40,379	28,897	1,569	3,302	25,401	1,182	167,215
Communications	918	7,260	36,847	2,887	7,530	18,483	4,372	78,296
Travel	583	637	46,029	18,664	3,630	5,937	2,472	77,951
Rent	535	3,817	147,848	5,822	7,179	67,130	5,929	238,260
Repair & Maintenance	16,757	788	21,266	75				38,886
Other Expenses	2,487	3,275	116,831	5,544	1,085	26,063	49	155,334
Total	104,516	64,777	572,348	39,811	30,452	184,679	27,098	1,023,681
Equipment & Intangible Assets								
Equipment	71,250							71,250
Total	71,250							71,250
Transfers-out								
Fund transfers			9,495					9,495
Total			9,495					9,495
Total Expenditures & Transfers-Out	$ 294,678	$ 168,782	$ 2,811,215	$ 321,432	$ 391,372	$ 2,035,793	$ 149,730	$ 6,173,003
EXPENDITURES & TRANSFERS-OUT BY FUND								
General Fund	$ 294,678	$ 168,782	$ 2,369,374	$ 320,886	$ 391,372	$ 2,035,793	$ 149,730	$ 5,730,615
State Special Revenue Fund			441,841	547				442,388
Total Expenditures & Transfers-Out	294,678	168,782	2,811,215	321,432	391,372	2,035,793	149,730	6,173,003
Less: Nonbudgeted Expenditures & Transfers-Out	(614)	(185)	(3,382)	(349)	(446)	(3,242)	(182)	(8,400)
Prior Year Expenditures & Transfers-Out Adjustments	1,099		16,893			475		18,468
Actual Budgeted Expenditures & Transfers-Out	294,193	168,967	2,797,704	321,781	391,818	2,038,560	149,912	6,162,936
Budget Authority	323,355	173,899	3,089,352	331,080	423,042	2,972,086	154,014	7,466,828
Unspent Budget Authority	$ 29,162	$ 4,932	$ 291,648	$ 9,299	$ 31,224	$ 933,526	$ 4,102	$ 1,303,892
UNSPENT BUDGET AUTHORITY BY FUND								
General Fund	$ 29,162	$ 4,932	$ 75,549	$ 7,429	$ 31,224	$ 581,626	$ 4,102	$ 734,024
State Special Revenue Fund			216,099	1,870		276,900		494,868
Federal Special Revenue Fund						50,000		50,000
Internal Service Fund						25,000		25,000
Unspent Budget Authority	$ 29,162	$ 4,932	$ 291,648	$ 9,299	$ 31,224	$ 933,526	$ 4,102	$ 1,303,892

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, 2017

	Air Transportation Program	Coordinator of Indian Affairs	Executive Residence Operations	Executive Office Program	Lieutenant Governor's Office	Mental Disabilities BD Visitors	Office Budget & Program Planning	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT								
Personal Services								
Salaries	$ 97,521	$ 98,626	$ 69,393	$ 1,782,051	$ 241,271	$ 291,223	$ 1,508,813	$ 4,088,898
Employee Benefits	28,418	35,860	36,290	591,454	76,818	118,345	493,849	1,381,035
Total	125,939	134,486	105,683	2,373,505	318,089	409,568	2,002,662	5,469,933
Operating Expenses								
Other Services	17,778	33,254	9,706	210,080	4,927	11,632	73,650	361,028
Supplies & Materials	62,640	583	47,026	33,584	1,431	2,434	42,306	190,004
Communications	883	4,777	6,401	44,267	3,479	7,729	17,680	85,217
Travel	1,875	1,361	696	78,898	16,307	8,996	11,124	119,257
Rent	148	5,735	3,265	142,490	4,891	6,412	64,873	227,814
Repair & Maintenance	15,712	360	2,736	8,148		621	3,958	31,534
Other Expenses	2,340	1,611	3,618	160,596	3,495	2,882	36,049	210,591
Total	101,375	47,680	73,448	678,063	34,531	40,707	249,640	1,225,444
Total Expenditures & Transfers-Out	$ 227,313	$ 182,166	$ 179,131	$ 3,051,569	$ 352,620	$ 450,275	$ 2,252,302	$ 6,695,377
EXPENDITURES & TRANSFERS-OUT BY FUND								
General Fund	$ 227,313	$ 172,440	$ 179,131	$ 2,884,201	$ 350,887	$ 450,275	$ 2,252,302	$ 6,516,550
State Special Revenue Fund		9,726		167,368	1,732			178,827
Total Expenditures & Transfers-Out	227,313	182,166	179,131	3,051,569	352,620	450,275	2,252,302	6,695,377
Less: Nonbudgeted Expenditures & Transfers-Out							(7,923)	(7,923)
Prior Year Expenditures & Transfers-Out Adjustments	3,827				101	129	23	4,080
Actual Budgeted Expenditures & Transfers-Out	223,486	182,166	179,131	3,051,569	352,519	450,147	2,260,203	6,699,220
Budget Authority	310,928	186,436	179,944	3,063,239	355,926	476,123	4,777,357	9,349,953
Unspent Budget Authority	$ 87,442	$ 4,270	$ 813	$ 11,670	$ 3,407	$ 25,976	$ 2,517,154	$ 2,650,733
UNSPENT BUDGET AUTHORITY BY FUND								
General Fund	$ 87,442	$ 4,270	$ 813	$ 8,809	$ 991	$ 25,976	$ 468,055	$ 596,357
State Special Revenue Fund				2,861	2,416		2,002,334	2,007,611
Federal Special Revenue Fund							21,765	21,765
Internal Service Fund							25,000	25,000
Unspent Budget Authority	$ 87,442	$ 4,270	$ 813	$ 11,670	$ 3,407	$ 25,976	$ 2,517,154	$ 2,650,733

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, 2018

1. Summary of Significant Accounting Policies

Basis of Accounting

The Governor's Office uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General and State Special Revenue). In applying the modified accrual basis, the department 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 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.
- **State Special Revenue Fund** – to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific state program purposes. Office State Special Revenue Funds include support from agencies to fund interagency projects, support from nonstate agencies, and one-time-only appropriations to support economic development activities.

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, 2107 and June 30, 2018.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General Fund for both fiscal years and State Special Revenue for fiscal year ended June 30, 2017 include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

Direct entries to fund equity in the State Special Revenue Fund ended June 30, 2017 also include an adjustment for a previous year revenue reclassification. The total in fiscal year ended June 30, 2018 was for a legislative transfer related to HB 642.

4. Unspent Budget Authority

Unspent budget authority in the Office of Budget and Program Planning includes funds for personal services contingency funding for both fiscal years. There is also authority for contingency base and personal services contingency base funding at fiscal year ended June 30, 2017.

Other unspent State Special Revenue budget authority includes funds for projects continuing forward in the succeeding year.

5. Personal Services Expenditures

The personal services expenditures included in the Schedule of Total Expenditures & Transfers-Out for the fiscal years ended June 30, 2017 and June 30, 2018, include staff that are funded through inter-agency agreements and funding from an outside agency.

6. Revenue

The Schedule of Revenues for fiscal year ended June 30, 2017 shows a $30,000 estimate for Charge for Services in the State Special Revenue fund but revenue was reclassified into the Private Grants-Nonbudgeted category. Grant revenue was also under the estimated amount by approximately $25,000 in the same year.

7. Montana Ambassadors

The Governor's Office has a relationship with the Montana Ambassadors. The Montana Ambassadors is a nonprofit organization consisting of volunteers whose membership is approved by the Governor to act as official ambassadors of the state of Montana. Members assist the Governor's Office of Economic Development and the Department of Commerce with business, trade, and tourism development programs.

For fiscal years 2017 and 2018, the Governor's Office paid $12,829 and $23,230 respectively for costs associated with business mentorship and business networking events both in state and out of state.

Report on Internal Control and Compliance

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 financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Office of the Governor and Lieutenant Governor 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 February 26, 2019. Our report includes a modified opinion on the Schedule of Changes in Fund Equity for the fiscal year ended June 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the office'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 of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The identified instance of noncompliance is described in the finding at page 7 of the audit report, and relate to compliance with §17-2-108(1), Montana Code Annotated, which requires agencies to charge expenditures against appropriated non-general fund money whenever possible before using General Fund appropriations.

Office of the Governor and Lieutenant Governor's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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

February 26, 2019

Office of the Governor and Lieutenant Governor

Office Response

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

STEVE BULLOCK
GOVERNOR

CAPITOL BUILDING - P.O. BOX 200802
HELENA, MONTANA 59620-0802

July 12, 2019

RECEIVED
JUL 12 2019
LEGISLATIVE AUDIT DIV.

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

Subject: Financial Compliance Audit 19: Governor's Office

Dear Mr. Maciver

Thank you for the opportunity to respond to the Financial-Compliance Audit of the Montana Office of the Governor and Lieutenant Governor for the two fiscal years ending June 30, 2018. We appreciate the professionalism of the audit team and the good communication, and we are pleased that the audit found internal and management controls of the office to be sufficient. The audit cites two instances of non-compliance. We respectfully do not concur with these two recommendations and outline below our reasons for standing by our original actions.

Recommendation #1

We recommend the Office of the Governor and Lieutenant Governor comply with §17-2-108(1), MCA by charging expenditures against appropriated non-general fund money whenever possible before using General Fund appropriations.

Response:

Do Not Concur. The office agrees that whenever possible non-general fund money should be used before general fund. However, our action was directed by specific appropriations in HB 2 from the 2017 Special Legislative Session. During the development of this bill, the Legislative Fiscal Division inserted specific line items for each executive branch agency to pay fixed cost allocations to the Department of Administration for rent in the capitol complex and for state information technology services. These appropriations direct how the expenses should be paid. We followed this specific legislative direction from our line item appropriation in HB 2 when we paid these costs using general funds.

There is no conflict with §17-2-108, MCA, because that statute contains an exception for precisely such situations: non-general fund money must be spent first, but only where "possible." The Legislature's express direction to spend certain general fund monies first in HB 2

overrides the general rule in § 17-2-108 and makes it *not* "possible" to do the opposite. Even if §17-2-108 did not contain this caveat, the Legislature's later, more specific enactment in HB 2 would override §17-2-108, MCA, in any event, because under Montana law specific direction controls over general rules. *See* §1-2-102, MCA: "When a general and particular provision are inconsistent, the latter is paramount to the former, so a particular intent will control a general one that is inconsistent with it."

For these reasons, we assert the expenses were paid in compliance with express legislative intent.

Recommendation #2

We recommend the Office of the Governor and Lieutenant Governor:

A. Record revenue accruals in accordance with state accounting policy.
B. Record cash payments for valid obligations incurred during the fiscal year as actual expenditures, rather than advances and encumbrances.

Response:

A. Concur. We agree with the finding that revenue recognition criteria were met in fiscal year 2017 for the invoice noted in the audit and that this should have been booked as a receivable at year-end rather than as a prior year revenue. As is also noted in the audit, in 2018 we correctly recorded a receivable for revenue expected to be received within 60 days of fiscal year-end, thus changing our practice moving forward.

B. Do Not Concur. We respectfully disagree with this finding. The purchase and installation of this equipment was a contracted service, not a direct purchase of equipment. This transaction did not meet the criteria to be recorded as a liability on the State's accounting records. Based on our review of existing accounting policies for fiscal year-end accruals and asset management entries, and on our discussion with State Accounting Bureau, we believe this payment was correctly recorded as a current asset on the state's financial records.

In order to record an equipment obligation on the state's accounting records, as recommended by the audit team, a corresponding asset management entry must also be made. However, state accounting policy clearly states that, "Equipment received after June 30 must be entered in the asset management module with an acquisition date after June 30." Had the vendor ordered the equipment for this upgrade prior to fiscal year-end, the Governor's Office would have recorded this purchase on the state's accounting records to show the percentage of completion on this contract.

Since the airplane autopilot upgrade was not completed until the following fiscal year, there was no corresponding "construction work-in-progress" entry to record on the state's asset management system at fiscal year-end 2018. The Governor's Office did accrue the value of

this contract at fiscal year-end to ensure there was sufficient budget authority to pay for the services once completed.

As is also noted in the audit, the autopilot upgrade entries have no impact on the financial schedules presented in this report.

Based on our above explanation of accounting policies for fiscal year-end and asset management, we assert that we recorded the expense correctly in accordance with state accounting policy.

Thanks again to you and your audit team for the professionalism during our audit. Although we do not concur with these two findings, we always welcome audits as an opportunity to validate what we're doing well and to identify areas for improvement.

Sincerely,

Tom Livers

Tom Livers
Budget Director