



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

## *State Auditor's Office*

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

MARCH 2021

LEGISLATIVE AUDIT  
DIVISION

20-20

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MEMBERS SERVE UNTIL A  
MEMBER'S LEGISLATIVE TERM  
OF OFFICE ENDS OR UNTIL A  
SUCCESSOR IS APPOINTED,  
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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 and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2019, was issued March 30, 2020. The Single Audit Report for the two fiscal years ended June 30, 2021, will be issued by March 31, 2022.

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**AUDIT STAFF**

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JEANE CARSTENSEN-GARRETT  
DELSI OSMANSON

LESLIE LAHTI  
FLORA M. WASKE

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# LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller

March 2021

The Legislative Audit Committee  
of the Montana State Legislature:

The enclosed report documents the results of our financial-compliance audit of the State Auditor's Office (office) for the two fiscal years ended June 30, 2020. We focused our audit efforts primarily on licenses and permits revenues, insurance premium tax revenues, and local assistance payments to retirement systems. We also reviewed and tested the office's controls over its financial activity and determined the office's compliance with selected state laws. Our audit work did not result in any recommendations to the office.

The office's written response to the audit recommendations 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

<b>State Auditor's Office</b>	Matthew M. Rosendale, Sr., State Auditor, Commissioner of Securities & Insurance (through December 2020)
	Troy Downing, State Auditor, Commissioner of Securities & Insurance (effective January 2021)
	Kristin Hansen, Deputy State Auditor (through December 2020)
	Mary Belcher, Deputy State Auditor (effective January 2021)
	Molly Plummer, Chief of Staff (effective February 2021)
	Lynne Egan, Deputy Securities Commissioner
	Bob Biskupiak, Deputy Insurance Commissioner
	Michelle Dietrich, Chief Legal Counsel (through January 2021)
	Ole Olson, Chief Legal Counsel (effective February 2021)
	Staci Litschauer, Central Services Division Administrator

For additional information concerning the State Auditor's Office, contact:

Troy Downing  
State Auditor's Office  
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## MONTANA LEGISLATIVE AUDIT DIVISION

## State Auditor's Office

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2020

**BACKGROUND**

The State Auditor's Office (office) is responsible for protecting 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 Central Management Division is responsible for the central business operations of the office such as accounting, human resources, and information technology services.

The Insurance Division investigates insurance code and rule violations, collects taxes, resolves complaints, provides insurance licenses, reviews rates, and provides continuing education.

The Securities Division is responsible for the registration of securities issuers, sales people, investment advisers, broker-dealers, investment adviser representatives, and for conducting investigations.

**Commissioner:**  
Troy Downing

The State Auditor's Office (office) is the third highest contributor of General Fund revenue for the state of Montana. Out of the approximately \$2.45 billion in General Fund revenue received by the state of Montana in fiscal years 2019 and 2020, the office contributed \$91.9 million and \$104.1 million, respectively.

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

We found the office's financial schedules and note disclosures presented fairly the activity of the office in all material respects and issued unmodified opinions. This means a reader can rely on the presented information as well as the underlying accounting records.

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

**SUMMARY OF AUDIT WORK:**

During the audit, we completed testing over insurance and securities licenses and permits revenues. This work involved performing a random sample of fees received by the office to ensure the amounts submitted were accurate and recorded correctly in the state's accounting records. We also completed a random sample of insurance premium tax revenues to ensure tax amounts were calculated correctly and the revenues accurately recorded.

Besides activity related to insurance and securities, the office is also responsible for providing the funds for the state's annual contributions to the Municipal Police Officers' Retirement System and the Firefighters' Unified Retirement System, as outlined in state law. As part of our audit work, we confirmed the amounts contributed from the General Fund for fiscal years 2019 and 2020, shown as local assistance payments on the Schedules of Expenditures and Transfers-Out starting on page A-8, were supported and accurate.

In addition, we reviewed and tested the office's controls over financial activity and determined the office's compliance with selected state laws.

**REPORT ON INTERNAL CONTROL AND COMPLIANCE (page B-1):**

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

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

[leg.mt.gov/lad](http://leg.mt.gov/lad)

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The mission of the Legislative Audit Division is to increase public trust in state government by reporting timely and accurate information about agency operations, technology, and finances to the Legislature and the citizens of Montana.

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Call  
(Statewide)  
(800) 222-4446 or  
(Helena)  
(406) 444-4446

Text  
(704) 430-3930

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



# Chapter I – Introduction and Background

## **Introduction**

We performed a financial-compliance audit of the State Auditor’s Office (office) for the two fiscal years ended June 30, 2020. The objectives of the audit were to:

1. Obtain an understanding of the office’s internal controls to the extent necessary to support the audit of the office’s financial schedules and, if appropriate, make recommendations for improvements in internal and management controls of the office.
2. Determine whether the office’s financial schedules present fairly the results of operations and changes in fund equity for fiscal year 2020 and changes in fund equity and property held in trust for fiscal year 2019, in accordance with state accounting policy.
3. Determine whether the office complied with selected state laws and federal regulations.

We addressed these objectives by focusing our audit efforts primarily on insurance and securities licenses and permits revenues and insurance premium tax revenues. We also reviewed local assistance payments to the Municipal Police Officers’ Retirement System and the Firefighters’ Unified Retirement System and transfers to the General Fund required by state law. In addition, we evaluated and tested the office’s controls over financial activity and determined the office’s compliance with selected state laws.

The 2019 Legislature authorized the Montana Reinsurance Association and Program, the purpose of which was to establish a Montana-based public reinsurance program, subsidized with federal funds, in order to stabilize the individual health insurance market, maintain competition, and reduce premiums. The Montana Reinsurance Association, a nonprofit legal entity, was created to administer the program in conjunction with the State Auditor’s Office. While this program was effective in fiscal year 2019, the program was not fully established until late fiscal year 2020. As a result, no activity appears on the fiscal year 2019 financial schedules and only \$32,025, as shown in the Federal Special Revenue Fund, appears on the fiscal year 2020 financial schedules, thus we did not complete any audit work over this program for the audit period. However, we anticipate this activity will become significant to our audit testing in future audit periods.

## **Office Background and Organization**

The office is responsible for overseeing the insurance and securities industries in the state of Montana. The office licenses and regulates insurance companies and agents within the state and regulates and registers securities dealers. The State Auditor is an

elected official and serves as the Commissioner of Insurance and Securities. The State Auditor is also a member of the State Land Board and the Hail Insurance Board.

The following paragraphs describe the divisions or activities that are presented on the Schedules of Expenditures & Transfers-Out starting on page A-8. The office was authorized 74.5 full-time equivalent (FTE) staff during the audit period, which includes 4.0 modified FTE positions that are not included in the Insurance Division count below.

**Central Management Division:** (16.0 FTE) This division is responsible for the administrative, budgeting, personnel, and accounting functions of the office. The division also provides support for the Commissioner as he fulfills his duties on the State Land Board and the Hail Insurance Board.

**Insurance Division:** (45.0 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.

**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:** (13.5 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.

# **Independent Auditor's Report and Office Financial Schedules**



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



Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

### *Introduction*

We have audited the accompanying Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2019, for the State Auditor's Office, 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 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, 2020, and June 30, 2019, or changes in financial position for the years then ended.

*Unmodified Opinions on Regulatory Basis of Accounting*

In our opinion, the Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2019, present 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, in conformity with the basis of accounting described in Note 1.

*Emphasis of Matter*

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

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2021, on our consideration of the State Auditor's Office 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 11, 2021

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

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Custodial Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2019	\$ (38,475,118)	\$ 852,166	\$ 0	\$ 0	\$ 11,378,857
<b>ADDITIONS</b>					
Budgeted Revenues & Transfers-In	98,266,931	52,899,600	32,025	78,218	536,977
Nonbudgeted Revenues & Transfers-In	5,848,435	478,599			
Prior Year Revenues & Transfers-In Adjustments	(2,902)	(26,309)			
Direct Entries to Fund Equity	(68,066,538)	(38,045,040)			
Total Additions	<u>36,045,927</u>	<u>15,306,850</u>	<u>32,025</u>	<u>78,218</u>	<u>536,977</u>
<b>REDUCTIONS</b>					
Budgeted Expenditures & Transfers-Out	37,450,326	7,381,378	32,025	78,218	918,721
Nonbudgeted Expenditures & Transfers-Out	190	6,302,222			
Prior Year Expenditures & Transfers-Out Adjustments	13,492	4,988			
Total Reductions	<u>37,464,008</u>	<u>13,688,588</u>	<u>32,025</u>	<u>78,218</u>	<u>918,721</u>
FUND EQUITY: June 30, 2020	<u>\$ (39,893,200)</u>	<u>\$ 2,470,428</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 10,997,113</u>

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



STATE AUDITOR'S OFFICE  
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	State Special Revenue Fund	Agency Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2018	\$ (36,391,381)	\$ 1,149,391	\$ 0	\$ 11,146,696
PROPERTY HELD IN TRUST: July 1, 2018			20,010	
<b>ADDITIONS</b>				
Budgeted Revenues & Transfers-In	84,979,011	47,272,549		
Nonbudgeted Revenues & Transfers-In	6,938,394	323,643		304,237
Prior Year Revenues & Transfers-In Adjustments	(188)	(2,609)		(3,000)
Direct Entries to Fund Equity	(58,462,870)	(33,056,062)		
Additions to Property Held in Trust			264,378	
Total Additions	<u>33,454,347</u>	<u>14,537,521</u>	<u>264,378</u>	<u>301,237</u>
<b>REDUCTIONS</b>				
Budgeted Expenditures & Transfers-Out	35,550,642	7,892,923		
Nonbudgeted Expenditures & Transfers-Out	(159)	6,933,398		69,076
Prior Year Expenditures & Transfers-Out Adjustments	(12,399)	8,425		
Reductions in Property Held in Trust			284,388	
Total Reductions	<u>35,538,084</u>	<u>14,834,746</u>	<u>284,388</u>	<u>69,076</u>
FUND EQUITY: June 30, 2019	\$ (38,475,118)	\$ 852,166	\$ 0	\$ 11,378,857
PROPERTY HELD IN TRUST: June 30, 2019			<u>0</u>	

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

STATE AUDITOR'S OFFICE  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Custodial Fund	Private Purpose Trust Fund	Total
Licenses and Permits	\$ 15,745,694	\$ 15,230,817			\$	\$ 30,976,511
Taxes	82,451,586	37,221,443				119,673,029
Charges for Services	4,152	186,591				190,743
Fines and Forfeits	62,597					62,597
Grants, Contracts, and Donations		105,500			\$ 536,977	642,477
Transfers-in	5,848,435	359,974				6,208,409
Intra-entity Revenue		205,295				205,295
Inception of Lease/Installment Contract		13,116				13,116
Miscellaneous		29,154		\$ 78,218		107,372
Federal			\$ 32,025			32,025
Total Revenues & Transfers-In	<u>104,112,464</u>	<u>53,351,890</u>	<u>32,025</u>	<u>78,218</u>	<u>536,977</u>	<u>158,111,574</u>
Less: Nonbudgeted Revenues & Transfers-In	5,848,435	478,599		78,218	536,977	6,942,229
Prior Year Revenues & Transfers-In Adjustments	(2,902)	(26,309)				(29,211)
Actual Budgeted Revenues & Transfers-In	<u>\$ 98,266,931</u>	<u>\$ 52,899,600</u>	<u>\$ 32,025</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 151,198,556</u>

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

STATE AUDITOR'S OFFICE  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	State Special Revenue Fund	Private Purpose Trust Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>				
Licenses and Permits	\$ 8,214,550	\$ 15,546,705		\$ 23,761,255
Taxes	76,108,035	31,161,720		107,269,755
Charges for Services	2,736	274,043		276,780
Fines and Forfeits	653,501			653,501
Grants, Contracts, and Donations		309,000	\$ 301,237	610,237
Transfers-in	6,938,394			6,938,394
Intra-entity Revenue		215,955		215,955
Capital Asset Sale Proceeds		14,550		14,550
Miscellaneous		71,610		71,610
<b>Total Revenues &amp; Transfers-In</b>	<b>91,917,216</b>	<b>47,593,583</b>	<b>301,237</b>	<b>139,812,037</b>
Less: Nonbudgeted Revenues & Transfers-In	6,938,394	323,643	304,237	7,566,273
Prior Year Revenues & Transfers-In Adjustments	(188)	(2,609)	(3,000)	(5,797)
<b>Actual Budgeted Revenues &amp; Transfers-In</b>	<b>\$ 84,979,010</b>	<b>\$ 47,272,549</b>	<b>\$ 0</b>	<b>\$ 132,251,560</b>

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.

STATE AUDITOR'S OFFICE  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Central Management	Insurance	Local Assistance to Counties	Securities	Total
Personal Services					
Salaries	\$ 859,274	\$ 2,764,071		\$ 656,278	\$ 4,279,623
Employee Benefits	311,872	992,176		231,223	1,535,271
Total	<u>1,171,146</u>	<u>3,756,247</u>		<u>887,501</u>	<u>5,814,894</u>
Operating Expenses					
Other Services	92,919	384,697		143,937	621,553
Supplies & Materials	82,154	22,520		7,522	112,196
Communications	66,998	32,209		9,568	108,775
Travel	6,503	51,692		17,956	76,151
Rent	111,606	330,449		77,052	519,107
Repair & Maintenance	431	1,062		434	1,927
Other Expenses	71,103	29,342		96,078	196,523
Total	<u>431,714</u>	<u>851,971</u>		<u>352,547</u>	<u>1,636,232</u>
Equipment & Intangible Assets					
Equipment		9,685			9,685
Total		<u>9,685</u>			<u>9,685</u>
Local Assistance					
From other sources			\$ 37,463,818		37,463,818
Total			<u>37,463,818</u>		<u>37,463,818</u>
Grants					
From State Sources		30,000			30,000
From Federal Sources		32,025			32,025
Total		<u>62,025</u>			<u>62,025</u>
Benefits & Claims					
From State Sources				12,500	12,500
From Other Sources		918,721			918,721
Total		<u>918,721</u>		<u>12,500</u>	<u>931,221</u>
Transfers-out					
Fund transfers				6,260,514	6,260,514
Total				<u>6,260,514</u>	<u>6,260,514</u>
Debt Service					
Capital Leases	437	2,096		638	3,171
Total	<u>437</u>	<u>2,096</u>		<u>638</u>	<u>3,171</u>
Total Expenditures & Transfers-Out	<u>\$ 1,603,297</u>	<u>\$ 5,600,745</u>	<u>\$ 37,463,818</u>	<u>\$ 7,513,700</u>	<u>\$ 52,181,560</u>
EXPENDITURES & TRANSFERS-OUT BY FUND					
General Fund		\$ 190	\$ 37,463,818		\$ 37,464,008
State Special Revenue Fund	\$ 1,603,297	4,649,809		\$ 7,435,482	13,688,588
Federal Special Revenue Fund		32,025			32,025
Custodial Fund				78,218	78,218
Private Purpose Trust Fund		918,721			918,721
Total Expenditures & Transfers-Out	<u>1,603,297</u>	<u>5,600,745</u>	<u>37,463,818</u>	<u>7,513,700</u>	<u>52,181,560</u>
Less: Nonbudgeted Expenditures & Transfers-Out	612	924,498		6,374,241	7,299,351
Prior Year Expenditures & Transfers-Out Adjustments	522	4,312	13,492	154	18,480
Actual Budgeted Expenditures & Transfers-Out	1,602,163	4,671,935	37,450,326	1,139,305	44,863,729
Budget Authority	2,307,622	50,651,425	37,571,974	1,617,928	92,148,949
Unspent Budget Authority	<u>\$ 705,459</u>	<u>\$ 45,979,490</u>	<u>\$ 121,648</u>	<u>\$ 478,623</u>	<u>\$ 47,285,220</u>
UNSPENT BUDGET AUTHORITY BY FUND					
General Fund			\$ 121,648		\$ 121,648
State Special Revenue Fund	\$ 705,459	\$ 11,911,515		\$ 478,623	\$ 13,095,597
Federal Special Revenue Fund		34,067,975			34,067,975
Unspent Budget Authority	<u>\$ 705,459</u>	<u>\$ 45,979,490</u>	<u>\$ 121,648</u>	<u>\$ 478,623</u>	<u>\$ 47,285,220</u>

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

STATE AUDITOR'S OFFICE  
 SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Central Management	Insurance	Local Assistance to Counties	Securities	Total
Personal Services					
Salaries	\$ 855,479	\$ 2,849,894		\$ 661,391	\$ 4,366,764
Employee Benefits	316,184	1,066,646		227,770	1,610,600
Total	<u>1,171,663</u>	<u>3,916,540</u>		<u>889,161</u>	<u>5,977,364</u>
Operating Expenses					
Other Services	87,419	481,333		36,121	604,873
Supplies & Materials	158,032	15,605		4,372	178,009
Communications	74,538	25,137		7,776	107,451
Travel	7,437	97,227		20,888	125,552
Rent	118,515	345,184		73,109	536,808
Repair & Maintenance	2,039				2,039
Other Expenses	28,411	52,745		12,614	93,770
Total	<u>476,391</u>	<u>1,017,231</u>		<u>154,880</u>	<u>1,648,502</u>
Equipment & Intangible Assets					
Equipment	50,216				50,216
Total	<u>50,216</u>				<u>50,216</u>
Local Assistance					
From other sources			\$ 35,538,243		35,538,243
Total			<u>35,538,243</u>		<u>35,538,243</u>
Grants					
From State Sources		45,000			45,000
Total		<u>45,000</u>			<u>45,000</u>
Benefits & Claims					
From State Sources				175,112	175,112
From Other Sources		69,076			69,076
Total		<u>69,076</u>		<u>175,112</u>	<u>244,188</u>
Transfers-out					
Fund transfers				6,938,393	6,938,393
Total				<u>6,938,393</u>	<u>6,938,393</u>
Total Expenditures & Transfers-Out	\$ <u>1,698,270</u>	\$ <u>5,047,847</u>	\$ <u>35,538,243</u>	\$ <u>8,157,546</u>	\$ <u>50,441,906</u>
EXPENDITURES & TRANSFERS-OUT BY FUND					
General Fund		\$ (159)	\$ 35,538,243		\$ 35,538,084
State Special Revenue Fund	\$ 1,698,270	4,978,930		\$ 8,157,546	14,834,746
Private Purpose Trust Fund		69,076			69,076
Total Expenditures & Transfers-Out	<u>1,698,270</u>	<u>5,047,847</u>	<u>35,538,243</u>	<u>8,157,546</u>	<u>50,441,906</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(1,946)	64,463		6,939,798	7,002,315
Prior Year Expenditures & Transfers-Out Adjustments	(12)	8,327	(12,399)	110	(3,974)
Actual Budgeted Expenditures & Transfers-Out	<u>1,700,228</u>	<u>4,975,057</u>	<u>35,550,642</u>	<u>1,217,638</u>	<u>43,443,565</u>
Budget Authority	2,301,564	6,059,968	35,685,782	1,492,227	45,539,541
Unspent Budget Authority	\$ <u>601,336</u>	\$ <u>1,084,911</u>	\$ <u>135,140</u>	\$ <u>274,589</u>	\$ <u>2,095,976</u>
UNSPENT BUDGET AUTHORITY BY FUND					
General Fund			\$ 135,140		\$ 135,140
State Special Revenue Fund	\$ 601,336	\$ 1,084,911		\$ 274,589	\$ 1,960,836
Unspent Budget Authority	<u>\$ 601,336</u>	<u>\$ 1,084,911</u>	<u>\$ 135,140</u>	<u>\$ 274,589</u>	<u>\$ 2,095,976</u>

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



**State Auditor's Office**  
**Notes to the Financial Schedules**  
**For the Two Fiscal Years Ended June 30, 2020**

## **1. Summary of Significant Accounting Policies**

### **Basis of Accounting**

The office uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, and Federal 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, Agency, and Custodial) 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.

At the June 16, 2020 Legislative Audit Committee meeting, the Legislative Audit Committee approved two changes to the content of the regulatory basis special purpose framework for agency financial schedules.

- ◆ **Schedule of Changes in Fund Equity:**

The Legislative Audit Committee voted to exclude property held in trust activity from the Schedule of Changes in Fund Equity beginning in fiscal year 2020. This change was necessary to facilitate implementation of GASB Statement 84 – Fiduciary Activities at the agency financial schedule level.

- ◆ **Schedule of Total Revenues and Transfers-In:**

The Legislative Audit Committee voted to exclude revenue estimate activity from the Schedule of Total Revenues and Transfers-In effective for the 2020 audit cycle.

As a result of these two changes:

Beginning with the fiscal year 2020 financial schedules, the Schedule of Changes in Fund Equity will no longer report property held in trust line items and the schedule title will no longer include property held in trust in its name.

Beginning with the fiscal years 2019 and 2020 financial schedules, the Schedule of Total Revenues and Transfers-In will no longer report revenue estimate information.

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, Insure Montana activity, and the Montana Reinsurance Association (MRA) Program assessment. The increase in appropriation authority in the State Special Revenue Fund from fiscal year 2019 to fiscal year 2020 is largely due to the MRA Program State Special Revenue Fund. The MRA Program State Special Revenue Fund was appropriated \$9,927,553 and spent \$30,000 in fiscal year 2020, the first year it was appropriated. The balance of unspent budget authority is due to the timing of the startup of the MRA Program.
- ◆ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. The office’s Federal Special Revenue Fund includes the Montana Reinsurance Association (MRA) Program which assists in the stabilization of the individual health insurance market. The MRA Program, a legally separate, nonprofit entity and a component unit of the state of Montana, is governed by Title 33, Chapter 22, Part 13, MCA. The MRA Program was appropriated \$34,100,000 and spent \$32,025 in



fiscal year 2020, the first year it reported financial activity. The balance of unspent budget authority is due to the timing of the startup of the MRA Program. Additional information about the MRA Program can be found at [mtreinsurance.org](http://mtreinsurance.org).

### **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. GASB Statement 84 – Fiduciary Activities – was implemented in fiscal year 2020. As a result of that implementation, the office’s Agency Fund activity was reclassified to Custodial Fund activity in fiscal year 2020.
- ♦ **Custodial Fund** – to account for resources held by the state in a custodial capacity that are not held in a trust or equivalent arrangement. Custodial 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 custodial funds include pass through activity. GASB statement 84 – Fiduciary Activities – was implemented in fiscal year 2020. Custodial Fund activity was reported in an Agency Fund in fiscal year 2019.

## **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, 2019 and June 30, 2020.

## **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. Direct entries can also be a correction of certain errors.



# Report on Internal Control and Compliance



# LEGISLATIVE AUDIT DIVISION

B-1

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



Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2019, for the State Auditor's Office, and the related notes to the financial schedules, and have issued our report thereon dated February 11, 2021.

### *Internal Control Over Financial Reporting*

In planning and performing our audit of the financial schedules, we considered the office's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the office's internal control. Accordingly, we do not express an opinion on the effectiveness of the office's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the office's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

*Purpose of this Report*

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the office's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

*/s/ Cindy Jorgenson*

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

February 11, 2021

STATE AUDITOR'S OFFICE

OFFICE RESPONSE





# Commissioner of Securities and Insurance

C-1

Troy Downing  
Commissioner



Office of the  
Montana State Auditor

March 15, 2021

RECEIVED

MAR 17 2021

LEGISLATIVE AUDIT DIV.

Angus Maciver  
Legislative Auditor  
Legislative Audit Division  
P.O. Box 201705  
Helena, MT 59620-1705

Dear Mr. Maciver:

We are in receipt of the Financial-Compliance Audit of the State Auditor's Office for the two fiscal years ending June 30, 2020. My staff and I have reviewed the audit report and have no comments or exceptions to the report.

Please convey my appreciation to the audit team, led by Cindy Jorgenson, CPA, for their hard work and professionalism. We always look upon the audit process as an opportunity to evaluate and improve our operations and performance.

Sincerely,

A handwritten signature in black ink, appearing to read "Troy Downing", written over a light blue horizontal line.

Troy Downing  
Commissioner of Securities & Insurance  
Montana State Auditor