



A REPORT
TO THE
MONTANA
LEGISLATURE

LEGISLATIVE AUDIT
DIVISION

20-21

FINANCIAL-COMPLIANCE AUDIT

*Office of the
Commissioner of Political
Practices*

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

APRIL 2021

FINANCIAL-COMPLIANCE AUDITS

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Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting and many staff members hold Certified Public Accountant (CPA) certificates.

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

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

April 2021

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Office of the Commissioner of Political Practices for the two fiscal years ended June 30, 2020. Included in this report are four recommendations to the office related to internal controls, multi-year permits revenue, expenditure accruals, and notes to the financial schedules.

The office's written response to the audit recommendations is included in the audit report at 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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APPOINTED AND ADMINISTRATIVE OFFICIALS

**Office of the
Commissioner of
Political Practices**

Jeff Mangan, Commissioner

Kym Trujillo, Compliance Supervisor

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MONTANA LEGISLATIVE AUDIT DIVISION

Office of the Commissioner of
Political Practices

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2020

BACKGROUND

The Office of the Commissioner of Political Practices (office) is responsible for enforcing campaign and lobbying disclosure laws and code of ethics laws for state officials and employees. The office reviews campaign and political committee expenditure reports, investigates campaign finance and disclosure cases, registers lobbyists, tracks principal expenditures, and handles formal ethics complaint proceedings.

Commissioner: Jeff Mangan

The office made significant improvements in operations to address prior audit recommendations. However, the recommendations in this report indicate the office needs to continue to make improvements in a couple areas. This report contains four recommendations to the office related to internal controls, multi-year permits revenue, expenditure accruals, and notes to the financial schedules.

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 an unmodified opinion. This means a reader can rely on the information presented and the underlying financial records.

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

RECOMMENDATIONS:

In this report, we issued the following recommendations:

To the office: 4

To the legislature: 0

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

Fully Implemented: 1

Partially Implemented: 2

Not Implemented: 2

Not Applicable During Audit Period: 1

RECOMMENDATION #1 (page 6):

Internal Controls

The office needs to develop internal controls to ensure all transactions are entered, and processes performed, as required by state accounting policy.

Office response: **Concur**

RECOMMENDATION #2 (page 7):

Misstatement

The office needs to record multi-year permits revenue in accordance with state accounting policy.

Office response: **Concur**

(continued on back)

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

leg.mt.gov/lad

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RECOMMENDATION #3 (page 8):

Misstatement

The office needs to record expenditure accruals in accordance with state accounting policy.

Office response: Concur

RECOMMENDATION #4 (page 10):

Internal Controls

The office needs to develop controls over the notes to the financial schedules to ensure they are complete, accurate, and understandable.

Office response: Concur

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

In this report, we identified the following:

Material Weaknesses in Internal Control: 3

Significant Deficiencies in Internal Control: 0

Material Non-Compliance: 0

Other Matters: 0

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

Chapter I – Introduction and Background

Introduction

We performed a financial-compliance audit of the Office of the Commissioner of Political Practices (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 our audit of the financial schedules and, if appropriate, make recommendations for improvements in management and internal controls for the office.
2. Determine the office’s compliance with selected state laws and regulations for the two fiscal years ended June 30, 2020.
3. Determine whether the office’s financial schedules present fairly the financial position and results of operations as of and for each of the two fiscal years ended June 30, 2020.
4. Determine the implementation status of prior audit recommendations.

To accomplish the objectives, our audit work included reviewing support for payments for legal and information system support, considering the reasonableness of personal service amounts, and performing work over payments received for lobbyist permits and fines and forfeitures. We reviewed the overall reasonableness of the financial schedules and notes and we considered the office’s control systems throughout the audit. Additionally, we evaluated compliance with selected laws and regulations.

Background

The office is administratively allocated to the Office of the Secretary of State, but state law excludes most of the requirements of this allocation. As a result, the office operates separately from the Office of the Secretary of State.

The Governor appoints the Commissioner of Political Practices to a six-year term, subject to confirmation by the senate. A four-member selection committee submits a list of two to five names of individuals to the Governor for consideration. The selection committee is comprised of the speaker of the house, the president of the senate, and the minority floor leaders of both houses of the Legislature. The Commissioner can only serve one term. If a vacancy occurs, a successor shall be appointed within 30 days to serve out the unexpired term. The current Commissioner was appointed and confirmed to serve a six-year term starting in 2017.

The primary duties of the Commissioner, and his staff, include:

- ◆ Facilitating disclosure of financial contributions to, and expenditures of, candidates and political committees.
- ◆ Facilitating registration of lobbyists and monitoring expenditures made by principals. Principals are anyone, including businesses, associations, and government agencies, who pay lobbyists to work on their behalf.
- ◆ Inspecting reports of candidates, political committees, lobbyists, and principals for compliance with Montana laws.
- ◆ Monitoring and enforcing Montana's Code of Ethics for public officers, public employees, and legislators.
- ◆ Investigating legitimate complaints of alleged violations of campaign finance and practice laws, lobbying laws, and ethics laws.

The office had 7.0 full-time employees for the fiscal year ending June 30, 2020.

Prior Audit Recommendations

The prior audit for the two fiscal years ended June 30, 2018, contained six recommendations to the office related to misstatements in multi-year permit revenue, controls over credit card revenue collected by a third party, timeliness of deposits, unsupported expenditure accruals, preparation of the notes to the financial schedules, and associated internal control deficiencies.

During the audit period, the office made significant improvements in operations to address prior audit recommendations, as discussed below, but a few areas continue to need improvement.

During the audit period, the office made changes to how deposits were made. As a result, by the end of the audit period, deposits were made timely as required by state law. This change was not made until fiscal year 2020, and the control deficiency related to fiscal year 2019 deposits is discussed in Recommendation #1, on page 6. However, we consider this recommendation implemented.

The office did not accept any payments via credit card during the audit period because the interface with the third party who collects these payments was not working. As a result, there was no revenue collected and recorded by a third party. Since no revenue was collected or recorded by a third party, we were unable to determine if this prior audit recommendation was implemented. We consider the recommendation to not be applicable during the audit period. Future audits will consider this recommendation when the office begins accepting payments via credit card again.

We identified misstatements related to multi-year permit revenue and expenditure accruals. As a result, these prior audit recommendations are not implemented and partially implemented, respectively. Recommendations #2 and #3, on pages 7 and 8, discuss these misstatements in further detail.

The office did not develop internal controls over the notes to the financial schedules, and we identified misstatements in the initial draft of the notes. This recommendation is not implemented, and Recommendation #4, on page 10, discusses this in further detail.

During the audit period, the office did develop some internal controls, but additional controls are still necessary, and therefore, the prior audit recommendation related to internal controls is partially implemented. Recommendation #1 on page 6 in this report discusses this in further detail.

Chapter II – Findings and Recommendations

Internal Control Weaknesses and Resulting Misstatements

Lack of controls to ensure all transactions are recorded by fiscal year-end resulted in errors in recording financial information related to Licenses and Permits revenue and expenditures accruals.

State accounting policy requires the Office of the Commissioner of Political Practices (office) to develop internal controls over financial processes. Internal control is a process, effected by management and other staff, that provides reasonable assurance objectives of the entity will be achieved. If internal controls are not developed the office may not be able to meet their statutory requirements and achieve their goals of operation.

During the prior audit we identified multiple instances where internal controls were not present. Controls were not in place to record multi-year permits revenue, make timely deposits as required by state law, ensure all transactions are entered and reviewed by separate staff members, and to record accruals. As a result, we issued a recommendation to the office to develop comprehensive internal controls and to seek assistance as needed with accounting transactions. Since the prior audit, the office has:

- ◆ Developed written policies and procedures that detail how to complete accounting transactions,
- ◆ Developed policies and procedures to ensure that all accounting transactions are entered and approved by different staff members,
- ◆ Sought assistance, as needed, in recording financial transactions, and
- ◆ Provided education to staff involved in the accounting processes to ensure they know how to perform those accounting processes.

The office did not make these changes until the beginning of fiscal year 2020. As a result, in fiscal year 2019 the office did not have control procedures in place over recording multi-year permits revenue, making timely deposits as required by state law, ensuring all transactions are entered and reviewed by separate staff members, and recording and reviewing accruals. While we did not identify any material misstatements or material noncompliance in fiscal year 2019, these control deficiencies could have resulted in a material misstatement. This is considered a material weakness in internal control for fiscal year 2019, as described in the report beginning on page B-1. The changes made in fiscal year 2020, described above, address the control deficiencies identified in the prior audit. Additionally, in fiscal year 2020, we did identify fewer misstatements than in the prior audit due to the controls implemented.

In fiscal year 2020 we identified errors in how Licenses and Permits Revenue was recorded. We also identified accruals were not recorded as required. Office staff indicate that these errors occurred because they forgot about the required transaction or did not identify that the required transaction needed to be made before the state's accounting system closed for that fiscal year. The misstatements that resulted from this internal control deficiency are described in further detail in Recommendations #2 and #3.

Because this resulted in multiple errors, we consider this to be a material weakness in internal controls for fiscal year 2020, as described in further detail in the report beginning on page B-1.

While the office did develop controls in fiscal year 2020, the errors identified indicate that additional controls are needed. Internal controls should be designed to ensure all required transactions are made in a given time period. For example, the office could develop a list that indicates all items that must be completed monthly and at fiscal year-end. The office could also seek assistance at fiscal year-end from the Department of Administration, State Financial Services Division. This would allow staff to identify transactions that only occur once a year and ensure they are entered as required. Office staff indicate they are planning to develop checklists to be used to ensure all transactions are recorded and processes performed, each fiscal year.

RECOMMENDATION #1

We recommend the Office of the Commissioner of Political Practices develop internal controls to ensure all transactions are entered, and processes performed, as required by state accounting policy.

Lobbyist Permits Revenue

The office issues permits to lobbyists. The permit is valid for two calendar years, and costs \$150. One third of this fee, or \$50, is recorded in the General Fund for use by the office. The remainder of the fee is recorded to the State Special Revenue Fund for use by the Legislative Branch to help administer the state government broadcasting network.

State accounting policy requires revenue for licenses and permits valid for more than one year be recognized evenly over the life of the permit. These permits are valid for two calendar years, and are usually issued right before a legislative session. Therefore, the revenue from these permits should be recognized over three fiscal years with

25 percent recognized in the fiscal year issued, 50 percent recognized in the next fiscal year, and 25 percent recognized in the third fiscal year. Since the number of permits issued does not change significantly, recording the revenue over three fiscal years will result in revenue that does not fluctuate much between fiscal years. Cash was correctly recorded as collected for these permits, but revenue needs to be adjusted to properly recognize the revenue as required by state accounting policy.

The office did not correctly recognize revenue for these fees in fiscal year 2020. The portion of revenue related to the final 25 percent of the licenses purchased in 2018 was not recognized in fiscal year 2020. In the prior audit (18-21), we identified similar errors in recognizing this revenue. The office did correctly record this revenue in fiscal year 2019, but in fiscal year 2020 the errors in recognizing revenue were present again.

The fiscal year 2020 estimated misstatements are summarized in Table 1 below.

Over/(Under) Statement				
		General Fund	State Special Revenue Fund	Total
Fiscal Year 2020	Licenses & Permits	(\$8,850)	(\$17,700)	(\$26,550)

Source: Compiled by the Legislative Audit Division.

In addition to these misstatements, Unearned Revenue recorded on the state's accounting system is also misstated as the account was not adjusted to reflect revenue recognized for the final 25 percent of the licenses purchased in 2018.

Office staff indicate that this misstatement occurred because they forgot to make the entry to adjust revenue in fiscal year 2020. As indicated in Recommendation #1, on page 6, staff are planning to create a fiscal year-end checklist to ensure this entry is not forgotten in future years.

RECOMMENDATION #2

We recommend the Office of the Commissioner of Political Practices record Licenses and Permits revenue in accordance with state accounting policy.

Expenditure Accruals

State accounting policy requires recording accruals at fiscal year-end for services and goods received, whose payment will be made shortly after fiscal year-end. These accruals are made so that expenditures are recognized in the fiscal year the services are provided.

In the prior audit, we identified that the office did not record all expenditures in the year the activity occurred and did not have support for all accruals recorded. During the current audit, we reviewed activity and found the office correctly recorded expenditure accruals in fiscal year 2019, but not all accruals were recorded in fiscal year 2020.

In fiscal year 2020, the office received services related to building a new database which should have been accrued per state accounting policy. As a result, Supplies and Materials expenditures and accrued liabilities are understated by about \$34,000 in fiscal year 2020.

Office staff indicate these errors occurred due to confusion in how the bills for the services were to be paid. Additionally, controls were not adequate to identify that an accrual needed to be made until after the state's accounting system had closed for fiscal year 2020. Implementing controls to ensure all required transactions are recorded, such as a fiscal year-end checklist, would have prompted the office to record this accrual.

RECOMMENDATION #3

We recommend the Office of the Commissioner of Political Practices record expenditure accruals in accordance with state accounting policy.

Notes to the Financial Schedules

The office does not have controls over the preparation of the notes to the financial schedules, which resulted in incomplete note disclosures.

State agencies are required to prepare notes to the financial schedules. These notes should include informative disclosures that help a user of the financial schedules understand the activity presented in those schedules. State accounting policy includes items required to be disclosed. The Governmental Accounting Standards Board (GASB) issues standards that contains additional items that must be considered for

disclosure in the notes. State accounting policy also requires agencies to develop internal controls. This includes developing internal controls over the preparation of the notes to the financial schedules.

In the initial draft of notes prepared by the office, information was missing in most of the disclosures that was necessary to make the notes understandable. Examples of information that was missing include:

- ◆ The Legislative Audit Committee's decision to remove revenue estimates from the Schedule of Total Revenues & Transfers-In,
- ◆ Additional appropriations received for building a new database,
- ◆ Direct entries included correcting entries in fiscal year 2019, and
- ◆ How the litigation included in the notes could impact the office.

The note disclosures were updated for these items. However, these updates were made after we identified these omissions as part of the audit. The office did not identify these omissions or have controls in place to identify such omissions.

In the prior audit we also identified missing material disclosures. During the current audit period, office staff did not develop or change any policies or procedures related to preparing the notes to the financial schedules. Staff also indicated that while they understand the financial activity at the office, they struggle to explain the activity on the financial schedules in the notes to the financial schedules.

The office can develop procedures to identify items that need disclosure in the notes. This could include, but is not limited to, having a second person review the notes after they are drafted, preparing a detailed written policy staff can use to create the notes, reviewing state accounting policy to identify required disclosures, reviewing GASB requirements to identify required disclosures, and reviewing the financial schedules to identify significant activity and changes that may require disclosure. The office can also seek assistance from the Department of Administration, State Financial Services Division, to understand required note disclosures and to ensure all required disclosures are present.

Since the office did not identify the missing disclosures, and would not have identified them, we consider this to be a material weakness in internal control as described in further detail in the report beginning on page B-1.

RECOMMENDATION #4

We recommend that the Office of the Commissioner of Political Practices:

- A. Develop policies and procedures over the preparation of the notes to the financial schedules to ensure the notes are complete, accurate, and understandable.*
 - B. Seek assistance, as necessary, from the Department of Administration, State Financial Services Division, in preparing the notes to the financial schedules.*
-

Independent Auditor's Report and Office Financial Schedules

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Office of the Commissioner of Political Practices for each of the fiscal years ended June 30, 2020, and 2019, 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 Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, presents fairly, in all material respects, the results of operations and changes in fund equity of the Office of the Commissioner of Political Practices for each of the fiscal years ended June 30, 2020, and 2019, in conformity with the basis of accounting described in Note 1.

Emphasis of Matter

As discussed in Note 1 – Basis of Presentation and Note 4 – Changes in Financial Schedules, 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 March 3, 2021, 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

March 3, 2021

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	<u>General Fund</u>	<u>State Special Revenue Fund</u>
FUND EQUITY: July 1, 2019	\$ <u>(83,327)</u>	\$ <u>(27,750)</u>
ADDITIONS		
Budgeted Revenues & Transfers-In	7,800	800
Direct Entries to Fund Equity	<u>813,918</u>	<u>(800)</u>
Total Additions	<u>821,718</u>	<u>0</u>
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	785,278	
Nonbudgeted Expenditures & Transfers-Out	(509)	
Prior Year Expenditures & Transfers-Out Adjustments	<u>(1,202)</u>	
Total Reductions	<u>783,567</u>	<u>0</u>
FUND EQUITY: June 30, 2020	\$ <u><u>(45,176)</u></u>	\$ <u><u>(27,750)</u></u>

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

COMMISSIONER OF POLITICAL PRAC
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>General Fund</u>	<u>State Special Revenue Fund</u>
FUND EQUITY: July 1, 2018	\$ <u>(68,248)</u>	\$ <u>0</u>
ADDITIONS		
Budgeted Revenues & Transfers-In	47,849	19,475
Prior Year Revenues & Transfers-In Adjustments	4,788	9,575
Direct Entries to Fund Equity	<u>641,088</u>	<u>(56,800)</u>
Total Additions	<u>693,724</u>	<u>(27,750)</u>
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	730,558	
Nonbudgeted Expenditures & Transfers-Out	(68)	
Prior Year Expenditures & Transfers-Out Adjustments	<u>(21,686)</u>	
Total Reductions	<u>708,804</u>	<u>0</u>
FUND EQUITY: June 30, 2019	\$ <u>(83,327)</u>	\$ <u>(27,750)</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.

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Licenses and Permits	\$ 400	\$ 800	\$ 1,200
Charges for Services	75		75
Fines and Forfeits	<u>7,325</u>		<u>7,325</u>
Total Revenues & Transfers-In	7,800	800	8,600
Less: Nonbudgeted Revenues & Transfers-In			0
Prior Year Revenues & Transfers-In Adjustments			<u>0</u>
Actual Budgeted Revenues & Transfers-In	<u>\$ 7,800</u>	<u>\$ 800</u>	<u>\$ 8,600</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.

COMMISSIONER OF POLITICAL PRAC
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Licenses and Permits	\$ 14,525	\$ 29,050	\$ 43,575
Charges for Services	12		12
Fines and Forfeits	38,100		38,100
Total Revenues & Transfers-In	<u>52,637</u>	<u>29,050</u>	<u>81,687</u>
Less: Nonbudgeted Revenues & Transfers-In			0
Prior Year Revenues & Transfers-In Adjustments	4,788	9,575	14,363
Actual Budgeted Revenues & Transfers-In	<u>\$ 47,849</u>	<u>\$ 19,475</u>	<u>\$ 67,324</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.

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	<u>Administration</u>	<u>Total</u>
Personal Services		
Salaries	\$ 349,735	\$ 349,735
Employee Benefits	145,231	145,231
Total	<u>494,966</u>	<u>494,966</u>
Operating Expenses		
Other Services	176,780	176,780
Supplies & Materials	51,666	51,666
Communications	18,839	18,839
Travel	1,529	1,529
Rent	37,630	37,630
Repair & Maintenance	90	90
Other Expenses	2,066	2,066
Total	<u>288,601</u>	<u>288,601</u>
Total Expenditures & Transfers-Out	<u>\$ 783,567</u>	<u>\$ 783,567</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	\$ 783,567	\$ 783,567
Total Expenditures & Transfers-Out	783,567	783,567
Less: Nonbudgeted Expenditures & Transfers-Out	(509)	(509)
Prior Year Expenditures & Transfers-Out Adjustments	<u>(1,202)</u>	<u>(1,202)</u>
Actual Budgeted Expenditures & Transfers-Out	785,278	785,278
Budget Authority	<u>902,161</u>	<u>902,161</u>
Unspent Budget Authority	<u>\$ 116,883</u>	<u>\$ 116,883</u>
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	\$ 116,883	\$ 116,883
Unspent Budget Authority	<u>\$ 116,883</u>	<u>\$ 116,883</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.

COMMISSIONER OF POLITICAL PRAC
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>Administration</u>	<u>Total</u>
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	\$ 349,877	\$ 349,877
Employee Benefits	145,277	145,277
Total	<u>495,154</u>	<u>495,154</u>
Operating Expenses		
Other Services	107,161	107,161
Supplies & Materials	36,345	36,345
Communications	21,204	21,204
Travel	2,777	2,777
Rent	43,563	43,563
Other Expenses	2,600	2,600
Total	<u>213,650</u>	<u>213,650</u>
Total Expenditures & Transfers-Out	<u>\$ 708,804</u>	<u>\$ 708,804</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	\$ <u>708,804</u>	\$ <u>708,804</u>
Total Expenditures & Transfers-Out	708,804	708,804
Less: Nonbudgeted Expenditures & Transfers-Out	(68)	(68)
Prior Year Expenditures & Transfers-Out Adjustments	<u>(21,686)</u>	<u>(21,686)</u>
Actual Budgeted Expenditures & Transfers-Out	730,558	730,558
Budget Authority	761,535	761,535
Unspent Budget Authority	<u>\$ 30,978</u>	<u>\$ 30,978</u>
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	\$ <u>30,978</u>	\$ <u>30,978</u>
Unspent Budget Authority	<u>\$ 30,978</u>	<u>\$ 30,978</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.

Office of the Commissioner of Political Practices
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 and State Special Revenue). In applying the modified accrual basis, the office records:

Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the office to record the cost of employees' annual and sick leave when used or paid.

Expenditures and expenses may include: entire budgeted service contracts even though the office receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format 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. All appropriation authority of the office is in the General Fund.
- ◆ **State Special Revenue Fund** – to account for two thirds of the proceeds of lobbyist licensing revenue collected under provisions of MCA 5-7-103(4)(b).

2. General Fund Equity Balance

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The Commissioner of Political Practices 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 department'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 Special Revenue fund(s) include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. In FY19 there are direct entries made in the General fund and the State Special Revenue Fund. Some of these entries were made to correct errors in lobbying licenses and permits for prior fiscal years.

4. Changes in Financial Schedules

Unspent Budget Authority: was \$30,978, for FY19 and \$116,883 for FY20. At the end of FY20 we were in the beginning stages of building a new Lobbying Database. The majority of this work was completed in FY21.

Accruals: The office accrued \$21,960 from FY19. \$21,960 of that was for Consulting & Professional services work being done on our new Lobbying Database. There was not an accrual made for FY20, due to confusion on the billing and payment method for the new lobbying services.

Revenue Estimate: The legislative audit committee, changed the format of the financial schedules, removing the revenue estimate portion. This change came about in the committees meeting on June 16,2020

Additional Budget: In FY20 the office received an addition \$108,000 in IT budget. These funds are for build a new lobbying database and online system. The project began in FY20, however most of the work is being done in FY21.

5. Contingencies

There are three pending cases in which the agency is the defendant and in which there is a "reasonable possibility", as defined in GASB Statement 62, of monetary judgments against the agency.

- Western Native Voice, et al. V. Stapleton, Fox and Mangan, Montana Supreme Court Cause No. DA 20-0394. Plaintiffs filed a complaint for declaratory and injunctive relief with the Yellowstone County District Court on Montana's Ballot Interference Prevention Act (BIPA). On May 20, 2020, the District Court issued an order preliminarily and temporarily enjoining enforcement of the law. The Attorney General appealed the temporary order to the Montana Supreme Court on August 6, 2020. The District Court later issued an order permanently enjoining BIPA from being enforced on Sept. 25, 2020. The AG later moved the Supreme Court to dismiss its appeal of the temporary order as it was now moot, the Supreme Court dismissed the cause on Oct. 15, 2020. A potential appeal of the decision is being considered by the state at this time. At this time the agency cannot specify an anticipated amount
- Driscoll v. Montana Secretary of State, Montana Supreme Court, DA 20-0477. On appeal of a declaratory judgment action from the District Court. Currently enjoining several provisions of Montana law including absentee ballot receipt date, ballot deficiencies correction date, and the Ballot Interference Prevention Act (BIPA). The COPP is not a named party, but BIPA is under the Commissioner's enforcement provisions, and has participated in the litigation through the AG's office. At this time the agency cannot specify an anticipated amount
- Lawrence, et al. v. COPP – Montana's 19th Judicial District, Cause No. DV 16-16. This case is a mixed judicial review and declaratory judgment action on a City's use of public resources to intervene against a candidate's election. The Case is pending with a Motion to Dismiss for lack of subject matter jurisdiction which the Court has not acted on in the past two years. The Petitioners had plead that they are entitled to attorney fees and costs, but at this time the agency cannot specify an anticipated amount.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

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

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Office of the Commissioner of Political Practices for each of the fiscal years ended June 30, 2020, and 2019, and the related notes to the financial schedules, and have issued our report thereon dated March 3, 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 the attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described below, that we consider to be material weaknesses.

As described in Recommendation #1, on page 6, we identified the following material weaknesses in internal controls:

- ◆ There were no control procedures in place in fiscal year 2019 over recording multi-year permits revenue, making deposits timely as required by state law, ensuring all transactions are entered and reviewed by separate staff members, and recording and reviewing accruals. Changes made by the office in fiscal year 2020 address this control deficiency and it is not a material weakness for fiscal year 2020.
- ◆ In fiscal year 2020, controls were not adequate to ensure that all required transactions were recorded before the state's accounting system closed for the fiscal year.

As described in Recommendation #4, on page 10, controls were not present to ensure the notes to the financial schedules were complete, accurate, and understandable. The initial draft of the notes prepared by the office included multiple instances where information was missing or incomplete.

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*.

Office of the Commissioner of Political Practices Response to Findings

The office'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 the office's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

March 3, 2021

OFFICE OF THE
COMMISSIONER OF
POLITICAL PRACTICES

OFFICE RESPONSE

COMMISSIONER OF
POLITICAL PRACTICES

STATE OF MONTANA

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April 7, 2021

Angus Maciver, Legislative Auditor and Division Director

Montana Legislative Audit Division

Montana State Capitol

PO Box 201705

Helena, MT 59620-1705

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LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver,

We are in receipt of the most recent audit conducted by the staff of the Legislative Audit Division. I appreciate the professionalism and courtesy displayed by your staff, it was a pleasure working with them through the process.

Recommendation #1

We recommend the Office of Commissioner of Political Practices develop internal controls to ensure all transactions are entered, and processes performed, as required by the state accounting policy.

We concur with the findings and recommendations of the audit as presented. The COPP identified and corrected improperly recorded transactions and self-reported those transactions as part of the pre-audit process. The COPP has updated the process for the proper recording of specialized transactions.

Recommendation #2

We recommend the Office of Commissioner of Political Practices record Licenses and Permits revenue in accordance with state accounting policy.

We concur with the findings and recommendations of the audit as presented. The proper recording of the lobbyist licensing revenue has been ongoing, and steps continue to be taken to ensure the revenue is properly recorded across the three fiscal years as required. The office has implemented a monthly and FYE check list spreadsheet to ensure these entries are not overlooked.

Recommendation #3

We recommend the Office of Commissioner of Political Practices record expenditure accruals in accordance with state accounting policy.

We concur with the findings and recommendations of the audit as presented. The COPP has taken steps to ensure expenditure accruals are properly recorded as required.

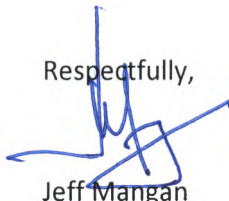
Recommendation # 4

We recommend the Office of Commissioner of Political Practices:

- A. Develop policies and procedures over the preparation of the notes to the financial schedules to ensure the notes are complete, accurate, and understandable.*
- B. Seek assistance, as necessary, from the Department of Administration, State Financial Services Division, in preparing the notes to the financial schedules.*

We concur with the findings and recommendations of the audit as presented. The COPP will seek assistance from the Department of Administration and the Budget Office in developing a written financial schedule note preparation process and procedures no later than April 30, 2021, and implement the developed process and procedure no later than May 30, 2021.

Respectfully,



Jeff Mangan

Commissioner