



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Department of Public
Service Regulation*

*For the Two Fiscal Years Ended
June 30, 2022*

AUGUST 2023

LEGISLATIVE AUDIT
DIVISION

22-26

FINANCIAL-COMPLIANCE AUDITS

LEGISLATIVE AUDIT COMMITTEE

REPRESENTATIVES

LYN HELLEGAARD

Lyn.Hellegaard@legmt.gov

SJ HOWELL

SJ.Howell@legmt.gov

EMMA KERR-CARPENTER

Emma.KC@legmt.gov

FIONA NAVE

Fiona.Nave@legmt.gov

JERRY SCHILLINGER

Jerry.Schillinger@legmt.gov

LAURA SMITH, VICE CHAIR

Laura.Smith@legmt.gov

SENATORS

JASON ELLSWORTH, CHAIR

Jason.Ellsworth@legmt.gov

PAT FLOWERS

Pat.Flowers@legmt.gov

CHRIS FRIEDEL

Chris.Friedel@legmt.gov

DENISE HAYMAN

Denise.Hayman@legmt.gov

KATHY KELKER

Kathy.Kelker@legmt.gov

FORREST MANDEVILLE

Forrest.Mandeville@legmt.gov

MEMBERS SERVE UNTIL A
MEMBER'S LEGISLATIVE TERM
OF OFFICE ENDS OR UNTIL A
SUCCESSOR IS APPOINTED,
WHICHEVER OCCURS FIRST.

§5-13-202(2), MCA

FRAUD HOTLINE
(STATEWIDE)
1-800-222-4446
(IN HELENA)
444-4446
LADHotline@legmt.gov
www.montanafraud.gov

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, 2021, was issued June 21, 2022. The submission deadline for the Single Audit Report for the two fiscal years ended June 30, 2023, is March 31, 2024.

AUDIT STAFF

JEANE CARSTENSEN-GARRETT ALEXA O'DELL
BRENDA KELLER KAREN E. SIMPSON

Reports can be found in electronic format at:
<https://leg.mt.gov/lad/audit-reports>

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

August 2023

The Legislative Audit Committee
of the Montana State Legislature:

We are pleased to present our financial-compliance audit report on the Department of Public Service Regulation (department) for the two fiscal years ended June 30, 2022. This report contains no new recommendations to the department but does provide additional context on the results of our follow-up on the recommendations made in the prior audit of the department for fiscal years 2019 and 2020. Additionally, it includes information on factors leading us to qualify our opinion on the fiscal year 2021 financial schedules and an associated deficiency in internal controls for that period.

As part of our audit, we completed testing over the department's significant transaction cycles and account balances, including personal services, operating expenses, and intangible asset expenditures. Additionally, we performed work over the direct entries to fund equity in the state special revenue fund and associated cash in the fund. We also analyzed the financial schedules and note disclosures to determine whether they were consistent with and supported by the accounting records.

The department's written response to the audit is included in this report on page C-1. We thank the Public Service Commissioners and staff of the department for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

TABLE OF CONTENTS

Figures and Tables.....	ii
Elected, Appointed, and Administrative Officials.....	iii
Report Summary	S-1
CHAPTER I – INTRODUCTION AND BACKGROUND	1
Introduction	1
Department Organization and Function	1
Opinion Qualification and Internal Control Deficiency	2
Prior Audit Recommendations.....	3
INDEPENDENT AUDITOR’S REPORT AND DEPARTMENT FINANCIAL SCHEDULES	
Independent Auditor’s Report	A-1
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2022	A-5
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2021	A-6
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2022	A-7
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2021.....	A-8
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2022.....	A-9
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2021	A-10
Notes to the Financial Schedules	A-11
REPORT ON INTERNAL CONTROL AND COMPLIANCE	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance With <i>Government</i> <i>Auditing Standards</i>	B-1
DEPARTMENT RESPONSE	
Department of Public Service Regulation	C-1

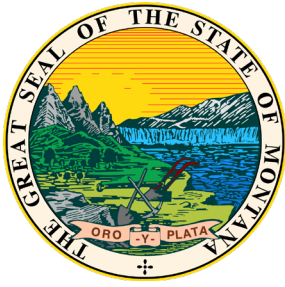
FIGURES AND TABLES

Tables

Table 1	Fiscal Year 2021 Schedule of Total Expenditures and Transfers-Out Misstatements	3
Table 2	Implementation Status of Prior Audit Recommendations.....	3
Table 3	Comparison of Appropriations to Revenues and Cash in the Department State Special Revenue Account.....	5

ELECTED, APPOINTED, AND ADMINISTRATIVE OFFICIALS

	<u>Term Expires</u>	
Public Service Commission	James Brown, President	January 2025
	Jennifer Fielder, Vice President	January 2025
	Annie Bukacek	January 2027
	Randy Pinocci	January 2027
	Tony O'Donnell	January 2025
	Roger Koopman (through January 2021)	
	Bob Lake (through January 2021)	
Appointed and Administrative Officials	Brad Johnson (through January 2023)	
	Brad Tschida, Executive Director (effective January 2023)	
	Erik Wilkerson, Executive Director (through June 2022)	
	Tina Limesand, Business Manager	
	Mandi Hinman, Administrator, Centralized Services Division (through June 2021)	
	Staci Litschauer, Financial Accounting Analyst (effective January 2022)	
	Will Rosquist, Chief Regulator	
	Lucas Hamilton, Chief Legal (effective December 2022)	
	Ben Reed, Chief Legal (through November 2022)	
	Luke Casey, Acting Chief Legal (through August 2021)	
Justin Kraske, Chief Legal (through December 2020)		
For additional information concerning the Department of Public Service Regulation programs, contact:		
James Brown, President Public Service Regulation P.O. Box 202601 Helena, MT 59620-2601		
(406) 444-6167		
e-mail: James.Brown@mt.gov		



MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT
 Department of Public Service Regulation
 FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2022

A report to the Montana Legislature

BACKGROUND

The Department of Public Service Regulation (department) is responsible for ensuring the public receives safe and satisfactory utility and transportation services at reasonable rates. The department is responsible for regulating certain public utilities, motor carriers, railroads, and pipelines within the state. It performs safety inspections of regulated activities under the direction of the Public Service Commission.

Public Service Commissioners are elected by district and serve 4-year terms. Most of the department’s funding comes from a tax on the gross operating revenue of regulated companies collected by the Montana Department of Revenue. In fiscal years 2021 and 2022, the tax generated over \$5.6 million and over \$4.4 million, respectively. The tax is presented as a Direct Entry to Fund Equity in the state special revenue fund on the department’s financial schedules. The department also receives federal grant funding related to pipeline safety and underground natural gas storage.

The Department of Public Service Regulation (department) has taken actionable steps to address the recommendations we made in our prior audit. While we identified some areas for continued improvement, we make no new recommendations to the department based on our current fiscal years 2021 and 2022 audit. Our report does include an opinion qualification on the 2021 financial schedules. We disclaimed opinions during the last audit, which impacts the beginning fund equity balances reported in the fiscal year 2021 financial schedules. Additionally, the department recorded asset capitalization entries incorrectly in fiscal year 2021. Both factors contributed to the opinion qualification for fiscal year 2021. Our report also includes information on a material weakness in internal controls in fiscal year 2021 related to the asset capitalization error.

AUDITOR’S OPINION (page A-1):

FY2021: QUALIFIED
FY2022: UNMODIFIED

In **fiscal year 2021**, we issued a qualified opinion on the department’s schedules. This means a reader should understand the issues outlined in the opinion, and discussed below, when using the financial schedules for fiscal year 2021. Specifically:

- ◆ The department incorrectly recorded journal entries to capitalize an intangible asset. As a result, \$458,100 in expenditures are misclassified between the Operating Expense and Equipment and Intangible Assets expenditure sections of the Schedule of Total Expenditures and Transfers-Out for the fiscal year ended June 30, 2021. There are also some misclassifications within the Operating Expenses section of the schedule.
- ◆ In our prior audit of the department, we disclaimed opinions on the department’s financial schedules for fiscal years 2019 and 2020 because we could not obtain sufficient appropriate audit evidence to support opinions on the reasonableness, accuracy, and completeness of the department’s recorded financial activity. The ending fund equity balances for fiscal year 2020 become the beginning fund equity

(continued on back)

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

leg.mt.gov/lad

Room 160, State Capitol
PO Box 201705
Helena, MT 59620-1705
(406) 444-3122

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.

To report fraud, waste, or abuse:

Online
www.Montanafraud.gov

Email
LADHotline@legmt.gov

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

Text
(704) 430-3930

balances for fiscal year 2021, as reported on the Schedule of Changes in Fund Equity for fiscal year 2021. We provide no assurances over those beginning balances.

In **fiscal year 2022**, we issued an unmodified opinion on the department's financial schedules, which means a reader can rely on the information presented with the schedules and note disclosures for that fiscal year.

For the full context of the department's financial activity, see the financial schedules and notes beginning on page A-5.

RECOMMENDATIONS:

In this report, we issued the following recommendations:

To the department: 0

To the legislature: 0

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

Fully Implemented: 2

Partially Implemented: 3

Not Implemented: 0

SUMMARY OF AUDIT WORK:

As part of our audit, we completed testing over the department's significant transaction cycles and account balances, including personal services, operating expenses, and intangible asset expenditures. Additionally, we performed work over the direct entries to fund equity in the state special revenue fund and associated cash in the fund. We also analyzed the financial schedules and note disclosures to determine whether they were consistent with and supported by the accounting records.

This report contains no new recommendations to the department but does provide additional context on the results of our follow-up on the recommendations made in the prior audit of the department for fiscal years 2019 and 2020. This report also includes information on the opinion qualification for fiscal year 2021 and an associated deficiency in internal controls for that period.

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

In this report, we identified the following:

Material Weaknesses in Internal Control: 1

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 Montana Public Service Regulation (department) for the two fiscal years ended June 30, 2022. The objectives of our audit were to:

1. Obtain an understanding of the department’s control systems to the extent necessary to support our audit of the department’s financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.
2. Determine if the department’s financial schedules present fairly the results of operations for each of the fiscal years ended June 30, 2022, and 2021.
3. Determine if the department complied with selected state laws and regulations during the audit period.
4. Determine the implementation status of prior audit recommendations.

Our audit efforts focused on testing the department’s significant transaction cycles and account balances, including personal services, operating expenses, and intangible asset expenditures. Additionally, we performed work over the direct entries to fund equity in the state special revenue fund, and associated cash in the fund. We also analyzed the financial schedules and note disclosures to determine whether they were consistent with and supported by the accounting records.

This report contains no new recommendations for the department. Still, it does provide additional context on the results of our follow-up on the recommendations made in the prior audit of the department for fiscal years 2019 and 2020. Additionally, it includes information on our opinion qualification for fiscal year 2021 and an associated deficiency in internal controls for that period.

Department Organization and Function

The department operates under the direction of the Public Service Commission (commission). The commission consists of five voting members elected on a district basis and serving a four-year term. After each general election, commissioners elect a president and vice president to serve until the next general election. The president exercises authority on behalf of the commission. The department’s responsibility is to ensure the public receives safe and adequate utility and transportation services at reasonable rates. The department regulates certain public utilities, motor carriers, railroads, and pipelines within the state. Its staff also performs safety inspections of regulated activities under the commission’s direction.

The department’s 36 full-time equivalent (FTE) positions (as of June 30, 2022) consist of five commissioners and staff of the following three divisions:

- ◆ **The Regulatory Division** (19 FTE) advises the commission on the activities of the regulated public utilities, including rate determination and safety standards. The division also exercises general supervisory control over the activities of motor carriers and railroads.
- ◆ **The Centralized Services Division** (7 FTE) provides the department with financial, human resources, information technology, and administrative support.

- ♦ **The Legal Division** (5 FTE) advises the commission on matters requiring a legal interpretation or opinion, represents the commission in legal proceedings, and assists with customer complaints and issues.

The Public Service Regulation Program on the department's Schedules of Expenditures and Transfers-Out on pages A-9 and A-10 show the department's aggregate expenditure activity. The department's operations are funded by a fee levied on regulated companies, as required by §69-1-402, MCA. Department of Revenue collects the fee on behalf of the department on a quarterly basis. The fee is based on a percentage of the gross operating revenue of all the regulated activities under the commission's purview. The cash collected by the Department of Revenue is moved to the department at fiscal year-end, through a direct entry to fund equity.

Opinion Qualification and Internal Control Deficiency

In our prior report, we disclaimed opinions on the department's financial schedules for fiscal years 2019 and 2020 because we could not obtain sufficient appropriate audit evidence to support an opinion on the reasonableness, accuracy, and completeness of the department's recorded financial activity. At a high level, we had concerns about the integrity and competence of certain members of the management team in place during those years. As a result, we were unable to obtain reliable representations from management regarding the financial activity for fiscal years 2019 and 2020. In the current audit, we evaluated how the opinion disclaimer from the prior audit impacted our ability to express opinions on the financial schedules for the current audit period. We determined it was most appropriate under auditing standards to qualify our audit opinion on the fiscal year 2021 financial schedules, given the June 30, 2020, fund equity balances, for which we were unable to obtain sufficient appropriate audit evidence, are also reported as the beginning fund equity balances on the fiscal year 2021 Schedule of Changes in Fund Equity. This opinion qualification can be seen in the Independent Auditor's Report beginning on page A-1 of this report and alerts a reader to the fact that we provide no assurances over those beginning balances.

The Independent Auditor's Report beginning on page A-1 also includes an opinion qualification related to an error in the fiscal year 2021 Schedule of Total Expenditures and Transfers-Out. In the fall of 2021, before the start of our audit work, the department notified our office they identified a significant error in the fiscal year 2021 financial activity in the state's accounting records after the records were closed for the fiscal year. The error related to previous department personnel's attempt to capitalize an information system as an intangible asset for the department. As part of the audit, we reviewed the department's analysis of the error. We agree with the department that the activity recorded did not follow state accounting policy and resulted in an error in the state's accounting records for the fiscal year. This error is reflected in the Schedule of Total Expenditures and Transfers-Out and misclassifies expenditures between Operating Expenses and Equipment and Intangible Assets. Table 1 (see page 3) summarizes the error.

Table 1
Fiscal Year 2021 Schedule of Total Expenditures and Transfers-Out Misstatements

Financial Schedule Line Item	Overstatement (Understatement)
Operating Expenses:	
Other Services	\$68,985
Other Expenses	(\$527,085)
Total Operating Expenses	(\$458,100)
Equipment & Intangible Assets	
Intangible Assets	\$458,100
Total Equipment & Intangible Assets	\$458,100

SOURCE: Compiled by the Legislative Audit Division from department accounting records.

This error indicates a deficiency in the department's internal controls existed during fiscal year 2021, as controls were ineffective in preventing or detecting and correcting the error before the fiscal year's end. Given the magnitude of this error, we consider the control deficiency a material weakness and have reported it as such in our Report on Internal Controls and Compliance on page B-1. While there was a control deficiency in fiscal year 2021, department personnel identified the error in fiscal year 2022, and we noted no similar errors in fiscal year 2022. As such, we have not made a recommendation to the department as part of this audit.

Prior Audit Recommendations

Our audit report of the department for fiscal years 2019 and 2020 contained five recommendations to the department, including a global recommendation directed at organizational culture. In the current audit, we directed a significant amount of audit attention to these prior audit recommendations and understanding the steps the department and commission have taken to address them. Through our follow-up on the recommendations, we determined the department and commission have taken actionable steps to address the recommendations made in the prior audit. Most of these actions began in late fiscal year 2021 and continued into fiscal year 2022. The following table summarizes the implementation status of the recommendations.

Table 2
Implementation Status of Prior Audit Recommendations

PAR #	Description	Status
1	Organizational Challenges	Partially Implemented
2	Compliance with State Policies	Implemented
3	Controls Over the Department's Funding Activity	Partially Implemented
4	Incomplete Financial Information	Implemented
5	Controls Over Drafting the Financial Schedule Notes	Partially Implemented

SOURCE: Compiled by the Legislative Audit Division.

The status of the partially implemented recommendations is summarized below.

Note Disclosures

The prior audit included a recommendation for the department to implement internal controls over the preparation of the note disclosures. In response to this recommendation, the department developed a checklist to guide the note preparation and implemented a more robust review process. However, we found the department did not fully document the use of the checklist or two of the reviews completed. As part of our audit work over the disclosures, we communicated several items for the department to consider, to clarify or enhance the disclosures, and to better allow a reader to understand the financial schedules. The department made these changes in the disclosures presented in this report, beginning on page A-11. The department can continue to enhance its internal controls in this area but has made progress implementing the recommendation. As such, we make no further recommendation to the department.

Controls Over the Department's Funding Source

Our prior three department audits included some form of recommendation for the department to establish internal controls over monitoring the fee charged to regulated companies by the Department of Revenue to fund department operations. The resulting cash collections from this fee are moved to the department's accounting records at fiscal year-end through a direct entry to fund equity. The direct entry is material to the department's financial schedules, totaling approximately \$5.6 million and \$4.4 million in fiscal years 2021 and 2022, respectively.

In the current audit period, the department implemented a process to monitor the quarterly collections assessed and received by the Department of Revenue, including steps to verify the rate charged agreed to the approved rate and to compare expected cash collections to actual cash collections. Additionally, after fiscal year-end, they compared the direct entry to fund equity to the cash collections to ensure its completeness. As part of the audit, we also observed current department personnel were familiar with the rate-setting process and could answer several of our questions related to the process.

However, we did identify some specific concerns over the rate calculations and the cash they generated during the audit period. Section 69-1-403(1), MCA, indicates the fee must be determined in the manner outlined in §69-1-224. Section (1)(c) of that law indicates the rate should be built to . . . "ensure that sufficient funds are generated to meet the appropriation and that excess funds are not generated or retained." Beginning with the 2020 rate setting, the Department of Revenue changed the methodology for calculating the rate in response to cash shortfalls in previous years. Based on our analysis, excess funds were generated and retained under the new methodology in fiscal years 2021 and 2022.

As part of the audit, we compared appropriations to revenues generated, and unspent appropriation authority to the cash balance not expected to be used for expenditure accruals, referred to throughout the remainder of this section as adjusted cash. Since expenditure accruals reduce appropriation authority but not cash, a straight comparison of unspent appropriation authority to cash would not be reasonable. Table 3 (see page 5) illustrates the relationship between these items. As reflected in the table, by the end of fiscal year 2021, the fund had approximately \$1.5 million more in adjusted cash than unspent appropriation authority. In fiscal year 2022, the department began to incur expenditures for a new information system and recorded approximately \$700,000 in expenditure accruals at year-end. A portion of these expenditure accruals was made against administrative transfer

appropriation authority granted by the Governor’s Office of Budget and Program Planning (OBPP). The rate-setting was not intended to cover these appropriations, as the appropriations were transferred after the rate-setting process. However, the transfer appropriations did provide the department with flexibility to spend part of the cash accumulated in the fund. This is consistent with House Bill 2 from the 2021 Legislative Session, which included language authorizing the department to spend available cash on system upgrades. While the information system accruals decrease the reported adjusted cash balance in Table 3, the adjusted cash in the fund by the end of fiscal year 2022 still exceeds the unspent appropriation authority by over \$1.3 million.

Table 3
**Comparison of Appropriations to Revenues and Cash in the Department
State Special Revenue Account**

Fiscal Year	2020	2021	2022
Total Appropriations	\$4,366,490	\$4,386,172	\$5,053,737 *
Total Revenues	\$5,249,564	\$5,355,873	\$4,220,536
Revenues in Excess (Deficit) of Appropriation	\$883,074	\$969,701	(\$833,201)
Total Unspent Appropriation Authority	\$378,958	\$298,737	\$345,542
Adjusted Cash less Expenditure Accruals	\$303,985	\$1,871,254	\$1,666,220
Available Adjusted Cash in Excess (Deficit) of Unspent Appropriation Authority	(\$74,973)	\$1,572,517	\$1,320,678

SOURCE: Compiled by the Legislative Audit Division from department accounting records.

* The FY2022 appropriation amount includes House Bill 2 appropriation authority for information system upgrades. Additionally, the amount includes \$379,000 of administrative authority transferred to the department from OBPP.

In our review of the rate methodology, we noted a few specific instances where we questioned information in the calculations and communicated those items to the department. We also noted an overall question in the methodology related to the number of quarters of appropriation authority and anticipated expenditures it was attempting to recover. In response to our questions, department personnel met with Department of Revenue personnel to discuss the rate setting methodology. Department personnel indicated that as part of the meeting, both departments agreed the methodology change starting with 2020 was necessary to address cash flow problems with the fund, and that additional time was needed to see whether the current methodology would result in level and stable cash flow for the department. Both departments agreed to use the current methodology for two more years, through rate setting for 2025. It is reasonable for the two departments to gather a few more years of data before considering what changes are necessary to the methodology. As such, we make no further recommendation to the department.

Organizational Challenges

Our prior audit recommended that department leadership comply with internal policies and develop and implement a comprehensive plan to improve department culture. As part of our current audit, we noted the department management implemented procedures to better ensure compliance with laws and policies specific to the areas of weakness identified in the last audit. We also noted that the commission

and department have adopted a new organizational structure, creating positions for an executive director and business manager. While these are positive developments, more time needs to pass to see whether these changes will improve department culture.

Additionally, based in part on the results of our prior audit, the Legislative Audit Committee prioritized a performance audit of the department. The performance audit (#22P-01) is currently underway. It includes an objective to determine whether the Public Service Commission has established management controls to comply with state laws, internal policies, and best practices. This objective correlates with our recommendation regarding department culture in the prior audit. Any further recommendations on this subject will be made as part of the performance audit, as necessary.

Independent Auditor's Report and Department 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:

REPORT ON THE AUDIT OF FINANCIAL SCHEDULES

Qualified and Unmodified Opinions on Regulatory Basis of Accounting

We have audited the financial schedules of the Department of Public Service Regulation, which are comprised of the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out for each of the fiscal years ended June 30, 2022, and 2021, and the related notes to the financial schedules.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects of the matters described in the Basis for Qualified and Unmodified Opinions on Regulatory Basis of Accounting paragraph, the accompanying financial schedules for the fiscal year ended June 30, 2021, present fairly, in all material respects, the results of operations and changes in fund equity for the fiscal year ended June 30, 2021, in conformity with the basis of accounting described in Note 1.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial schedules, present fairly, in all material respects, the results of operations and changes in fund equity for the fiscal year ended June 30, 2022, in conformity with the basis of accounting described in Note 1.

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 section of our report, 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 department as of June 30, 2022 and June 30, 2021, or changes in financial position for the years then ended.

Basis for Qualified and Unmodified Opinions on Regulatory Basis of Accounting

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Schedules section of our report. We are required to be independent of the department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Matters Giving Rise to Qualified Opinion on the Regulatory Basis of Accounting

In our prior audit of the department, we disclaimed an opinion on the department's financial schedules for fiscal years 2019 and 2020, because we were unable to obtain sufficient appropriate audit evidence to support an opinion on the reasonableness, accuracy, and completeness of the department's recorded financial activity. The ending fund equity balances for fiscal year 2020 became the beginning fund equity balances for fiscal year 2021, as reported on the Schedule of Changes in Fund Equity for fiscal year 2021.

Additionally, as discussed in Note 3, the department did not appropriately record journal entries in the state's accounting system to reflect the capitalization of an intangible asset during fiscal years 2018 through 2020. The department attempted to correct this error in fiscal year 2021, but did not appropriately reflect the prior period nature of the correction, resulting in inaccurate accumulated activity in expenditure accounts at June 30, 2021. On the Schedule of Total Expenditures and Transfers-Out for the fiscal year ended June 30, 2021, expenditures are misclassified between operating expenditures and equipment and intangible asset expenditures. The table below illustrates the misclassifications.

Financial Schedule Line Item	Overstatement (Understatement)
Operating Expenses:	
Other Services	\$68,985
Other Expenses	(\$527,085)
Total Operating Expenses	(\$458,100)
Equipment & Intangible Assets	
Intangible Assets	\$458,100
Total Equipment & Intangible Assets	\$458,100

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

As described in Note 1 of the financial schedules, the financial schedules are prepared by Department of Public Service Regulation 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 or 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 and pervasive.

Emphasis of Matter

As discussed in Note 1 to the financial schedules, the department implemented Governmental Accounting Standards Board (GASB) Statement 87 – Leases in fiscal year 2022. This standard required the department to record significant financial activity in fiscal year 2022, to recognize the new lease negotiated for their building space. As a result, the department's fiscal year 2022 financial schedules report large non-budgeted revenues and expenditures. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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.

In preparing the financial schedules, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Schedules

Our objectives are to obtain reasonable assurance about whether the financial schedules as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial schedules.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- ◆ Exercise professional judgment and maintain professional skepticism throughout the audit.
- ◆ Identify and assess the risks of material misstatement of the financial schedules, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial schedules.
- ◆ Obtain an understanding of internal control relevant to the audit 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 department's internal control. Accordingly, no such opinion is expressed.
- ◆ Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial schedules.
- ◆ Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2023, on our consideration of the department'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 solely 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 department's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

June 27, 2023

PUBLIC SERVICE REGULATION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund
FUND EQUITY: July 1, 2021	\$ <u>0</u>	\$ <u>2,034,607</u>	\$ <u>0</u>
ADDITIONS			
Budgeted Revenues & Transfers-In		23,528	182,221
Nonbudgeted Revenues & Transfers-In	75,019	2,793,905	86,468
Prior Year Revenues & Transfers-In Adjustments		(880)	
Direct Entries to Fund Equity	<u>(75,019)</u>	<u>4,448,874</u>	
Total Additions	<u>0</u>	<u>7,265,426</u>	<u>268,689</u>
REDUCTIONS			
Budgeted Expenditures & Transfers-Out		4,681,894	170,894
Nonbudgeted Expenditures & Transfers-Out		2,865,571	86,409
Prior Year Expenditures & Transfers-Out Adjustments		<u>(11,536)</u>	<u>11,327</u>
Total Reductions	<u>0</u>	<u>7,535,929</u>	<u>268,630</u>
FUND EQUITY: June 30, 2022	\$ <u><u>0</u></u>	\$ <u><u>1,764,103</u></u>	\$ <u><u>59</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.

PUBLIC SERVICE REGULATION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>
FUND EQUITY: July 1, 2020	\$ <u>477,339</u>	\$ <u>0</u>
ADDITIONS		
Budgeted Revenues & Transfers-In	37,089	134,650
Nonbudgeted Revenues & Transfers-In	126	7
Direct Entries to Fund Equity	<u>5,621,563</u>	
Total Additions	<u>5,658,778</u>	<u>134,657</u>
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	4,087,434	134,657
Nonbudgeted Expenditures & Transfers-Out	(3,466)	
Prior Year Expenditures & Transfers-Out Adjustments	<u>17,542</u>	
Total Reductions	<u>4,101,510</u>	<u>134,657</u>
FUND EQUITY: June 30, 2021	\$ <u>2,034,607</u>	\$ <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.

PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Licenses and Permits		\$ 5,275		\$ 5,275
Taxes			\$ 59	59
Charges for Services		17,260		17,260
Transfers-in	\$ 75,019			75,019
Inception of Lease/Installment Contract		2,793,905	86,409	2,880,314
Miscellaneous		113		113
Federal			<u>182,221</u>	<u>182,221</u>
Total Revenues & Transfers-In	<u>75,019</u>	<u>2,816,552</u>	<u>268,689</u>	<u>3,160,261</u>
Less: Nonbudgeted Revenues & Transfers-In	75,019	2,793,905	86,468	2,955,392
Prior Year Revenues & Transfers-In Adjustments		(880)		(880)
Actual Budgeted Revenues & Transfers-In	<u>\$ 0</u>	<u>\$ 23,528</u>	<u>\$ 182,221</u>	<u>\$ 205,749</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.

PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	State Special Revenue Fund	Federal Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Licenses and Permits	\$ 9,740		\$ 9,740
Taxes		\$ 7	7
Charges for Services	27,475		27,475
Federal		134,650	134,650
Total Revenues & Transfers-In	37,215	134,657	171,872
Less: Nonbudgeted Revenues & Transfers-In	126	7	133
Prior Year Revenues & Transfers-In Adjustments			0
Actual Budgeted Revenues & Transfers-In	\$ 37,089	\$ 134,650	\$ 171,739

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.

PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	Public Service Regulation Program	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	\$ 2,570,306	\$ 2,570,306
Employee Benefits	754,989	754,989
Total	3,325,295	3,325,295
Operating Expenses		
Other Services	991,210	991,210
Supplies & Materials	72,596	72,596
Communications	68,768	68,768
Travel	45,160	45,160
Rent	115,712	115,712
Repair & Maintenance	22,624	22,624
Other Expenses	61,806	61,806
Total	1,377,877	1,377,877
Equipment & Intangible Assets		
Intangible Assets	2,880,314	2,880,314
Total	2,880,314	2,880,314
Transfers-out		
Fund transfers	75,019	75,019
Total	75,019	75,019
Debt Service		
Lease Liability	146,055	146,055
Total	146,055	146,055
Total Expenditures & Transfers-Out	\$ 7,804,560	\$ 7,804,560
EXPENDITURES & TRANSFERS-OUT BY FUND		
State Special Revenue Fund	\$ 7,535,929	\$ 7,535,929
Federal Special Revenue Fund	268,630	268,630
Total Expenditures & Transfers-Out	7,804,560	7,804,560
Less: Nonbudgeted Expenditures & Transfers-Out	2,951,981	2,951,981
Prior Year Expenditures & Transfers-Out Adjustments	(209)	(209)
Actual Budgeted Expenditures & Transfers-Out	4,852,788	4,852,788
Budget Authority	5,407,718	5,407,718
Unspent Budget Authority	\$ 554,930	\$ 554,930
UNSPENT BUDGET AUTHORITY BY FUND		
State Special Revenue Fund	\$ 348,457	\$ 348,457
Federal Special Revenue Fund	206,473	206,473
Unspent Budget Authority	\$ 554,930	\$ 554,930

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.

PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	Public Service Regulation Program	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	\$ 2,703,500	\$ 2,703,500
Employee Benefits	866,859	866,859
Total	3,570,359	3,570,359
Operating Expenses		
Other Services	183,588	183,588
Supplies & Materials	74,989	74,989
Communications	81,160	81,160
Travel	10,647	10,647
Rent	238,648	238,648
Repair & Maintenance	1,474	1,474
Other Expenses	(455,193)	(455,193)
Total	135,314	135,314
Equipment & Intangible Assets		
Intangible Assets	527,085	527,085
Total	527,085	527,085
Debt Service		
Capital Leases	3,409	3,409
Total	3,409	3,409
Total Expenditures & Transfers-Out	\$ 4,236,167	\$ 4,236,167
EXPENDITURES & TRANSFERS-OUT BY FUND		
State Special Revenue Fund	\$ 4,101,510	\$ 4,101,510
Federal Special Revenue Fund	134,657	134,657
Total Expenditures & Transfers-Out	4,236,167	4,236,167
Less: Nonbudgeted Expenditures & Transfers-Out	(3,466)	(3,466)
Prior Year Expenditures & Transfers-Out Adjustments	17,542	17,542
Actual Budgeted Expenditures & Transfers-Out	4,222,091	4,222,091
Budget Authority	4,746,538	4,746,538
Unspent Budget Authority	\$ 524,446	\$ 524,446
UNSPENT BUDGET AUTHORITY BY FUND		
State Special Revenue Fund	\$ 328,737	\$ 328,737
Federal Special Revenue Fund	195,709	195,709
Unspent Budget Authority	\$ 524,446	\$ 524,446

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.

Department of Public Service Regulation

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2022

1. Summary of Significant Accounting Policies

Basis of Accounting

The department 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 department records:

- ◆ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ◆ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

Expenditures may include entire budgeted service contracts even though the department 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 department 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 a Fiscal Year 2022 cash transfer-in related to a department rulemaking that resulted in the discontinuation of Qwest performance monitoring.
- ◆ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. The department's State Special Revenue Funds include a fund to account for the department's general operating revenues and expenditures and a fund to account for Qwest performance monitoring activities. In Fiscal Year 2022, the cash balance in the Qwest performance monitoring fund was transferred to the general fund after a department rulemaking discontinued the program.

During Fiscal Year 2022, the department received a transfer of budget authority of \$378,882 to assist with funding for the department software planning and development project. The department also received one time only authority of \$416,701 in the 2021 legislative session. These amounts were fully expended or encumbered resulting in an increase of Operating

Expenses – Other Services in the Schedule of Total Expenditures and Transfers-Out from Fiscal Year 2021 to Fiscal Year 2022.

- ◆ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. The department’s Federal Special Revenue Funds include funds to account for pipeline safety and underground natural gas storage.

Changes in Accounting Policy

Beginning in Fiscal Year 2022, the State of Montana implemented GASB 87 – Leases, which generally requires long-term leases to be recorded as a liability and a corresponding right-to-use lease asset. Since these leases are accounted for as long-term debt, governmental funds will show a Non-Budgeted, Inception of Lease/Installment Contract category on the Schedule of Revenues and Transfers-in and a corresponding Non-Budgeted Expenditure on the Schedule of Total Expenditures and Transfers-out for the right to use the leased asset.

On the Schedule of Total Expenditures and Transfers-out for Fiscal Year 2022, there is a debt service transfer from Operating Expenses - Rent to Debt Service – Lease Liability of \$146,055. Because the building lease expense is greater than \$100,000, and for a term greater than one year, it is considered a long-term lease under GASB 87 – Leases. There are also non-budgeted Intangible Assets expenditures of \$2,880,314 which represents the long term right to use the leased building asset.

2. 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 to fund equity in the State Special Revenue fund also include entries generated by SABHRS to reflect the flow of resources within an individual fund shared by the department and the Department of Revenue. Throughout a fiscal year, the Department of Revenue assesses and collects the regulated company tax on behalf of the department. At the close of Fiscal Years 2021 and 2022, the direct entries to equity to reclassify the regulated company tax collections from the Department of Revenue’s business unit to the department’s business unit were \$5,621,563 and \$4,449,114, respectively.

Direct entries to fund equity in the State Special Revenue fund can also include correction of an error from a previous period that occurred at least two fiscal years prior.

3. Material Misstatement

During Fiscal Years 2018 through 2020, the department incurred costs that exceeded the capitalization threshold of \$500,000 for internally generated software, which the department placed into operations in July 2019. During those years, the department did not correctly report the intangible asset in the state accounting system. During Fiscal Year 2021, the department recognized the prior and current period errors and added the asset to the state accounting system but did not reflect the prior period nature of the correction. In addition, the department posted the accounting entries in incorrect account categories. In the Fiscal Year 2021 Schedule of Total Expenditures and Transfers-Out, Operating Expenses – Other Services is overstated by \$68,895; Operating Expenses – Other Expenses is understated by \$527,085; and Equipment & Intangible Assets – Intangible Assets is overstated by \$458,190. The net balance of the overstatements and understatements is zero.

4. Unspent Budget Authority

The Schedule of Total Expenditures and Transfers-Out for Fiscal Years 2021 and 2022 reflects unspent budget authority of \$524,446 and \$554,930, respectively.

In Fiscal Year 2021, unspent State Special Revenue fund authority included biennial carryforward of \$30,000, restricted, one time only consulting of \$90,158, restricted State IT of \$54,667, Hearings Proc HB 597 of \$54,777, and Public Service Commission of \$99,135. Unspent Federal Special Revenue fund authority included biennial carryforward of \$40,196 and other federal authority of \$155,513.

In Fiscal Year 2022, unspent State Special Revenue fund authority included biennial carryforward of \$72,386, restricted, one time only Hearing Examiner of \$97,776, restricted biennial Financial Audit of \$32,487, Qwest Performance Monitoring of \$75,301, and Public Service Commission of \$70,507. Unspent Federal Special Revenue fund authority included biennial carryforward of \$83,162 and other federal authority of \$123,311.

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 Department of Public Service Regulation for each of the fiscal years ended June 30, 2022, and 2021, and the related notes to the financial schedules, and have issued our report thereon dated June 27, 2023. Our report includes an opinion qualification on the financial schedules for fiscal year 2021.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the department's internal control over financial reporting as a basis for designing 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 department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department'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 a deficiency in internal control, described below, that we consider to be a material weakness.

In fiscal year 2021, the department's internal controls were not effective in preventing, or detecting and correcting in a timely manner, an error in capitalizing an intangible asset. As a result, the department's Schedule of Total Expenditures and Transfers-Out for the fiscal year ended June 30, 2021, contain a material misclassification of expenditures between operating expenditures and equipment and intangible asset expenditures.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the department'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 financial schedules. 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*.

Department of Public Service Regulation Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the department's response to the findings identified in our audit as described on page C-1 of this report. The department'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 department'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 department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

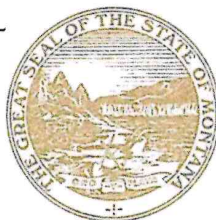
Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

June 27, 2023

DEPARTMENT OF
PUBLIC SERVICE
REGULATION

DEPARTMENT RESPONSE

Montana Public Service Commission



James Brown, President
Jennifer Fielder, Vice President
Tony O'Donnell, Commissioner
Randall Pinocci, Commissioner
Dr. Annie Bukacek, Commissioner

August 15, 2023

Mr. Angus Maciver, Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena, MT 59620-1705

RECEIVED

AUG 15 2023

LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver,

As President of the Department of Public Service Regulation, Public Service Commission (PSC), and on behalf of the Commission, I thank you for the opportunity to respond to the Financial Compliance Audit Report for the two fiscal years ending June 30, 2022. As you know, the report has no current recommendations and contains an unmodified opinion for the fiscal year 2022.

The fiscal year 2021 opinion contains a qualification related to the prior audit and a qualification related to an error in the financial schedules. The fiscal year 2021 financial error resulted in a material weakness in internal controls. The agency concurs in this finding.

Even so, the agency notes that the error was the result of one of its centralized staff making an erroneous accounting entry at the close of fiscal year 2021. The error was caused by human error and was not caused by the agency failing to have in the first instance year-end accounting processes or procedures in place.

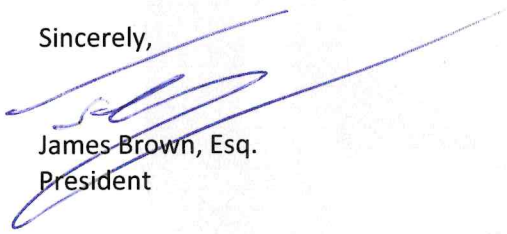
As stated within the audit report, the PSC's internal policies and procedures identified and caught the entry error within days after the close of fiscal year 2021. In turn, the PSC notified (self-reported) the Legislative Audit Division of the error within days of such error being discovered. And, prior to the current audit, the PSC implemented additional internal controls in fiscal years 2022 and 2023, including the adoption of a fiscal year end checklist and mandating a secondary staff review of the financial records prior to the close of a given fiscal year. Further, in fiscal year 2022, the agency advertised for and hired an experienced CPA with extensive state government experience to oversee the agency's fiscal and accounting processes and obligations.

As the Legislative Audit Committee is aware, prior to the current audit, the agency had a series of 'poor' audits and such audits were under the auspices of prior PSC management. Starting in January of 2021, current leadership began implementing a series of management and internal control reforms to redress the ongoing problems of the past. Such efforts included revising the PSC's internal policies and procedures manual, i.e. 'the Blue Book', and revising the agency's organizational structure. Such reforms involved creating the position of PSC Executive Director and hiring two CPAs, one to serve in the regulatory division and one to serve in the centralized services division. The agency also hired a very experienced state employee to serve as the agency's business manager. As a result, the agency management in place as of December of 2020 is no longer in employment with the PSC.

Since January of 2021, The Commission has undertaken a large, long-term project to improve agency culture -- including engaging in strategic planning, making significant changes to the organizational structure, and thoroughly updating its agency policies. Because of these changes in management and internal operating processes implemented by the PSC, the five commissioners who serve as the PSC's agency head are pleased with the progress that has been made in such a short time to make the PSC a model government agency. Such progress is clearly demonstrated by the fact the agency has received an unmodified opinion on the Fiscal Year 2022 Financial Schedules with no new findings or issues. The Commission recognizes and thanks the hard work of the dedicated PSC staff for reaching this outstanding result.

I also thank you and the staff of the Legislative Audit Division for your professional, fair, and thorough review during the audit.

Sincerely,



James Brown, Esq.
President

cc: Jennifer Fielder, Tony O'Donnell, Randy Pinocci, Annie Bukacek