

Legislative Audit Division

State of Montana



Report to the Legislature

January 2003

Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 2002

Office of the Commissioner of Political Practices

This report contains one recommendation related to timeliness of deposits.

Direct comments/inquiries to:
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

02-19

Help eliminate fraud, waste, and abuse in state government. Call the Fraud Hotline at 1-800-222-4446 statewide or 444-4446 in Helena.

FINANCIAL-COMPLIANCE AUDITS

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

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. 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, 2003, will be issued by March 31, 2004. The Single Audit Report for the two fiscal years ended June 30, 2001, was issued on March 26, 2002. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE (As of December 2002)

Senator John Cobb
Senator Jim Elliott
Senator Dan Harrington
Senator Ken Miller
Senator Corey Stapleton
Senator Jon Tester, Chair

Representative Joe Balyeat
Representative Dee Brown
Representative Bill Eggers
Representative Hal Jacobson
Representative Jeff Pattison, Vice Chair
Representative David Wanzonried

LEGISLATIVE AUDIT DIVISION

Scott A. Seecat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

January 2003

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, 2002. Our report contains one recommendation related to timeliness of deposits. The office's written response to the audit recommendation is included in the back of the report.

We thank the Commissioner and her staff for their assistance and cooperation during the audit.

Respectfully submitted,

(Signature on File)

Scott A. Seecat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2002

Office of the Commissioner of Political Practices

The audit staff member involved in this audit was Wayne Guazzo.

Table of Contents

Appointed and Administrative Officials	ii
Report Summary	S-1
Introduction.....	1
Introduction	1
Background.....	1
Prior Audit Recommendations	2
Findings and Recommendations	3
State Compliance Issue	3
Delayed Deposits.....	3
Notes to the Financial Schedules.....	11
Independent Auditor’s Report & Office Financial Schedules	A-1
Independent Auditor’s Report.....	A-3
Schedule of Changes in Fund Balances For the Fiscal Year Ended June 30, 2002.....	A-5
Schedule of Changes in Fund Balance For the Fiscal Year Ended June 30, 2001.....	A-6
Schedule of Total Revenues For the Fiscal Year Ended June 30, 2002.....	A-7
Schedule of Total Revenues For the Fiscal Year Ended June 30, 2001.....	A-8
Schedule of Total Expenditures For the Fiscal Year Ended June 30, 2002.....	A-9
Schedule of Total Expenditures For the Fiscal Year Ended June 30, 2001.....	A-10
Notes to the Financial Schedules.....	A-11
Agency Response	B-1
Office of the Commissioner of Political Practices	B-3

Appointed and Administrative Officials

**Office of the Commissioner
of Political Practices**

Linda L. Vaughey, Commissioner

Term Expires
December 31, 2004

Dulcy L. Hubbert, Program Supervisor

For additional information contact:

Linda L. Vaughey, Commissioner of Political Practices
PO Box 202401
Helena MT 59620-2401
Phone: (406) 444-2942

e-mail: lvaughey@state.mt.us

**Office of the
Commissioner of Political
Practices**

This audit report is the result of our financial-compliance audit of the Office of the Commissioner of Political Practices for the two fiscal years ending June 30, 2002. The one recommendation in this report relates to the deposit of cash and checks..

We issued an unqualified opinion on the financial schedules contained in this report. The reader may rely on the financial information presented in the financial schedules and the supporting data on the state's accounting system.

Below is a summary of the recommendation contained in the report and a reference to the office's response.

Recommendation #1

We recommend the office review its depositing procedures to ensure deposits are made in accordance with state law..... 3

Agency Response: Concur. See page B-3.

Introduction

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, 2002. The objectives of the audit were to:

1. Determine if the office complied with applicable laws and regulations which could have a significant effect on the financial schedules.
2. Make recommendations for improvement in the management and internal controls of the office.
3. Determine if the financial schedules present fairly the results of the office's operations for each of the two fiscal years ended June 30, 2002.

In accordance with section 5-13-307(2), MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendation we made to the office.

Background

The office was created by the 1975 Legislature. The governor appoints the commissioner to a six-year term, subject to confirmation by the senate. A four-member selection committee comprised of the Speaker of the House, the President of the Senate, and the minority floor leaders of both houses of the legislature submit a list of two to five names of individuals to the governor for consideration.

The primary duties of the commissioner include:

1. Facilitating disclosure of financial contributions to and expenditures of candidates and political committees.
2. Facilitating registration of lobbyists and monitoring lobbying expenditures by principals.
3. Monitoring candidates and political committees, lobbyists, and principals for compliance with Montana campaign finance and practices laws and Montana lobbying laws.
4. Monitoring and enforcing Montana's Code of Ethics for public officers, public employees, and legislators.

Introduction

5. Investigating complaints of alleged violations of campaign finance and practices laws, lobbying laws, and ethics laws.

The office was authorized five full-time employees for fiscal years 2000-01 and 2001-02.

Prior Audit Recommendations

Our previous audit report covering fiscal years 1998-99 and 1999-00 contained no recommendations.

Findings and Recommendations

State Compliance Issue

During our audit we noted one instance where the office can improve processes and procedures regarding compliance with state law. The following section discusses our finding.

Delayed Deposits

Section 17-6-105, MCA, requires state agencies to deposit collections daily when coin and currency exceed \$100, when all collections (coin, currency, and checks) exceed \$500, and in any case at least weekly.

We tested two deposits of fees in January 2001 and noted both were not deposited in accordance with state law. The two instances were deposits made from 3 to 7 days late. Dollar amounts of deposits (including some coin and currency but mainly checks) totaled \$7,850, which was nearly 20 percent of the office's license and permit revenue in fiscal year 2000-01. An office manager indicated the office is aware of the statutory requirement to deposit moneys in a timely manner but they thought the requirement only applied when coin and currency exceeded \$100.

The risk of theft increases when there are delays between receipt of cash and checks, and deposits. Also, delays in deposits result in lost interest to the state. The office should make timely deposits as required by law.

Recommendation #1

We recommend the office review its depositing procedures to ensure deposits are made in accordance with state law.

**Independent Auditor's Report &
Office Financial Schedules**

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues, and Schedules of Total Expenditures of the Office of the Commissioner of Political Practices for each of the fiscal years ended June 30, 2001 and 2002. The information contained in these financial schedules is the responsibility of the office's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the office's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Office of the Commissioner of Political Practices for each of the fiscal years ended June 30, 2001 and 2002, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

November 27, 2002

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>General Fund</u>	<u>Special Revenue Fund</u>
FUND BALANCE: July 1, 2001	\$ <u>(12,603)</u>	\$ <u>0</u>
ADDITIONS		
Budgeted Revenues	3,007	
NonBudgeted Revenues	61	1,500
Direct Entries to Fund Balance	<u>312,231</u>	<u>(1,400)</u>
Total Additions	<u>315,299</u>	<u>100</u>
REDUCTIONS		
Budgeted Expenditures	<u>331,664</u>	
Total Reductions	<u>331,664</u>	
FUND BALANCE: June 30, 2002	\$ <u><u>(28,968)</u></u>	\$ <u><u>100</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 PRACTICES
SCHEDULE OF CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	<u>General Fund</u>
FUND BALANCE: July 1, 2000	\$ <u>(22,466)</u>
ADDITIONS	
Budgeted Revenues	74,800
NonBudgeted Revenues	50
Prior Year Revenue Adjustments	7
Direct Entries to Fund Balance	207,203
Total Additions	<u>282,060</u>
REDUCTIONS	
Budgeted Expenditures	<u>272,197</u>
Total Reductions	<u>272,197</u>
FUND BALANCE: June 30, 2001	\$ <u>(12,603)</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
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES BY CLASS			
Licenses and Permits	\$ 907	\$ 1,500	\$ 2,407
Taxes	10		10
Charges for Services	2,099		2,099
Miscellaneous	52		52
Total Revenues	<u>3,068</u>	<u>1,500</u>	<u>4,568</u>
Less: Nonbudgeted Revenues	61	1,500	1,561
Actual Budgeted Revenues	3,007		3,007
Estimated Revenues	2,950		2,950
Budgeted Revenues Over (Under) Estimated	<u>\$ 57</u>	<u>\$ 0</u>	<u>\$ 57</u>
BUDGETED REVENUES OVER (UNDER) ESTIMATED BY CLASS			
Licenses and Permits	\$ 707		\$ 707
Charges for Services	(400)		(400)
Fines and Forfeits	(250)		(250)
Budgeted Revenues Over (Under) Estimated	<u>\$ 57</u>	<u>\$ 0</u>	<u>\$ 57</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
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	<u>General Fund</u>
TOTAL REVENUES BY CLASS	
Licenses and Permits	\$ 42,950
Taxes	7
Charges for Services	3,850
Fines and Forfeits	28,000
Miscellaneous	50
Total Revenues	74,857
Less: Nonbudgeted Revenues	50
Prior Year Revenue Adjustments	7
Actual Budgeted Revenues	74,800
Estimated Revenues	32,750
Budgeted Revenues Over (Under) Estimated	\$ 42,050
 BUDGETED REVENUES OVER (UNDER) ESTIMATED BY CLASS	
Licenses and Permits	\$ 12,950
Charges for Services	1,350
Fines and Forfeits	27,750
Budgeted Revenues Over (Under) Estimated	\$ 42,050

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
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

PROGRAM (SUBCLASS) EXPENDITURES	<u>ADMINISTRATION</u>
Personal Services	
Salaries	\$ 135,113
Employee Benefits	35,175
Total	<u>170,288</u>
Operating Expenses	
Other Services	113,767
Supplies & Materials	13,962
Communications	19,955
Travel	1,668
Rent	7,070
Repair & Maintenance	531
Other Expenses	4,423
Total	<u>161,376</u>
Total Expenditures	<u>\$ 331,664</u>
 EXPENDITURES BY FUND	
General Fund	\$ <u>331,664</u>
Total Expenditures	331,664
Actual Budgeted Expenditures	331,664
Budget Authority	<u>355,213</u>
Unspent Budget Authority	<u>\$ 23,549</u>
 UNSPENT BUDGET AUTHORITY BY FUND	
General Fund	\$ <u>23,549</u>
Unspent Budget Authority	<u>\$ 23,549</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
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM (SUBCLASS) EXPENDITURES	<u>ADMINISTRATION</u>
Personal Services	
Salaries	\$ 120,141
Employee Benefits	31,393
Total	<u>151,534</u>
Operating Expenses	
Other Services	89,077
Supplies & Materials	5,816
Communications	11,685
Travel	1,326
Rent	7,656
Repair & Maintenance	383
Other Expenses	4,720
Total	<u>120,663</u>
Total Expenditures	<u>\$ 272,197</u>
 EXPENDITURES BY FUND	
General Fund	\$ <u>272,197</u>
Total Expenditures	272,197
Actual Budgeted Expenditures	272,197
Budget Authority	367,961
Unspent Budget Authority	<u>\$ 95,764</u>
 UNSPENT BUDGET AUTHORITY BY FUND	
General Fund	\$ <u>95,764</u>
Unspent Budget Authority	<u>\$ 95,764</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 schedule beginning on page A-11.

Office of the Commissioner of Political Practices

Notes to the Financial Schedules

1. Summary of Significant Accounting Policies

Basis of Accounting

The Office of the Commissioner of Political Practices uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General and Special Revenue). In applying the modified accrual basis, the office records:

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

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

Expenditures 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 is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

State law requires the office to record its financial transactions on SABHRS in accordance with generally accepted accounting principles (GAAP). The 2001 Legislature modified the fund structure established in section 17-2-102, MCA, to implement the changes made to GAAP by Governmental Accounting Standards Board (GASB) Statement 34. These changes were effective July 1, 2001. Office accounts are organized in funds according to state law

Notes to the Financial Schedules

applicable at the time transactions were recorded. 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.

Special Revenue Fund - to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Effective July 1, 2001, the office Special Revenue Fund includes \$100 from each registered lobbyist and is used by Legislative Services Division for state government broadcasting services.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. Each agency has authority to pay obligations from the statewide General Fund within its appropriation limits. Each agency expends cash or other assets from the statewide fund when it pays General Fund obligations. The office outstanding liabilities exceed the assets the agency has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 2001 and June 30, 2002.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General and Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. On page A-5, the Special Revenue Fund shows a \$1,400 direct entry to fund balance, which was the amount of moneys shared with the Legislative Services Division for state government broadcasting services.

Agency Response

COMMISSIONER OF
POLITICAL PRACTICES

RECEIVED

JAN 15 2003

LEGISLATIVE AUDIT DIV.



STATE OF MONTANA

LINDA L. VAUGHEY
COMMISSIONER
TELEPHONE (406) 444-2942
FAX (406) 444-1643

1205 EIGHTH AVENUE
PO BOX 202401
HELENA, MONTANA 59620-2401

January 14, 2003

Scott A. Seacat
Legislative Auditor
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

Dear Mr. Seacat:

We are providing this letter in connection with your examination of the financial information recorded on the primary accounting records for the office of the Commissioner of Political Practices for the two fiscal years ended June 30, 2002, for the purpose of expressing a response to your recommendation noted in the Commissioner of Political Practices audit report.

The Commissioner of Political Practices is a very small agency. There is one staff person responsible for depositing all funds received by the agency. This has been the case for the last several years. The agency understanding of the law regarding deposits was incorrect. Deposits had been made using the agency understanding for the last several years with no audit recommendations.

We do agree with the recommendation in the audit. Corrective measures are currently being made and will be in place within the next two months. Corrective measures include an agreement with another state agency to make deposits when Commissioner's staff is unable to do so if necessary in accordance with the law.

Sincerely,

A handwritten signature in cursive script that reads "Linda L. Vaughey".

Linda L. Vaughey
Commissioner of Political Practices