



Montana Operations Manual
Policy

Category	Accounting
Effective Date	05/23/2014
Last Revised	Not Approved Yet

Issuing Authority	Department of Administration State Financial Services Division
373 Legislative Audit Division Reports	

I. Purpose

This policy provides agencies guidance on the preparation of the related financial schedules and note disclosures included in Legislative Audit Division Financial-Compliance Audit Reports and the related agency response, if necessary, as well as approved contracts for audits.

II. Scope

Sections III through V and Appendices A and B of this policy apply ~~ies~~ to all state agencies who do not prepare separately issued financial statements.

Section VI of this policy applies to all state agencies and ~~institutions~~ component units, excluding community colleges.

III. Policy – 373 Legislative Audit Division Financial-Compliance Audit Report Overview

~~It is the responsibility of t~~The Legislative Audit Division (LAD) is statutorily required to conduct financial-compliance audits of state agencies, including the university system, for the purpose of providing the legislature reasonable assurance ~~the actual~~ information they rely on to perform their duties necessary-is materially accurate to perform its legislative duties. During this process, LAD uses SABHRS financial data to generate the necessary financial schedules presented in their financial-compliance audit reports using-employing a SABHRS process owned by the Department of Administration (DOA)/State Accounting Bureau (SAB)State Accounting Bureau (SAB). This generation of financial-compliance audit reports is considered a nonaudit service, per Governmental Auditing Standards. In order for LAD to perform this nonaudit service and remain independent the management of the audited agency must be able to effectively oversee the preparation the financial schedules and notes presented in their financial-compliance audit report. This requirement can be met if management of the audited agency designates an individual who possesses suitable skill, knowledge, ~~or~~ experience, and ~~that~~ ate individual understands the nonaudit service being performed sufficiently enough to

oversee it. ~~The management of the~~ The audited agency must also assume all management responsibilities of the nonaudit service, evaluate the adequacy and results of the nonaudit services performed, and accept responsibility for the results of the nonaudit services. Furthermore, preparation of the related note disclosures presented in the financial-compliance audit reports are the responsibility of audited agency's management.

IV. Financial-Compliance Audit Report Financial Schedules

The financial schedules presented in LAD Financial-Compliance Audit Reports are not, nor are they intended to be, in accordance with Generally Accepted Accounting Principles (GAAP). The form of these financial schedules was established by the Legislative Audit Committee in June 1996. The financial schedules referred to in this policy include: Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In and Schedule of Total Expenditures & Transfers-Out. These financial schedules include the agency's financial activity reported in SABHRS and groups the financial data by various accounts, funds, and ~~programs agency organizations~~. ~~See section VII Appendix A Addendum A for a detailed instructions example and of instructions on how to useing SABHRS Data Mine and queries to tie out the schedules or Appendix B for a pictorial example of the tie-out process.~~

A. Schedule of Changes in Fund Equity & Property Held in Trust

The Schedule of Changes in Fund Equity & Property Held in Trust is presented by business unit, fiscal year, and fund type(s).

1. Schedule of Changes in Fund Equity

- a) **Fund Equity** beginning balance includes ~~of~~ all fund equity account (4xxx) balances within the Actuals and A_Accrual Ledgers in the respective fiscal year's SABHRS accounting period equal to 0 (zero).
- b) **Additions to and Reductions in Fund Equity** include ~~s the respective various~~ totals from the Schedule of Total Revenue & Transfers-in and Schedule of Total Expenditures & Transfers-Out, respectively.
- c) **Direct Entries to Fund Equity** includes direct entries made to all fund equity accounts (4xxx) with-in the Actuals and A-Accrual Ledgers during the respective fiscal year.

2-d) Schedule of Changes in Property Held in Trust (PHIT)

Accounts included in this schedule are as follows: 2111, 2114, 2201, 2502, 2503, 2504, 2504A, 2504B, 2513, 2517, 2518, 2519,

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2520, 2521, 2526, 2530, 2531, ~~and 2548, and 2549.~~ As a general rule however, agencies, other than the Board of Investments (BOI), should only reflect these transaction types in accounts 2504, 2504A, and 2504B. In addition, the DOA uses 2201.

~~a)~~ **(1) Property Held in Trust** beginning balance includes the balances of the accounts listed above within the Actuals Ledger in the respective fiscal year's SABHRS accounting period equal to 0 (zero).

~~b)~~ **(2) Additions to and Reductions in Property Held in Trust** includes additions to (credit entries) and reductions ~~to~~ (debit entries) in the accounts listed above within the Actuals Ledger during the respective fiscal year. Due to the way the schedule pulls the data for Property Held in Trust transactions, all credit entries reflect an addition and all debits show as a reduction. Therefore, if adjusting entries are necessary to correct the overall ending balance, a note disclosure may be required to provide information that the addition or deletion line includes this altering transaction and the true addition/deletion amount is different than that presented on the face of the schedule.

B. Schedule of Total Revenue & Transfers-In

The Schedule of Total Revenue & Transfers-In is presented by business unit, fiscal year, ~~and~~ fund type(s), and account category (categories).

- 1. Total Revenues & Transfers-In by Class** includes all revenue and transfers-in account balances ~~eses~~ at fiscal year-end within the Actuals ~~&and A-Accruals~~ Ledgers for the respective fiscal year. Revenue and transfers-in accounts are categorized in this section of the schedule in accordance with the revenue account categories and ranges provided in MOM Policy 321 - Revenue Accounts.
- 2. Less: Nonbudgeted Revenues & Transfers-In** includes non-budgeted revenue and non-budgeted transfers-in account balances in budgeted funds ~~and all revenue and transfers in account balances in non-budgeted funds~~ at fiscal year-end within the Actuals ~~&and A-Accruals~~ Ledgers for the respective fiscal year whose SABHRS program year code is equal ~~to or greater than~~ the respective fiscal year. For non-budgeted fund types (e.g. - debt service, capital projects, private-purpose trust, 08XXX state special revenue funds), all current fiscal year revenue and transfers-in account balances will be included.

3. Prior Year Revenues & Transfers-In Adjustments includes all revenue and transfers-in account balances at fiscal year-end within the Actuals ~~&and~~ A-Accruals Ledgers for the respective fiscal year whose SABHRS program year code is less than the respective fiscal year.

3.4. Actual Budgeted Revenues & Transfers-In includes the Total Revenues & Tranfers-In, less Nonbudgeted Revenues & Tranfers-In, and less Prior Year Revenues & Transfers-In Adjustments.

4.5. Estimated Revenues & Transfers-In includes all revenue and transfers-in account balances at fiscal year-end within the Budget Ledger REV/EST_BD for the respective fiscal year, when this coincides with the current program year.

5.6. Budgeted Revenues & Transfers-In Over (Under) Estimated-by Class includes the differences between the Total Actual Budgeted Revenues & Transfers-In and the Estimated Budgeted Revenues & Transfers-In fiscal year-end balances, when they match the current program year, categorized in accordance with the revenue account categories and ranges provided in MOM Policy 321 - Revenue Accounts.

C. Schedule of Total Expenditures & Transfers-Out

The Schedule of Total Expenditures & Transfers-Out is presented by business unit, fiscal year, and program(s)/organization(s).

1. Program (Org) ~~Total~~ Expenditures & Transfers-Out includes all expenditures and transfers-out account balances at fiscal year-end within the Actuals ~~and~~ A-Accruals Ledgers for the respective fiscal year. Expenditures and transfers-out accounts are categorized in this section of the schedule in accordance with the expenditure account categories and ranges provided in MOM Policy - 316 Expense Account Categories.

2. Less: Nonbudgeted Expenditures & Transfers-Out includes non-budgeted expenditures and non-budgeted transfers-out account balances in budgeted funds ~~and all expenditures and transfers out account balances in non budgeted funds~~ at fiscal year-end within the Actuals ~~and~~ A-Accrual Ledgers for the respective fiscal year whose SABHRS program year code is equal ~~or greater than to~~ the respective fiscal year. For non-budgeted fund types (e.g. - debt service, capital projects, private-purpose trust, 08XXX state special revenue funds), all current fiscal year expenditure and transfers-out account balances will be included.

3. **Prior Year Expenditures & Transfers-Out Adjustments** includes all expenditures and transfers-out account balances at fiscal year-end within the Actuals and A-Accrual Ledgers for the respective fiscal year whose SABHRS program is less than the respective fiscal year.
4. **Budget Authority** includes all expenditures and transfers-out account balances at fiscal year-end within the Budget Ledger APPROP_BD for the respective fiscal year, when this coincides with the current program year.
5. **Unspent Budget Authority by Fund** includes the differences between the Total Expenditures & Transfers-Out and the Budget Authority fiscal year-end balances, as qualified above, by fund type(s).

V. Financial-Compliance Audit Report Notes to the Financial Schedules

It was ~~decided~~ determined by the Legislative Audit Committee, in June 1996, that minimum note disclosures should accompany the financial-compliance audit report financial schedules as necessary. A financial schedule note template, owned by SAB, is available and should be obtained directly from SAB. Agency management is responsible for modifying and completing the note template as necessary. Additional note disclosures may be necessary when special purpose financial statements contain items that are the same as, or similar to, those items included in financial statements prepared in accordance with ~~Generally Accepted Accounting Principles~~ (GAAP). Determining if and/or what additional notes may be necessary will require agency management to use professional judgment. Completed notes to the financial schedules should be submitted to LAD to be included in the audit process. The financial schedule notes should have a one inch margin, no page numbers, and the standard title, but no other headers or footers.

The financial schedule note template is ~~as follows~~ available on the DOA/SAB policy website at: <http://sfsd.mt.gov/Portals/24/SAB/Documents/BluebookNotes.doc>

1. Summary of Significant Accounting Policies

Basis of Accounting

~~The (department, board, office, council) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Capital Projects, Debt Service, and Permanent). In applying the modified accrual basis, the (department, board, office, council) records:~~

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

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~~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, board, office, council) to record the cost of employees' annual and sick leave when used or paid.~~

~~The (department, board, office, council) uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Private Purpose Trust, Investment Trust, Pension and Other Employee Benefit Trust, and Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the (department, board, office, council) records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.~~

~~Expenditures and expenses may include: entire budgeted service contracts even though the (department, board, office, council) 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. (Consequently, these schedules do not agree in all cases to final state accounting system summary reports. These differences are explained in Note xx.)~~

~~The (department, board, office, council) uses the following funds:~~

Governmental Fund Category

General Fund—to account for all financial resources except those required to be accounted for in another fund.

State Special Revenue Fund—to account for proceeds of specific revenue sources (other than private purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. (Department, board, office, council) State Special Revenue Funds include... (to be completed by each agency as necessary).

Federal Special Revenue Fund—to account for activities funded from federal revenue sources. (Department, board, office, council) Federal Special Revenue Funds include... (to be completed by each agency as necessary).

~~**Debt Service Fund**—to account for accumulated resources for the payment of general long term debt principal and interest. The (department, board, office, council) uses this fund for... (to be completed by each agency as necessary).~~

~~**Capital Projects Fund**—to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The (department, board, office, council) uses this fund for... (to be completed by each agency as necessary).~~

~~**Permanent Fund**—to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the (department's, board's, office, council's) programs. The (department, board, office, council) uses this fund for... (to be completed by each agency as necessary).~~

Proprietary Fund Category

~~**Internal Service Fund**—to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost reimbursement basis. (Department, board, office, council) Internal Service Funds include... (to be completed by each agency as necessary).~~

~~**Enterprise Fund**—to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. (Department, board, office, council) Enterprise Funds include... (to be completed by each agency as necessary).~~

Fiduciary Fund Category

~~**Pension and Other Employee Benefit Trust Funds**—to account for resources required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post employment benefit plans, or other employee benefit plans. (Department, board, office, council) pension trust funds include... (to be completed by each agency as necessary).~~

~~**Investment Trust Fund**—to account for situations where legally separate governments commingle their investments in a pool for the benefit of all~~

participants. The (department, board, office, council) investment trust funds include... (to be completed by each agency as necessary).

~~**Private Purpose Trust Fund** — to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. (Department, board, office, council) private purpose trust funds include... (to be completed by each agency as necessary).~~

~~**Agency Fund** — to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year end. The (department, board, office council) agency funds include... (to be completed by each agency as necessary).~~

~~**2. General Fund Equity Balance (negative balances)**~~

~~The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The (department, board, office, council) has authority to pay obligations from the statewide General Fund within its appropriation limits. The (department, board, office, council) expends cash or other assets from the statewide fund when it pays General Fund obligations. The (department's, council, etc.) 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, 2XXX and June 30, 2XXX.~~

~~**General Fund Equity Balance (positive balances)**~~

~~The (department, board, office, council) has authority to pay obligations from the statewide General Fund within its appropriation limits. The (department's, council, etc.) total assets placed in the fund exceed outstanding liabilities, resulting in positive ending General Fund equity balances for each of the fiscal years ended June 30, 20XX, and June 30, 20XX. These balances reflect the results of the activity of the (department, board, office, council) and not the fund equity balance of the statewide General Fund.~~

~~**3. Direct Entries to Fund Equity**~~

~~Direct entries to fund equity in the (General, Special Revenue, Federal Special Revenue Fund, Debt Service, Capital Projects, Internal Service, Enterprise,...) fund(s) 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 (General, State Special Revenue, Federal Special Revenue Fund, Debt Service, Capital Projects, Internal Service, Enterprise,...) funds also include: (correction of an error from a previous period that occurred at least two fiscal years prior; change in accounting principle, or a change in the application of an accounting principle; or retroactive change mandated by the GASB in conjunction with the implementation of a new pronouncement).~~

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VI. Agency Response to Legislative Audit Reports

Agency directors, or their deputy-level designees, are responsible for an agency's response to a LAD audit reports, including those presenting separately issued financial statements on a GAAP basis. A written response is required for financial, financial-compliance, performance, and information system audit reports. The procedures outlined in this policy are designed to generate and track comparable information on agency responses to, and implementation of, legislative audit recommendations in an effort to establish a formal and uniform procedure. The Office of Budget and Program Planning (OBPP) also uses these responses to prepare the corrective action plan and prior audit findings sections for the Montana Single Audit Report, both of which are subject to review by LAD.

A. Written Response Requirements

Upon the completion of a legislative audit~~LAD~~ report the respective agency should provide a written response to each recommendation included in the audit report. In addition to the recommendation responses, the agency should also include a concise Corrective Action Plan (CAP), along with an including implementation dates, for each recommendation the agency concurs, partially concurs, or conditionally concurs with (see response definitions below). Due to the complexity of some audit recommendations, combined with the short turnaround time that may be required for some agency responses, the CAP and implementation date provided in response to the audit report are considered preliminary.

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Agency response definitions:

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1. **Concur** means that ~~the~~ agency management director agrees with the substance of the legislative audit report recommendation and will implement the recommendation.
2. **Partially concur** means that ~~the~~ agency management director agrees with the substance of a portion of the legislative audit recommendation and will implement the portion of the recommendation concurred with. ~~The a~~Agency director-management should document the specific reasons for the portion of the legislative audit recommendation ~~the~~ agency director-management does not concur with and will not implement.

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- 3. **Conditionally concur** means that ~~the~~ agency ~~management director~~ agrees with the substance of the legislative audit recommendation but cannot implement the recommendation, whether in part or in its entirety, because of insufficient resources, unalterable time constraints, or other documented justification.
- 4. **Do not concur** means that ~~the~~ agency ~~management director~~ may or may not agree with the audit findings, but does not agree with the legislative audit recommendation and will not implement that recommendation for specific, documented reasons.

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B. Office of Budget and Program Planning Submission Requirements

~~There are three submittals required to be made to OBPP. A collection of this information will provide a clear indication of agency implementation of legislative audit recommendations and enable OMB A-133 compliance.~~

~~1. The a~~Agency ~~management director~~ is to submit the following information to OBPP, within 30 days following the Legislative Audit Committee hearing:

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- a. The agency's response to the ~~legislative audit~~ committee, including an indication of whether ~~the~~ agency ~~management director~~ concurs, partially concurs, conditionally concurs, or does not concur with each recommendation contained in the ~~legislative~~-audit report.
- b. A final corrective action plan for complying with the audit recommendations with which ~~the director~~ agency management concurs, partially concurs, or conditionally concurs. The plan should include the:
 - i. Audit report and recommendation number(s)
 - ii. Name of the contact person responsible for the corrective action plan
 - iii. Plan for implementation
 - iv. A specific target date of the implementation
 - v. An asterisk indication if the CAP or implementation date has been modified since the submission to the Legislative Audit Division

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~~c. Documentation related to ef justifications for any instances of partial, and/or conditional concurrence, and/or non-concurrence with audit recommendations.~~

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~~e. Submission of corrective action plans are done via the Montana Audit Tracking and Reporting System (MATRS), which is a database developed by OBPP specifically for inputting, tracking, and updating agency corrective action plans. Additional documentation can be provided directly to OBPP.~~

~~2. Agency directors, or their designees, are responsible for monitoring and implementing audit recommendation(s). At least quarterly, agencies should review their corrective action plans in MATRS and update the status of those plans that have not yet been fully completed. An annual corrective action report from the agency director shall be sent to the OBPP in August of each year. The annual corrective action report should contain the:~~

~~a. **Audit report and recommendation number(s)**~~

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