



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Montana State Library
Commission*

*For the Two Fiscal Years Ended
June 30, 2019*

APRIL 2020

LEGISLATIVE AUDIT
DIVISION

19-23

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FINANCIAL-COMPLIANCE AUDITS

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

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

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Cindy Jorgenson
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April 2020

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana State Library Commission for the two fiscal years ended June 30, 2019. During the audit, we analyzed the financial schedules, reviewed financial records, and tested compliance with state laws and regulations. Our audit resulted in one recommendation related to accounting for the Natural Resource Information System.

We issued a modified opinion on the schedules for each of the two fiscal years ended June 30, 2019, and 2018, which means a reader should use caution on relying on the information related to the qualification on those schedules. The 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* does not report any significant deficiencies, material weaknesses, or material noncompliance.

The Library's written response to the audit is included in the audit report at page C-1. We thank the Montana State Library Commission, the State Librarian, and her staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

			<u>Term Expires</u>
Montana State Library Commission	Ann Kish, Chair	Twin Bridges	June 2020
	Ken Wall, Vice Chair	Missoula	June 2021
	Jamie Doggett	White Sulphur Springs	June 2021
	Aaron LaFromboise	Browning	June 2020
	Bruce Newell	Helena	June 2022
	Elsie Arntzen	Superintendent of Public Instruction	December 31, 2020
	Kenning Arlistsch**		October 31, 2022
	** Appointed by the Commissioner of Higher Education for the Montana University System.		

**Montana State
Library**

Jennie Stapp, State Librarian
Evan Hammer, Digital Library Administrator
Malissa Williams, Central Services Manager

For additional information concerning the Montana State Library
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FINANCIAL-COMPLIANCE AUDIT

Montana State Library Commission
For the Two Fiscal Years Ended June 30, 2019

APRIL 2020

19-23

REPORT SUMMARY

Montana State Library is the source for state government information, natural resources information, and geographic information for all Montanans. Budget reductions for the 2019 biennium caused Montana State Library personnel to reduce staff by 12 positions, close the downstairs reading room, and reduce their print collection, some of which moved to digital content. The audit resulted in one recommendation related to the misclassification of revenue.

Context

Montana State Library serves the informational needs of all branches of state government, its agencies, local counterparts, and individuals seeking information and materials not found in their local libraries. The Montana State Library Commission administers state and federal funding to operate the state library; provides assistance and advice to all tax-supported libraries throughout the state; maintains a library of reading material for Montanans unable to utilize printed materials; and maintains a centralized clearinghouse for Montana's natural resources information and heritage, preserves state publications, and offers digital library services to Montana residents via the internet.

During the audit of Montana State Library Commission (Library) for fiscal years 2018 and 2019, we analyzed the financial schedules and performed a variety of analytical tests over the financial information to determine whether the financial schedules present fairly the Library's financial positions and results of operations.

We focused our efforts primarily on the Library's activity related to charges for services, federal, and grants and donations revenues, other services and grant expenditures, and cash and investments.

In fiscal years 2018 and 2019, the Library also distributed \$385,847 and \$440,073, respectively, in grant expenditures to various recipients. This was around \$300,000 less than prior years due to budget cuts. The legislature did not fund per capita state aid to public library districts per §22-1-327, MCA, for either fiscal year 2018 or 2019.

Additional audit procedures included developing an understanding of and testing various control procedures used by the Library, as well as reviewing and testing compliance with selected state laws and regulations.

Results

We issued qualified opinions on the Library's financial schedules due to the misclassification of the Natural Resource Information System (NRIS) funding revenue. This report contains one recommendation related to the misclassification that resulted in the opinion qualification.

Recommendation Concurrence	
Concur	1
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (19-23) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <https://leg.mt.gov/lad/audit-reports>
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Call toll-free 1-800-222-4446, or e-mail LADHotline@mt.gov.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Montana State Library Commission (Library) for the two fiscal years ended June 30, 2019. The objectives of this audit were to:

1. Obtain an understanding of the Library’s control systems to the extent necessary to support our audit of the Library’s financial schedules and, if appropriate, make recommendations for improvement in management and internal controls of the Library.
2. Determine whether the Library’s financial schedules present fairly the results of operations and changes in fund equity for each of the two fiscal years ended June 30, 2018, and June 30, 2019.
3. Determine whether the Library complied with selected applicable state laws and regulations.

We achieved the stated objectives through obtaining an understanding of the control procedures in place related to the revenue and expenditure activity during our audit period. Our audit work included evaluating the accuracy and completeness of revenue and expenditure amounts by completing testing of selected controls, review of transactions, and analytical procedures to determine the reasonableness of the Library’s financial activity. We also determined compliance with various state laws and regulations through interviews with key Library personnel and reviewing supporting documentation.

Background

The Library is governed by five Governor appointees, the state Superintendent of Public Instruction or the superintendent’s designee, and a librarian appointed by the Commissioner of Higher Education. The Library’s focus is to strengthen Montana libraries by directing the development and improvement of library services, to provide library services to Montanans who cannot read traditional print materials, and to manage and provide access to state government, geographic, and natural resources information for all Montana citizens. The Library consists of three divisions with a total of 33.08 full-time equivalent employees (FTE) at June 30, 2019, as discussed below.

Montana Digital Library Division (11.81 FTE): Within the division, Geographic Information provides comprehensive statewide geospatial information and consulting services, including the Natural Resource Information System (NRIS) which provides for the acquisition, storage, and dissemination of information concerning Montana’s

natural resources. The Water Information System is a program of NRIS and provides access to information relating to Montana's water resources.

The Natural Heritage Program provides information on the status and distribution of Montana's native animals and plants, emphasizing species of concern and high-quality habitats. The program manages the Montana Wetland and Riparian Mapping Center, the Montana Land Management Mapping Program, and the Montana Field Guide.

The State Publication Center maintains a comprehensive collection of state agency publications. Reductions required by Chapter 366, Laws of 2017 (House Bill 2) and Chapter 429, Laws of 2017 (Senate Bill 261) for the 2019 biennium, resulted in Library personnel choosing to close the downstairs reading room. Additionally, the Library reduced the number of Digital Library staff by six through a combination of reductions in force and not filling a vacant position.

The Montana Talking Book Library merged into the Digital Library following the budget reductions of the 2017 Legislative Session to share staff expertise. The Talking Book Library provides free audio books and magazines to eligible Montana residents that are unable to use traditional print materials. Reductions required by House Bill 2 and Senate Bill 261 for the 2019 biennium resulted in the State Library reducing the number of Talking Book Library staff by two through a reduction in force. As discussed in Note 7 to the financial schedules, the library received, from a supporter of the Talking Book Library, an almost \$2 million donation in fiscal year 2018 which has been used, to date, for various contracts such as transferring the Talking Book Library to downloadable content and a public relations campaign. Funds were also used for the creation and legal mechanism of an independent nonprofit trust to support Montana's libraries, which was set up in fiscal year 2020.

Statewide Library Resources Division (12.62 FTE): provides the tools, training, and expertise to Montana libraries through various programs and resources including, Montana Shared Catalog (MSC), Statewide Library Consultants, Statewide Training and Certification, Ready 2 Read, Montana Memory Project, Montana Courier Alliance, and Library2Go. The MSC has members located in 99 communities, including 69 schools, 5 academic libraries, and 11 special libraries (law, medical government, and museum) across Montana and provides access to more than 5 million items to Montanans. The Library2Go is a statewide downloadable e-content service providing access to over 25,000 eBooks and downloadable audiobooks to patrons of the Montana Library2Go members.

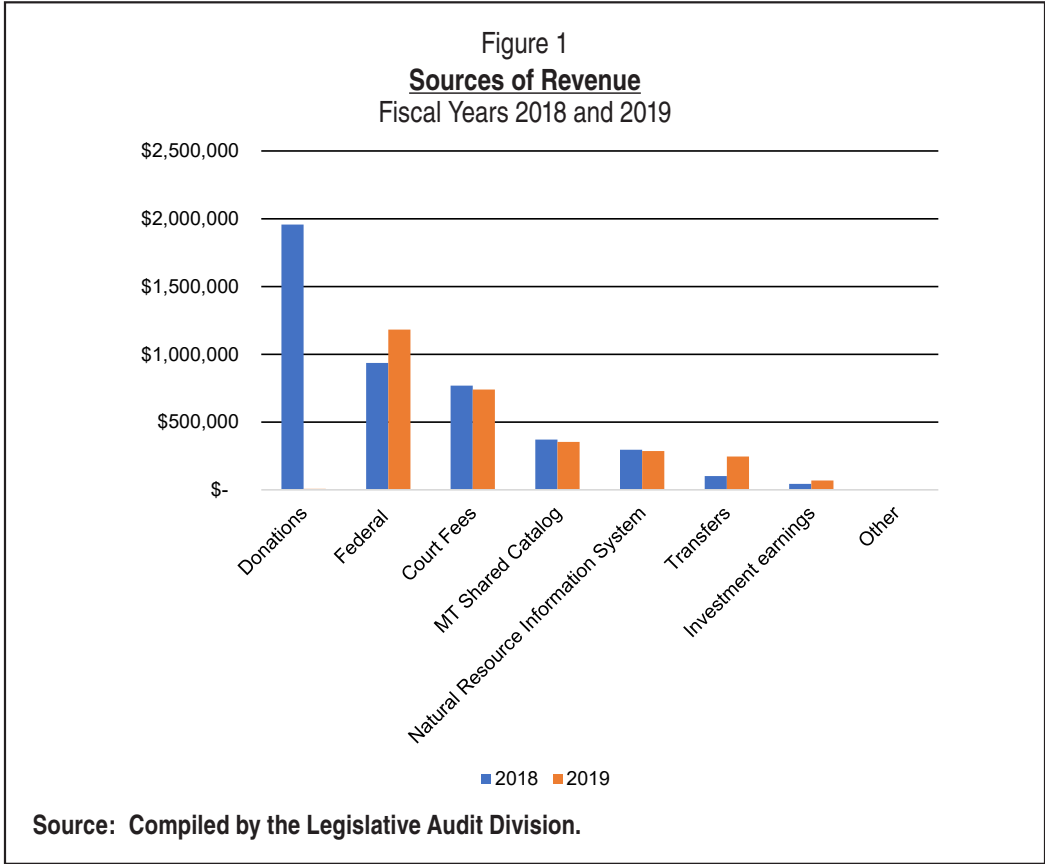
Central Services Division (8.65 FTE): provides support to all the Library's programs by performing accounting, fiscal management, payroll, information technology

support and other administrative functions. As a result of reductions required by House Bill 2 and Senate Bill 261 for the 2019 biennium, Library personnel chose to reduce the number of Central Services staff by four through a combination of reductions in force and not filling a vacant position.

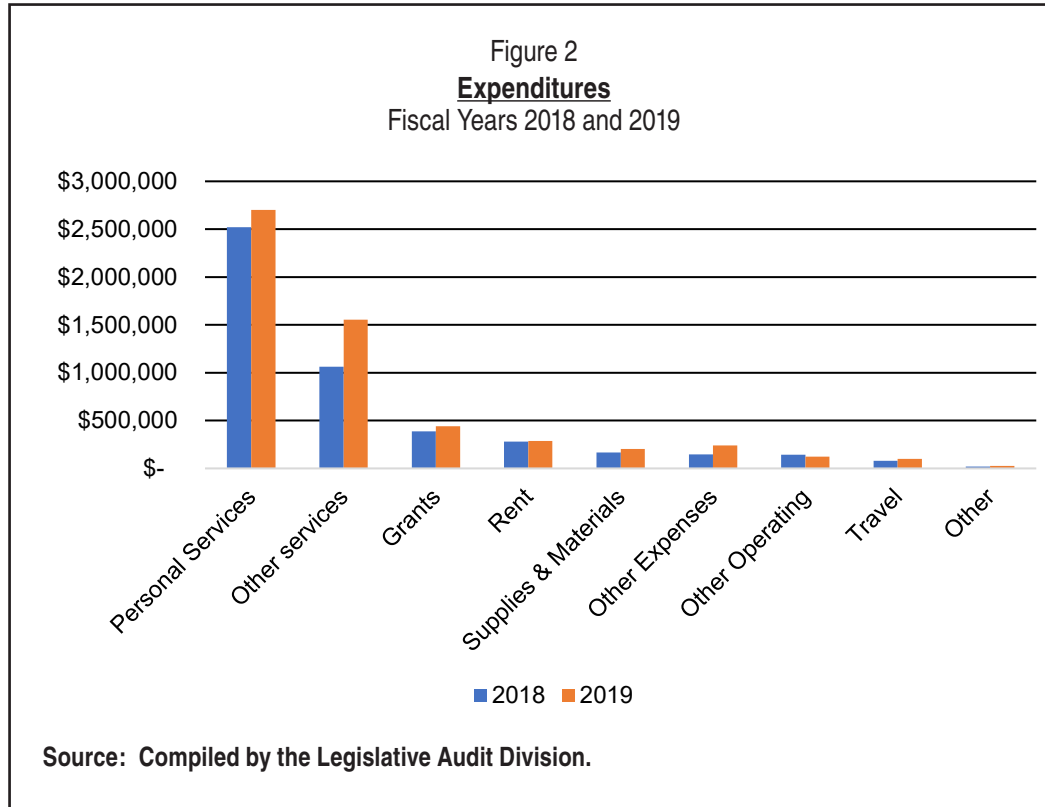
All the financial activity from the three divisions discussed above is reflected in a singular Statewide Library Resources Program on the Library’s Schedule of Expenditures & Transfers-Out beginning on page A-7.

Library operations are funded by a variety of revenue sources, in addition to the General Fund, as shown in Figure 1 below. As explained in Note 7, in fiscal year 2018, the library received a donation significantly larger than the normal donations received each year.

Court fees are the result of a state law which provides that \$0.75 of each fee paid for documents recorded at county clerk and recorder offices is provided to the library. Montana Shared Catalog revenue is the result of fees paid by the members to cover the costs of administering the shared catalog program. The Natural Resource Information System is available to the public, but is funded through the core users. These core users, which are state agencies, pay a set amount to the library to administer this system.



Library operations resulted in expenditures as shown in Figure 2 below. Additional information regarding budget reductions can be found in Note 6 to the financial schedules. As the note explains, in fiscal year 2019, the library was able to hire back two FTE which accounts for the increase in personal services costs in that year.



The Library has multiple contracts accounting for the other services expenditures. These include contracts for storing digital content, shared catalog administration, and developing a marketing plan.

Chapter II – Findings and Recommendations

Natural Resource Information System Revenue (NRIS)

Revenue paid to the Montana State Library (Library) for NRIS was misclassified in both fiscal years 2018 and 2019 resulting in misstatements between \$9,000 and \$176,000.

Revenue Misclassification

NRIS was established in 1985 by the Montana legislature to simplify the task of identifying and acquiring natural resource information. NRIS operates a clearing house and referral service to government agencies, businesses, and citizens.

While the legislature appropriates spending authority for NRIS to the Library, core funding comes from the main users of the NRIS information, which are the Montana University System (MUS); Department of Environmental Quality (DEQ); Department of Natural Resources and Conservation (DNRC); Fish, Wildlife & Parks (FWP); and Montana Department of Transportation (MDT), as shown in Table 1. The spending authority appropriated to the Library includes indicating how much of the core funding each agency pays to the Library in support of their administration of the NRIS.

Table 1
Agencies Funding the Natural Resources Information System
Fiscal Years 2018 and 2019

State Agency	FY18 Amount	FY19 Amount
MUS	\$43,942	\$43,942
DEQ	\$88,307	\$88,307
DNRC	\$48,813	\$48,813
FWP	\$68,857	\$68,857
MDT	\$31,622	\$31,622
Total appropriated to the Library from all agencies	\$281,541	\$281,541

Source: Compiled by the Legislative Audit Division.

State accounting policy dictates different accounting depending on the funding source used by the paying agencies to prevent doubling of activity on the state's accounting records. When the funding source from the paying agency is the same as the fund type the revenue is recorded in at the Library, the activity should be reported as a transfer. In all other cases, the activity should be reported as a charge for service. During the audit period, the Library recorded the revenue as either a transfer-in or grant revenue.

Because of the complicated accounting requirements, the Library did not record all the activity correctly in fiscal year 2018 or 2019.

While most of the transfer activity was recorded correctly, the grant revenue classification is not in accordance with state accounting policy and results in the following misclassifications on the Schedules of Revenues & Transfers-In.

Table 2
Summary of Misstatements

Revenue Classification	FY18 Financial Schedule Amount	FY18 Over(Under) Statement		FY19 Financial Schedule Amount	FY19 Over(Under) Statement
Charges for Services	\$769,656	(\$140,222)		\$739,285	(\$133,311)
Grant, Contracts & Donations	\$2,133,539	\$176,798		\$130,878	\$124,377
Transfers-In	\$218,919	(\$36,576)		\$407,505	\$8,934
Total	\$3,122,114	\$0		\$1,277,668	\$0

Source: Compiled by the Legislative Audit Division.

The misstatements are classification errors between revenue accounts and therefore, revenue, in total, is correct. However, the misstatements between revenue accounts resulted in an opinion qualification on both the fiscal year 2018 and 2019 financial schedules.

Library personnel indicated they used guidance from an accounting memo that had been updated by state accounting policy prior to fiscal year 2018. The library's procedures were not updated for the state accounting policy change. Additionally, the paying agency initiates the transaction based on the source of funds they are paying with and Library records revenue based on this. If the paying agency recorded a transfer-out in error, Library recorded a transfer-in, due to the requirement that transfers-out and transfers-in need to balance on the state's accounting system.

RECOMMENDATION #1

We recommend the Library record the Natural Resource Information System revenue in accordance with state accounting policy by:

- A. *Recording Charges For Services revenue when the paying source is not a State Special Revenue Fund.*
 - B. *Recording Transfer-In revenue when the paying source is a State Special Revenue Fund.*
-

Independent Auditor's Report and Montana State Library Commission Financial Schedules

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



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana State Library for each of the fiscal years ended June 30, 2019, and 2018, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Montana State Library's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Montana State Library's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and

the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, deferred outflows of resources, liabilities, deferred inflows of resources and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Montana State Library as of June 30, 2019, and June 30, 2018, or changes in financial position or cash flows for the years then ended.

Basis for Qualified Opinions on Regulatory Basis of Accounting

Revenue recorded for the Natural Resources Information System is incorrectly classified between revenue accounts, resulting in the following revenue classification misstatements for fiscal years 2018 and 2019.

Revenue Classification	FY18 Financial Schedule Amount	FY18 Over(Under) Statement	FY18 Correct Amount	FY19 Financial Schedule Amount	FY19 Over(Under) Statement	FY19 Correct Amount
Charges for Services	\$769,656	(\$140,222)	\$909,878	\$739,285	(\$133,311)	\$872,596
Grants, Contracts & Donations	\$2,133,539	\$176,798	\$1,956,741	\$130,878	\$124,377	\$6,501
Transfers-In	\$218,919	(\$36,576)	\$255,495	\$407,505	\$8,934	\$398,571

Qualified Opinions on Regulatory Basis of Accounting

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinions" paragraph, the financial schedules referred to above, present fairly, in all material respects, the results of

operations and changes in fund equity of the Montana State Library for each of the fiscal years ended June 30, 2019, and 2018, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2020, on our consideration of the Montana State Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Montana State Library's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

March 30, 2020

LIBRARY COMMISSION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund
FUND EQUITY: July 1, 2018	\$ <u>(125,972)</u>	\$ <u>3,222,257</u>	\$ <u>0</u>	\$ <u>(66,977)</u>
ADDITIONS				
Budgeted Revenues & Transfers-In		1,305,513	1,181,266	354,329
Nonbudgeted Revenues & Transfers-In		50,620		
Prior Year Revenues & Transfers-In Adjustments		(9,181)		
Direct Entries to Fund Equity	2,106,442	531,779		1,598
Total Additions	<u>2,106,442</u>	<u>1,878,731</u>	<u>1,181,266</u>	<u>355,927</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	2,148,977	1,724,380	1,185,060	365,969
Nonbudgeted Expenditures & Transfers-Out	(785)	267,343		2,998
Prior Year Expenditures & Transfers-Out Adjustments	(20)	(18,600)		
Total Reductions	<u>2,148,171</u>	<u>1,973,123</u>	<u>1,185,060</u>	<u>368,967</u>
FUND EQUITY: June 30, 2019	\$ <u><u>(167,701)</u></u>	\$ <u><u>3,127,864</u></u>	\$ <u><u>(3,794)</u></u>	\$ <u><u>(80,018)</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.

LIBRARY COMMISSION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund
FUND EQUITY: July 1, 2017	\$ <u>(279,516)</u>	\$ <u>1,077,540</u>	\$ <u>0</u>	\$ <u>(67,024)</u>
ADDITIONS				
Budgeted Revenues & Transfers-In		1,177,366	936,306	371,280
Nonbudgeted Revenues & Transfers-In		1,998,622		1,973
Prior Year Revenues & Transfers-In Adjustments		(9,516)	346	
Direct Entries to Fund Equity	2,250,849	387,218		(15,069)
Total Additions	<u>2,250,849</u>	<u>3,553,690</u>	<u>936,652</u>	<u>358,184</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	2,099,356	1,420,238	936,652	344,367
Nonbudgeted Expenditures & Transfers-Out	(2,050)	28,191		18,643
Prior Year Expenditures & Transfers-Out Adjustments		(39,456)		(4,873)
Total Reductions	<u>2,097,306</u>	<u>1,408,974</u>	<u>936,652</u>	<u>358,137</u>
FUND EQUITY: June 30, 2018	\$ <u><u>(125,972)</u></u>	\$ <u><u>3,222,257</u></u>	\$ <u><u>0</u></u>	\$ <u><u>(66,977)</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.

LIBRARY COMMISSION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Charges for Services	\$ 739,285		\$ 354,329	\$ 1,093,614
Investment Earnings	69,284			69,284
Grants, Contracts, and Donations	130,878			130,878
Transfers-in	407,505			407,505
Federal		\$ 1,181,266		1,181,266
Total Revenues & Transfers-In	1,346,952	1,181,266	354,329	2,882,546
Less: Nonbudgeted Revenues & Transfers-In	50,620			50,620
Prior Year Revenues & Transfers-In Adjustments	(9,181)			(9,181)
Actual Budgeted Revenues & Transfers-In	1,305,513	1,181,266	354,329	2,841,108
Estimated Revenues & Transfers-In	1,913,119	1,320,200	371,800	3,605,119
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (607,605)	\$ (138,934)	\$ (17,471)	\$ (764,011)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Taxes	\$ (515,000)			\$ (515,000)
Charges for Services	(71,756)		\$ (17,471)	(89,227)
Investment Earnings	7,387			7,387
Grants, Contracts, and Donations	(53,229)			(53,229)
Transfers-in	24,992			24,992
Federal		\$ (138,934)		(138,934)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (607,605)	\$ (138,934)	\$ (17,471)	\$ (764,011)

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.

LIBRARY COMMISSION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Taxes		\$ 346		\$ 346
Charges for Services	\$ 769,656		\$ 371,280	1,140,936
Investment Earnings	44,358			44,358
Grants, Contracts, and Donations	2,133,539		1,973	2,135,512
Transfers-in	218,919			218,919
Federal		936,306		936,306
Total Revenues & Transfers-In	<u>3,166,472</u>	<u>936,652</u>	<u>373,253</u>	<u>4,476,377</u>
Less: Nonbudgeted Revenues & Transfers-In	1,998,622		1,973	2,000,595
Prior Year Revenues & Transfers-In Adjustments	(9,516)	346		(9,170)
Actual Budgeted Revenues & Transfers-In	<u>1,177,366</u>	<u>936,306</u>	<u>371,280</u>	<u>2,484,952</u>
Estimated Revenues & Transfers-In	<u>1,179,449</u>	<u>937,793</u>	<u>371,800</u>	<u>2,489,042</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (2,083)</u>	<u>\$ (1,487)</u>	<u>\$ (520)</u>	<u>\$ (4,090)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Charges for Services	\$ (1,000)		\$ (520)	\$ (1,520)
Investment Earnings	(493)			(493)
Grants, Contracts, and Donations	(307)			(307)
Transfers-in	(283)			(283)
Federal		\$ (1,487)		(1,487)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (2,083)</u>	<u>\$ (1,487)</u>	<u>\$ (520)</u>	<u>\$ (4,090)</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.

LIBRARY COMMISSION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Statewide Library Resources	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	\$ 1,962,849	\$ 1,962,849
Other Compensation	525	525
Employee Benefits	740,732	740,732
Personal Services-Other	(2,589)	(2,589)
Total	2,701,517	2,701,517
Operating Expenses		
Other Services	1,554,105	1,554,105
Supplies & Materials	204,165	204,165
Communications	69,097	69,097
Travel	100,005	100,005
Rent	285,263	285,263
Repair & Maintenance	54,214	54,214
Other Expenses	241,740	241,740
Total	2,508,591	2,508,591
Equipment & Intangible Assets		
Equipment	12,300	12,300
Total	12,300	12,300
Grants		
From State Sources	440,073	440,073
Total	440,073	440,073
Post Employment Benefits		
Other Post Employment Benefits	654	654
Employer Pension Expense	12,187	12,187
Total	12,841	12,841
Total Expenditures & Transfers-Out	\$ 5,675,321	\$ 5,675,321
EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	\$ 2,148,171	\$ 2,148,171
State Special Revenue Fund	1,973,123	1,973,123
Federal Special Revenue Fund	1,185,060	1,185,060
Enterprise Fund	368,967	368,967
Total Expenditures & Transfers-Out	5,675,321	5,675,321
Less: Nonbudgeted Expenditures & Transfers-Out	269,556	269,556
Prior Year Expenditures & Transfers-Out Adjustments	(18,620)	(18,620)
Actual Budgeted Expenditures & Transfers-Out	5,424,386	5,424,386
Budget Authority	6,130,254	6,130,254
Unspent Budget Authority	\$ 705,868	\$ 705,868
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	\$ 37,794	\$ 37,794
State Special Revenue Fund	140,407	140,407
Federal Special Revenue Fund	527,550	527,550
Enterprise Fund	116	116
Unspent Budget Authority	\$ 705,868	\$ 705,868

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.

LIBRARY COMMISSION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Statewide Library Resources</u>	<u>Total</u>
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	\$ 1,793,068	\$ 1,793,068
Other Compensation	675	675
Employee Benefits	726,681	726,681
Personal Services-Other	(583)	(583)
Total	<u>2,519,841</u>	<u>2,519,841</u>
Operating Expenses		
Other Services	1,061,439	1,061,439
Supplies & Materials	165,689	165,689
Communications	66,328	66,328
Travel	80,052	80,052
Rent	279,577	279,577
Repair & Maintenance	77,378	77,378
Other Expenses	146,902	146,902
Total	<u>1,877,365</u>	<u>1,877,365</u>
Grants		
From State Sources	385,847	385,847
Total	<u>385,847</u>	<u>385,847</u>
Post Employment Benefits		
Other Post Employment Benefits	637	637
Employer Pension Expense	17,377	17,377
Total	<u>18,014</u>	<u>18,014</u>
Total Expenditures & Transfers-Out	<u>\$ 4,801,068</u>	<u>\$ 4,801,068</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	\$ 2,097,306	\$ 2,097,306
State Special Revenue Fund	1,408,974	1,408,974
Federal Special Revenue Fund	936,652	936,652
Enterprise Fund	358,137	358,137
Total Expenditures & Transfers-Out	4,801,068	4,801,068
Less: Nonbudgeted Expenditures & Transfers-Out	44,784	44,784
Prior Year Expenditures & Transfers-Out Adjustments	(44,329)	(44,329)
Actual Budgeted Expenditures & Transfers-Out	4,800,613	4,800,613
Budget Authority	5,723,316	5,723,316
Unspent Budget Authority	<u>\$ 922,703</u>	<u>\$ 922,703</u>
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	\$ 49,598	\$ 49,598
State Special Revenue Fund	424,461	424,461
Federal Special Revenue Fund	431,176	431,176
Enterprise Fund	17,468	17,468
Unspent Budget Authority	<u>\$ 922,703</u>	<u>\$ 922,703</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.

Montana State Library Commission

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2019

1. Summary of Significant Accounting Policies

Basis of Accounting

The Montana State Library 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). In applying the modified accrual basis, the Library 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 Library to record the cost of employees' annual and sick leave when used or paid.

The Library uses accrual basis accounting for its Proprietary (Enterprise) fund category. Under the accrual basis, as defined by state accounting policy, the Library 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 Library 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 Library 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. Library State Special Revenue Funds include allocations of Coal Severance Taxes, Natural Resource Information System contracts with state and private entities, Montana Land Information, and other private donations.

- ◆ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Library Federal Special Revenue Funds include the Library Services and Technology Act grants and Natural Resource Information System contracts with federal entities.

Proprietary Fund Category

- ◆ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the Library 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. Library Enterprise Funds include Montana Shared Catalog.

2. General Fund Equity Balance

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The Library has authority to pay obligations from the statewide General Fund within its appropriation limits. The Library expends cash or other assets from the statewide fund when it pays General Fund obligations. The Library's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2018 and June 30, 2019.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General Fund and Special Revenue Coal Severance Tax fund include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

4. Unspent Budget Authority

The Schedule of Total Expenditures & Transfers-Out for 2018 presents unspent budget authority of \$424,461 in the State Special Revenue Fund and \$431,176 in the Federal Special Revenue Fund. State Special Revenue unspent authority is related to lower than estimated Coal Severance Tax Revenue, Montana Land Information Account which is based on an estimate in HB 2, and is driven by the Montana Land Plan yearly

approval and revenue forecast and NRIS contract related services. State Special unspent authority also includes one time only money to study 911 GIS Mapping. This was a biennial appropriation that carried into the next FY. In the Federal Special Revenue Fund, NRIS federal contract related services and the federal authority for the Library Services and Technology Act funds are based on an estimate in HB 2 and funded as continuing appropriations. Expenditures are driven by the award and projects each year and the unspent authority carries into FY 20.

The Schedule of Total Expenditures & Transfers-Out for 2019 presents unspent budget authority of \$140,407 in the State Special Revenue Fund and \$527,550 in the Federal Special Revenue Fund. State Special Revenue unspent authority is related to Montana Land Information Account which is based on an estimate in HB 2, and is driven by the Montana Land Plan yearly approval and revenue forecast and NRIS contract related services. In the Federal Special Revenue Fund, NRIS federal contract related services and the federal authority for the Library Services and Technology Act funds are based on an estimate in HB 2 and expenditures are driven by the award and projects each year.

5. Revenue Estimate

HB 648 from the 2017 session created the Basic Library Services fund, which collects coal severance tax directed to the Library. The Schedule of Total Revenues & Transfer-in for the FY 2019 incorrectly shows \$515,000 of revenue. This amount should be reflected on the Department of Revenue's schedule, as they are the agency recording revenues for this fund. The issue has been fixed in subsequent years.

6. 2017 Session Cuts

Senate Bill 261 (SB 261), passed during the 2017 Legislative Session, contained requirements for the Department of Administration to determine, by August 15, 2017, the unaudited revenue for the General Fund and compare this to estimates approved by the Legislature. The bill cut spending authority for fiscal years 2018 & 2019 should the unaudited revenue balance fall below \$2.216 billion at five different intervals. The Montana State Library was affected by Level 3 budget reduction in appropriation for a reduction of \$666,527 in fiscal year 2018 and \$669,513 in fiscal year 2019. This along with the reduction in HB 2 the State Library was at total reductions of \$990,691 per year. The State Library was forced to reduce staff by 12 positions, merge the Talking Book Library into the Digital Library, close the reading room and reduce funding for the Natural Heritage Program contract by 25%. Of the 12 positions, one FTE retired and one FTE found other employment prior to the implementation of the budget cuts. Their positions were not rehired. Two other FTE were notified that their positions

were subject to a reduction in force and left their positions before the RIFs were implemented. Four FTE were notified that their positions were subject to a RIF and chose to retire rather than taking RIF benefits. Four FTE were RIF'd. Costs associated with the RIF totaled \$127,723.40 during FY 18 and FY 19. The State Library rehired two FTE during FY 2019.

7. MSL Trust

The Montana State Library received a generous donation from a private estate. The funds were deposited in the State Library Trust and are used to further the work of the State Library in accordance with the State Library Commission Trust Policy.

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
Joe Murray

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 Montana State Library for each of the fiscal years ended June 30, 2019, and 2018, and the related notes to the financial schedules, and have issued our report thereon dated March 30, 2020. Our report includes qualified of opinions on the Schedules of Revenues & Transfers-In for both fiscal years 2019 and 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Montana State Library'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 Montana State Library's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

March 30, 2020

MONTANA STATE LIBRARY
COMMISSION

COMMISSION RESPONSE



PO Box 201800 1515 East 6th Avenue Helena, MT 59620 (406) 444-3115

April 21, 2020

RECEIVED
April 22, 2020
LEGISLATIVE AUDIT DIV.

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

Dear Mr. Maciver:

We would like to thank the Legislative Audit staff for their work to complete the State Library Commission Financial-Compliance Audit for the two fiscal years ending June 30, 2019. We appreciate their professionalism and the rapport they established with our staff which made the process both thorough and efficient. In particular I want to commend the staff from the Legislative Audit Division and our staff for completing the audit on time while at the same time addressing the concerns brought upon us by the COVID-19 pandemic

We agree with the finding pertaining to the classification of revenue for the Natural Resources Information System. Staff is already taking steps to ensure that the revenue is properly classified in accordance with this audit recommendation. We continue strive to ensure that uphold the highest standards of fiscal administration on behalf of the State of Montana.

I am available to answer questions or provide further information that you or the Legislative Audit Committee may require.

Sincerely,

A handwritten signature in cursive script that reads "Jennie Stapp".

Jennie Stapp
State Librarian