

LEGISLATIVE AUDIT COMMITTEE

MINUTES SUMMARY

December 17, 2008

Please note: These are summary minutes. The minutes are also accompanied by an audio recording. For each action listed, the minutes indicate the approximate amount of time in hours, minutes, and seconds that has elapsed since the start of the meeting. This time may be used to locate the activity on the audio recording.

An electronic copy of these minutes and the audio recording may be accessed from the Legislative Audit Division homepage at http://www.leg.mt.gov/audit/meeting_info.asp.

*To view the minutes, locate the meeting date and click on **Minutes**. To hear the audio recording, click on the date link at **Listen**. Note: You must have Real Player installed to listen to the audio recording.*

Members Present

Sen. Joe Balyeat
Sen. Greg Barkus
Sen. Dave Lewis
Sen. Mitch Tropila
Rep. Bill Beck
Rep. Bill Glaser
Rep. Hal Jacobson
Rep. Bill Wilson

Members Excused

Sen. Steve Gallus
Rep. Betsy Hands
Sen. Lynda Moss

Staff Present

Tori Hunthausen, Legislative Auditor
Jim Gillett, Deputy Legislative Auditor
Angie Grove, Deputy Legislative Auditor
Monica Huyg, Legal Counsel
Becky Buckmaster, Administrative Support Manager

The Legislative Audit Committee met December 17, 2008, in Room 172 of the State Capitol. Chairman, Senator Joe Balyeat called the meeting to order at 8:20 a.m., noting the presence of a quorum.

00:00:14

Minutes Approval – November 7, 2008 Minutes were approved. Motion by Rep. Wilson: **motion carried.**

AUDIT REPORTS

MONTANA BOARD OF HOUSING, 08-07A (Financial-Compliance Audit)

00:01:15 **Report presented by:** John Fine, Financial-Compliance Auditor

Present from the agency: Bruce Brensdal, Division Administrator
Charles Nemec, Accounting & Finance Manager

Agency response presented by: Bruce Brensdal

Handouts: None

Concerns/Discussion topics: Board internal control procedures; investment contracts (i.e., AIG) and any loss of principal; comparison of Montana to other states with comparable programs

Committee requests: None

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Rep. Jacobson; **motion carried.**

00:15:38 **OTHER BUSINESS, CONTRACT AUDITS:**

Reports presented by: Angie Lang, Coordinator for Audit Development
Lottery Financial, Contract Audit (08C-02)
Lottery Cash Drawings, Contract Audit (08C-03)
Montana Chiropractic Legal Panel, Contract Audit (08C-10)
Dawson Community College, Contract Audit (08C-07)
Miles Community College, Contract Audit (08C-08)
MUS Workers' Compensation Program, Contract Audit (08C-05)

Motion: All Contract Audit reports received, reviewed, filed, and copies distributed in accordance with law. Motion by Sen. Lewis, **motion carried.**

OFFICE OF THE COMMISSIONER OF POLITICAL PRACTICES, 08-21 (Financial-Compliance Audit)

00:17:38 **Report presented by:** Delsi Plummer, Financial-Compliance Auditor

Present from the agency: Dennis Unsworth, Commissioner of Political Practices
Mary Baker, Program Manager

Agency response presented by: Commissioner Unsworth

Handouts: None

Concerns/Discussion topics: Contract monitoring, Office budget, and procedure implementation timeframe; if Office is aware of any complaints of any Montana public official remuneration for both campaign and political party contributions

Committee requests: Follow-up on recurring issues

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law.
Motion by Rep. Beck; **motion carried.**

WEED MANAGEMENT AT STATE PARKS AND FISHING ACCESS SITES, 08P-11 (PERFORMANCE AUDIT)

00:34:10 **Report presented by:** Kent Wilcox (Joe Murray), Performance Auditor

Present from the agency: *Dept. of Fish, Wildlife and Parks*
Chris Smith, Deputy Director
Chas VanGenderen, Acting Administrator, Parks Division
Joe Weigand, Weed Coordinator
Paul Sihler, Field Services Division

Agency response presented by: Chris Smith

Handouts: None

Concerns/Discussion topics: Developing a more regular process for site inspections, possibility of developing a relationship with county weed boards; use of independent weed sprayers, FWP land acquisitions

Committee requests: None

00:52:36 **Public Comment:** Senator-Elect Debby Barrett

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law.
Motion by Rep. Wilson; **motion carried.**

MONTANA GUARANTEED STUDENT LOAN PROGRAM, 08-06 (FINANCIAL AUDIT)

01:07:26 **Report presented by:** Lena Tamcke, Financial-Compliance Auditor

Present from the agency: Bruce Marks, Director
Ron Muffick, Associate Director
Robin Graham, Chief Financial Officer

Agency response presented by: Bruce Marks

Handouts: None

Concerns/Discussion topics: Implications of volume cap changing from MHESAC to the Board of Regents if LC120 passes; ability to meet requests for student assistance

Public Comment: None

Committee requests: None

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Rep. Beck; **motion carried.**

MONTANA STATE UNIVERSITY, 07-11A (FINANCIAL AUDIT)

01:17:26 **Report presented by:** Jay Phillips, Financial-Compliance Auditor

Present from the agency: Laura Humberger, Assistant VP for Financial Services, MSU Bozeman
Daniel Adams, Internal Auditor, MSU All Campuses
Jeana Henley, Director of Accounting
Leslie Schmidt, Assistant VP for Research, Creativity & Technology Transfer
Ed Binkley, Controller, College of Technology Great Falls

Agency response presented by: Laura Humberger

Handouts: None

Concerns/Discussion topics: None

Public Comment: None

Committee requests: None

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Sen. Tropila, **motion carried.**

STATE OF MONTANA & MUS ANALYSIS & EVALUATION OF CLAIMS PROCESSING, 08C-09 (CONTRACT AUDIT)

01:20:55 **Report presented by:** Angie Lang distributed a hard-copy presentation, (exhibit #1) for Marie Pollock, Vice President, Wolcott & Assoc., Inc. Ms. Pollock was not available due to unavoidable travel delays.

Present from the agency: Paul Bogumill, Director of Benefits, MT University System
Connie Welsh, Administrator, Health Care and Benefits Division, Dept. of Administration

Agency response presented by: Connie Welsh

Handouts: A copy of the contractor's written response was handed out to the Committee. (Exhibit #1)

Concerns/Discussion topics: Caremark and lack of response to audit and their contract with the state of Montana; what Dept. of Administration can do to solve problems with Caremark

Public comment: None

Committee requests: Follow-up on Caremark with representatives from contracted auditor and Caremark at January meeting to report on any changes to the program; Ms. Hunthausen directed Ms. Lang to contact Marie Pollock and question what did happen between contract auditor and Caremark and through a letter from the Committee Chair request a written response from Caremark to their noncooperation reconciling it to exhibit 1.

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Rep. Beck, **motion carried.**

Break

OFFICE OF STATE PUBLIC DEFENDER, 08-28 (FINANCIAL-COMPLIANCE AUDIT)

02:04:30 **Report presented by:** Jennifer Erdahl, Financial-Compliance Auditor

Present from the agency: Randi M. Hood, Chief Public Defender
Harry Freebourn, Administrative Director

Agency response presented by: Randi Hood

Handouts: None

Concerns/Discussion topics: explanation of a qualified opinion and why the Office is not requested to issue adjusted financial statements

Public Comments: None

Committee requests: None

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Sen. Tropila; **motion carried.**

DEPARTMENT OF ADMINISTRATION, 08-13 (FINANCIAL-COMPLIANCE AUDIT)

02:19:44 **Report presented by:** John Fine, Financial-Compliance Auditor

Present from the agency: Janet R. Kelly, Director
Patricia McNamee, Bureau Chief, Management Support Bureau
Connie Welsh, Administrator, Health Care and Benefits
Paul Christofferson, Administrator, State Accounting Division

Agency response presented by: Janet Kelly, Paul Christofferson, Steve Austin, Administrator, Citizen Services & Resource, Dept. of Revenue

Handouts: Legal opinion from DOA, Re: Credit Card Payments (Exhibit 2); Corrective Action Plan (Exhibit 3).

Concerns/Discussion topics: Certification for income tax rebates granted to offset property tax payments; under-recovery of indirect costs and \$2,313,819 in lost General Fund revenue; repeated audit finding of payment and rebates on state purchasing cards; stale-dated warrants as abandoned property

Committee requests: None

Public comments: None

Actions taken: Sen. Lewis, motion for the committee to sponsor legislation to provide flexibility in billing timelines so that the state can maximize SWCAP billing for federal grants and programs. Motion passed

Motion: Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Rep. Jacobson; **motion carried.**

DEPARTMENT OF REVENUE, 08-14 (FINANCIAL-COMPLIANCE AUDIT)

03:11:40 **Report presented by:** Pearl Allen, Financial-Compliance Auditor

Present from the agency: Dan Bucks, Director
Alan Peura, Deputy Director
Gene Walborn, Administrator, Business & Income Tax
Steve Austin, Administrator, Citizen Services & Resource Management

Agency response presented by: Dan Bucks, Gene Walborn, Steve Austin

Handouts: DOR proposed legislation (Exhibit #4)

Concerns/Discussion topics: Department’s proper classification of current and prior year revenue and overstating revenues, and the financial statements impact; unauthorized investments; additional FTE aiding in collections of tax revenues; certification for income tax rebates granted to offset property tax payments; late individual income tax returns accessed a late fee or paid interest; efficiency of cross-matching entities in DOR requested legislation

Committee requests: None

Public Comment: None

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Rep. Jacobson; **motion carried.**

Lunch Break

MONTANA FACILITY FINANCE AUTHORITY, 08-12 (FINANCIAL-COMPLIANCE AUDIT)

04:53:40 **Report presented by:** Brenda Kedish, Financial-Compliance Auditor

Present from the agency: Michelle Barstad, Director

Agency response presented by: Michelle Barstad

Handouts: None

Concerns/Discussion topics: None

Public Comment: None

Committee requests: None

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Sen. Lewis; **motion carried.**

BOARD OF INVESTMENTS, 08-04A (FINANCIAL-COMPLIANCE AUDIT)

04:56:00 **Report presented by:** Brenda Kedish, Financial-Compliance Auditor

Present from the agency: Carroll South, Executive Director
Geri Burton, Deputy Director
Gayle Moon, Accounting Fiscal Manager
Polly Boutin, Accountant

Agency response presented by: Carroll South

Handouts: Pension Assets History (Exhibit 5)

Concerns/Discussion topics: Board management unaware of specific requirements of General Accounting Principals (GAP) regarding intended future use of buildings; disclosure of subsequent events and Pension Assets; MT State Fund use investments vs. operational assets; property purchase and contractor for MT State Fund building and possible conflict of interest

Committee requests: None

Public comments: None

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Rep. Jacobson; **motion carried.**

MONTANA STATE FUND, 08-05A (FINANCIAL-COMPLIANCE AUDIT)

06:05:49 **Report presented by:** Alexa O'Dell, Financial-Compliance Auditor

Present from the agency: Lawrence Hubbard, President/CEO
Mark Barry, Vice President, Corporate Support

Patti Grosfield, Internal Auditor
Nancy Butler, General Counsel
Renee Silverthorne, Controller

Agency response presented by: Lawrence Hubbard

Handouts: None

Concerns/Discussion topics: State Fund and BOI both claiming State Fund building as an asset; State Fund's authority to invest and management of investments; MT Sate Fund reserves set aside for claims

Committee requests: None

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Sen. Barkus; **motion carried.**

TEACHERS' RETIREMENT SYSTEM, 08-09A (FINANCIAL-COMPLIANCE AUDIT)

06:25:00 **Report presented by:** Paul O'Loughlin, Financial-Compliance Auditor

Present from the agency: David Senn, Executive Director
Tammy Rau, Deputy Executive Director
Dan Gaughan, Accounting/Fiscal Manager

Agency response presented by: David Senn, Dan Gaughan

Handouts: None

Concerns/Discussion topics: administrative and contracted services increases; Systems plan for becoming actuarially sound; disclosure of subsequent event affecting the System's portfolio; reforms in legislation to hold cost liabilities down in the future, specifically early retirement issue that does not violate court decrees

Committee requests: None

Public Comment: None

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Rep. Jacobson; **motion carried.**

Chairman Balyeat took a moment to convey the Committees appreciation for Rep. Jacobson's years of service to the Legislative Audit Committee since January 2001. Senator Balyeat passed the gavel to Vice Chairman Jacobson to preside over the remainder of the Audit Committee meeting.

PUBLIC EMPLOYEES' RETIREMENT BOARD, 08-08A (FINANCIAL-COMPLIANCE AUDIT)

07:00:35 **Report presented by:** Geri Hoffman, Financial-Compliance Auditor

Present from the agency: Roxanne Minnehan, Executive Director
Diann Levandowski, Bureau Chief, Assistant Fiscal Services
Barb Quinn, Bureau Chief, Fiscal Services
Renaë Deadmond, Internal Auditor

Agency response presented by: Roxanne Minnehan

Handouts: None

Concerns/Discussion topics: Testing of internal controls; recommendations from the Board to the legislature to help the funding of the system; disclosure of subsequent events affecting the Board's portfolio; PERS Pension fund assets at June 30, 2008 thru end of October at \$3.019 billion

Committee requests: None

Public Comment: None

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Rep. Wilson; **motion carried.**

AUDIT FOLLOW-UP BRIEFING

PERFORMANCE AUDIT Follow-ups

07:25:25 Presented by Lisa Blanford, Performance Auditor

Examination of the Delivery of eGovernment Services, Department of Administration; Office of the Governor, 07SP-03 (orig. 06P-08)

Promoting Proper Forest Practices, Department of Natural Resources and Conservation, 09SP-13 (orig. 06P-12)

Characteristics of the Population Served at Montana State Hospital, Department of Public Health and Human Services/Montana State Hospital, 08SP-37 (orig. 06P-03)

How the State of Montana Assures Dependent Eligibility for Health Insurance, Department of Administration, 09SP-06 (orig. 07P-03)

INFORMATION SYSTEMS AUDIT Follow-ups

07:37:18 Presented by Dale Stout, Information Systems Auditor

Montana State Fund Policy Holder System, Montana State Fund, 08DP-01 (orig. 07DP-14)

Unemployment Insurance Tax System, Department of Labor and Industry, 09SP-08 (orig. 07DP-03)

Medicaid Data Review, Department of Public Health and Human Services, 09SP-07 (orig. 07DP-06)

Committee Discussion: Medicaid payments continuing for deceased recipients

