

# Legislative Audit Division

State of Montana



Report to the Legislature

December 2001

## Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2001

### Department of Commerce

This report contains three recommendations to the Department of Commerce, two recommendations to the Department of Labor and Industry, one recommendation to the Department of Administration, and one disclosure issue. The recommendations relate to:

- ▶ Lack of controls to ensure compliance with federal regulations.
- ▶ Professional and Occupational Licensing Board's noncompliance with state laws.
- ▶ Untimely distribution of Bank Examiner's Reports.

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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 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, 1999, was issued on March 30, 2000. The Single Audit Report for the two fiscal years ended June 30, 2001, will be issued by March 31, 2002. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator  
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December 2001

The Legislative Audit Committee  
Of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Commerce's financial activity for fiscal years 1999-00 and 2000-01. The report contains six recommendations and one disclosure issue; three of the recommendations and the disclosure issue are addressed to the Department of Commerce, two are addressed to the Department of Labor and Industry, and one is addressed to the Department of Administration.

The departments' written responses to the audit recommendations are included in the back of the audit report. We thank the directors and their staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

*(Signature on File)*

Scott A. Seacat  
Legislative Auditor

# **Legislative Audit Division**

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**Financial-Compliance Audit**

**For the Two Fiscal Years Ended June 30, 2001**

## **Department of Commerce**

Members of the audit staff involved in this audit were Jeane Carstensen-Garrett, Chris G. Darragh, Laurie H. Evans, Hollie Koehler, Amber Long, Emlyn Neuman-Javornik, and Laura L. Norris.

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## Appointed and Administrative Officials

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### Department of Commerce

Mark Simonich, Director

Andy Poole, Deputy Director  
Director's Office  
Management Services Division  
Economic Development Division

Marty Tuttle, Chief Legal Counsel

+ Annie Bartos, Division Administrator (through 6/30/2001)  
\* Division of Banking and Financial Institutions

+ Newell Anderson, Division Administrator (through 6/30/2001)  
\* Local Government Services Bureau

Carroll South, Executive Director  
Board of Investments

Jerry Hoover, Executive Director  
Montana Facility Finance Authority

Bruce Brensdaal, Division Administrator  
Housing Division

+ Gerald LaChere, Director (through 6/30/2001)  
\* Montana State Lottery

+ Jim Brown, Division Administrator (through 6/30/2001)  
\*\* Building Codes Division

+ Steve Meloy, Division Administrator (through 6/30/2001)  
\*\* Professional and Occupational Licensing Division

Matthew Cohn, Director  
Travel Promotion and Development Division

+ Sam Murfitt, Executive Secretary (through 6/30/2001)  
\*\*\* Board of Horse Racing

+ Jack Kane, Bureau Chief (through 6/30/2001)  
\*\* Weights and Measures Bureau

+ Indicates the people were an administrative official at Department of Commerce through 6/30/2001 before the applicable division, bureau, or board was reorganized as described below.

\* Divisions and Bureau transferred to Department of Administration as of July 1, 2001

\*\* Divisions and Bureau transferred to Department of Labor and Industry as of July 1, 2001

\*\*\* Board transferred to the Department of Livestock as of July 1, 2001

## Report Summary

### Department of Commerce

This audit report is the result of our financial-compliance audit of the Department of Commerce for the two fiscal years ended June 30, 2001. We issued an unqualified opinion on the financial schedules contained in this report. This means the reader may rely upon fairness of the presented financial information and the supporting data on the accounting system.

The previous audit report contained seven recommendations. The department implemented three, partially implemented two, and did not implement two. The recommendations not implemented concern untimely bank examiner's reports and equitable allocation of computer system development costs among the professional licensing boards and programs. The recommendations partially implemented relate to Professional and Occupational Licensing Board compliance with state laws and repayment of Coal Severance Tax Trust Fund moneys.

This report contains six recommendations concerning adequate controls to ensure compliance with federal regulations, adequate documentation for federal administrative expenditures, Professional and Occupational Licensing Board's compliance, and untimely distribution of bank examiners reports and one disclosure issue.

The listing below serves as a means of summarizing the recommendations contained in the report, the departments' responses thereto, and a reference to the supporting comments.

#### Recommendation #1

We recommend the Department of Labor and Industry correct inequitable allocations of system development costs for its professional and occupational licensing boards ..... 8

Department Response: Concur. See page B-6.

#### Recommendation #2

We recommend the department establish controls to ensure HOME program subrecipients are in compliance with federal regulations related to program income ..... 10

Department Response: Concur. See page B-3.

## Report Summary

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Recommendation #3 We recommend the department establish controls to ensure only costs allowable under federal regulations are charged to the HOME and Section 8 programs..... 12

Department Response: Concur. See page B-3.

Recommendation #4 We recommend the department implement procedures to ensure adequate documentation exists for administrative expenditures paid by the HOME program..... 12

Department Response: Concur. See page B-4.

Recommendation #5 We recommend the Department of Labor and Industry comply with all applicable state laws for boards and licensing programs, or seek any necessary legislation ..... 15

Department Response: Concur. See page B-6.

Recommendation #6 We recommend the Department of Administration ensure bank examination reports are distributed in the time frame required by state law..... 16

Department Response: Concur. See page B-9.



# Introduction

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## Introduction

We performed a financial-compliance audit of the Department of Commerce (department) for the two fiscal years ended June 30, 2001. The accompanying financial schedules include activity related to the Board of Housing (reports numbered 01-07, 00-07), the Board of Investments (reports numbered 01-03, 00-03), Montana Facility Finance Authority (report numbered 00-26), and the Montana State Lottery (reports numbered 01C-02, 00C-02), which are audited separately. These reports are available on request.

The objectives of this audit were to:

1. Determine whether the department complied with laws and regulations we tested.
2. Make recommendations for improvement of management and internal controls.
3. Determine whether the department's financial schedules for the two fiscal years ended June 30, 2001, present fairly the results of operations.
4. Determine the status of prior audit recommendations.

This audit report contains six recommendations intended to improve compliance with state laws and regulations and a disclosure issue. In accordance with section 5-13-307, MCA, we have disclosed the cost, if significant, of implementing these recommendations.

In accordance with section 17-8-101, MCA, we reviewed the Internal Service Funds fees, charges for services and fund equity balances. Based upon our review, nothing came to our attention to indicate the department is not in compliance with the law requiring Internal Service Fund fees to be commensurate with costs.

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## Background

The Department of Commerce is responsible for encouraging and promoting commerce-related activities in Montana through a wide spectrum of programs. These programs relate to 1) economic development and promotion; 2) assistance to local governments and individuals; and 3) business regulatory services. During our audit

## Introduction

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period, the department consisted of eight divisions and several entities attached to the department for administrative purposes. The Board of Housing, Montana Facility Finance Authority, Board of Research and Commercialization Technology, Board of Investments, Montana State Lottery, and the Professional and Occupational Licensing boards are administratively attached to the department. Following is a description of the various divisions and offices comprising the department.

Director's Office - administers the department and its divisions. The director's office provides the department with executive, administrative, legal, and policy guidance.

Management Services Division - provides internal support to all agency programs. Services provided include budgeting, accounting, purchasing, contracting, personnel administration, payroll, and training. The division also provides analysis, development, maintenance, and supervision of department data processing systems and hardware.

Economic Development Division - provides assistance and information to communities in Montana, which allows them to achieve the community development objectives they have defined. The division provides assistance and information to businesses to help the business achieve or maintain profitability and growth, thereby increasing the opportunities for employment and higher wages for Montanans. Services provided by the division to communities and businesses include business technical assistance, regional development, business finance, trade, business location, and census and economic information.

Montana Facility Finance Authority - helps eligible institutions access the tax-exempt bond market. The program issues tax-exempt bonds for eligible facilities at interest rates significantly below those which would be available at taxable bond rates. Eligible facilities may include hospitals, clinics, nursing homes, centers for developmentally disabled, and pre-release centers.

Board of Investments - has the sole authority to invest state funds in accordance with the Montana Constitution and statutory requirements. The board manages seven investment portfolios: 1) the all other funds portfolio; 2) the stock pool; 3) the short-term investment pool; 4) the trust funds bond pool; 5) the retirement funds bond pool; 6) the real estate bond pool; and 7) the international equity pool. The board also administers several programs in the

Enterprise Fund which issue bonds for the purpose of assisting local governments, cities, and school districts, or to provide funds to improve the state's economy.

Board of Research and Commercialization Technology - created to provide: a predictable and stable source of funding for research and commercialization projects; expand and strengthen research efforts for the state's basic industries to increase their economic impact on the state's economy; and expand research efforts into areas beyond the scope of the state's basic industries.

Local Government Assistance Division - operates direct service and financial assistance programs. The Community Development Bureau provides assistance to local governments, private developers, and citizens in the areas of: public works, planning and financing, land use and development regulation, capital improvement planning, local government issues and research and development. The bureau includes the following programs: Coal Board, Treasure State Endowment Program (TSEP), Hard Rock Mining Board, Community Development Block Grant (CDBG), and Community Technical Assistance.

The Local Government Services Bureau consists of two programs, the Accounting Systems Program and the Audit Review Program.

The Accounting Systems Program provides technical assistance and training to local government accounting and financial personnel in the areas of local government finance, accounting, budgeting and financial reporting, and serves as a liaison between local governments and various departments of state government and the legislature.

The Audit Review Program is responsible for defining, reviewing, and enforcing audit requirements for Montana local governments.

Banking and Financial Institutions Division - consists of the financial institution program responsible for chartering, licensing and supervising the safety and soundness of state chartered banks, savings and loan associations, credit unions, sales finance companies and escrow companies. The State Banking Board advises the director on matters relating to banking.

Board of Horse Racing - is responsible for licensing, auditing, supervising, investigating, and regulating the horse racing industry. The program ensures compliance with state laws and board rules.

## Introduction

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Montana State Lottery - sets policy and oversees activities and procedures of the lottery. The program director coordinates the lottery's marketing, operations, security, and administration.

Building Codes Division - works to protect the health and safety of the public and workers in the state by ensuring the design and construction of buildings and recreational vehicles meet minimum building, plumbing, mechanical, electrical and elevator standards.

Professional and Occupational Licensing Division - safeguards the public health, safety and welfare of the citizens of the state, and ensures professional conduct and quality service by licensing and monitoring professional and occupational service providers.

Weights and Measures Bureau - ensures the integrity of all weighing and measuring devices in the state, and is responsible for quality control of prepackaged goods and motor fuel sales.

Montana Promotion Division - is responsible for promoting a positive image of the state through advertising, publicity and international and domestic group travel, as well as printing and distribution of publications and marketing to production companies.

Housing Division - is responsible for the federal Section 8 Housing Programs which provide funding for decent housing to eligible low-income families and individuals. The HOME Investment Partnership Program grants funds to strengthen public/private partnerships to provide more affordable housing. The Board of Housing helps provide decent, safe, sanitary, and affordable housing to lower income individuals and families. Board of Housing moneys are made available through issuance of revenue and general obligation bonds.

During the 57<sup>th</sup> Legislative Session, Senate Bill 445, Chapter 483, Laws of 2001, reorganized the Department of Commerce. As of July 1, 2001, the Montana State Lottery, the Banking and Financial Institutions Division, Local Government Services Bureau, and the Consumer Affairs Office moved to the Department of Administration. The Department of Labor and Industry absorbed the Professional and Occupational Licensing Division, the Weights and Measures Bureau, and the Building Codes Division. The Board of Horse Racing moved to the Department of Livestock. The Department of Commerce is now comprised of the Director's Office, the Board of Investments, the Montana Facility Finance Authority,

Board of Research and Commercialization Technology, and the following five divisions: Economic Development, Housing, Local Government Assistance, Management Services, and Travel Promotion and Development.



# Prior Audit Recommendations

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## Prior Audit Recommendations

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We performed the prior audit of the department for the two fiscal years ended June 30, 1999, that contained seven recommendations. We determined the department implemented three, partially implemented two, and did not implement two of the recommendations.

One of the recommendations partially implemented required the department to repay the Coal Severance Tax Trust Fund for moneys disbursed without a valid obligation. We found the department has a payment plan in place and has paid back approximately \$300,000 of the \$518,490 owed. Department officials indicated they will have the full amount repaid by December 2001. As a result, we make no further recommendation at this time, but we will follow up on the remaining payments in the next financial-compliance audit. The second recommendation partially implemented relates to the department's Professional and Occupational Licensing Board's compliance with state law and is discussed on page 14. One of the two recommendations not implemented relates to untimely distribution of bank examiners' reports and is discussed on page 15. The second recommendation not implemented relates to proper cost allocation by the department's professional and occupational licensing boards and programs and is discussed below.

## Cost Allocations

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In our prior audit, we found the department did not equitably allocate computer system development costs among the boards and programs. We recommended the department allocate system costs equitably among the department's professional and occupational licensing boards and programs. We found the department did not make any adjustments to correct the inequitable distribution of system development costs. As a result we conclude the recommendation was not implemented. However, we did review the allocation of other costs, including system support costs incurred during the audit period and found the costs are being equitably allocated among the boards and programs.

Department personnel said they did not make any adjustments for the past allocation because the recommendation did not specifically

## **Prior Audit Recommendations**

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direct them to correct the past inequities. Until the adjustment is made, costs charged to the boards and programs are not equitable. Because the professional and occupational licensing boards were transferred as of July 1, 2001, to the Department of Labor and Industry (DOLI), we address the recommendation to DOLI.

### **Recommendation #1**

**We recommend the Department of Labor and Industry correct inequitable allocations of system development costs for its professional and occupational licensing boards.**



# Findings and Recommendations

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## **Federal Compliance**

During the audit we tested the departments compliance with federal regulations as required by Office of Management and Budget Circular A-133. Federal regulations require that nonfederal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program requirements. The following two sections discuss instances where the department does not have adequate controls to ensure compliance with program income requirements for subrecipients and allowable cost principles. The third section relates to ensuring adequate documentation exists to demonstrate compliance with allowable cost principles.

## **Subrecipient Monitoring**

The Montana HOME Investment Partnership Program (HOME) subgrants money to local governments and to Community Housing Development Organization recipients to expand the supply of decent and affordable housing, particularly for low- and very-low-income Americans. The department's federal expenditures for this program were approximately \$4.3 million and \$3.7 million in fiscal years 1999-00 and 2000-01, respectively. When the Montana HOME program grants this money out to the subrecipients, it is responsible for ensuring the subrecipients comply with the federal laws and regulations attached to the money.

Federal regulations, 24 CFR 92.503, state that program income must be used in accordance with the same requirements as original HOME expenditures. Program income is funds generated from HOME activities until the period of affordability ends. Some examples of program income include net income earned on rental units built using HOME funds within a certain time period or selling a house purchased with HOME funds before a specified time period. During the audit we found the HOME program does not have adequate controls in place to determine if the state recipients are spending their program income in accordance with federal requirements. Without adequate controls, the possibility exists that program income could be spent on unallowable activities and not be identified by the HOME program.

## Findings and Recommendations

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The HOME program manager was unsure why this control was not in place; however, a plan has been created to monitor program income. As of July 31, 2001, HOME required all subrecipients to report the type of program income earned and how the income was spent on HOME eligible projects. However, no follow-up is currently planned with the subrecipients that do not submit the required information on program income because of the large number of (over 150) HOME projects outstanding. In addition, to encourage subrecipients to complete the required information the department will not award them additional funds until HOME has received the required program income information.

The control procedures recently adopted are an improvement to controls; however, we believe they are not adequate to ensure that program income is spent on allowable activities. Follow-up is necessary to ensure documentation is received from all of the subrecipients, as well as a system to periodically verify the reasonableness of the information submitted.

### **Recommendation #2**

**We recommend the department establish controls to ensure HOME program subrecipients are in compliance with federal regulations related to program income.**

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### **Allowable Cost Principles**

The HOME program and the Section 8 Housing Choice Voucher Program (Section 8) receive funds for the administration of their federal programs. The HOME program uses some of its funds for administration at the state level and it subgrants some to the subrecipients. Section 8 uses all of its funds for administration at the state level.

Federal regulations, Office of Management and Budget (OMB) Circular A-87 (circular), establishes principles for determining allowable costs incurred by state governments under grants, cost reimbursement contracts and other agreements with the federal government. These principles are used by all federal agencies in

## Findings and Recommendations

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determining the reasonableness of costs charged by governmental units to federal programs.

During the audit we found the HOME and Section 8 programs do not have adequate controls in place to determine that administrative expenditures at the state level were allowable costs based on the circular. Without adequate internal controls the possibility exists that the department could pay administrative costs within the Section 8 and HOME programs that are not allowable. However, during our testing, we did not find any examples of administrative expenditures that were not in compliance with the circular.

One of the program managers was not aware of the circular or aware the department had to follow it. Since we brought it to their attention, the program manager indicated staff would be immediately informed of the requirements of the circular. The other program manager was aware of the circular; however, he did not believe it applied to the program, because they had a contract with the federal government for the program. Although the department has a contract with the federal government for the program, it is still considered federal assistance and the circular is applicable. The department also believes that using specific program regulations to approve administrative expenditures is an adequate control to ensure compliance with the circular because the program regulations are at least as restrictive as the circular. However, documentation should be maintained to demonstrate their review of the program regulations and the circular.

The department should establish controls to ensure only costs allowable per the circular are charged to federal HOME and Section 8 programs. These controls could be as simple as providing education and updated copies of the circular to the appropriate personnel to use as guidance when approving the state's administrative expenditures.

## Findings and Recommendations

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### **Recommendation #3**

**We recommend the department establish controls to ensure only costs allowable under federal regulations are charged to the HOME and Section 8 programs.**

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### **Lack of Documentation**

Federal regulations allow the state to spend HOME program funds for reasonable administrative and planning costs of the HOME program. The HOME program has policies and procedures stating that before administrative expenditures are paid the program should have receipts and affidavits documenting the expenses.

During the audit, we found two subrecipients (ten instances) out of eleven subrecipients tested, where documentation was insufficient to determine that the state recipient met the criteria to be reimbursed for administrative costs. Reimbursement to these recipients totaled \$13,000. Subsequent to our audit work, HOME personnel obtained additional support for the administrative claims and we verified the expenditures were in compliance with federal regulations.

The HOME program manager stated the program has recently experienced high turnover in its program officers, and the manager does not have enough time to review all of each person's work.

The department should establish controls to ensure the proper documentation exists before administrative expenses are paid. These procedures could include a periodic review of a sample of each of the files or have the program officers periodically check each other's files. In addition, to help with the problem of staff turnover, the department should include documentation requirements in procedures material provided to new staff.

### **Recommendation #4**

**We recommend the department implement procedures to ensure adequate documentation exists for administrative expenditures paid by the HOME program.**

### Professional and Occupational Licensing Boards

During the audit period, the Professional and Occupational Licensing (POL) division was part of the Department of Commerce. It consisted of 34 state boards and three licensing programs. We tested compliance with over 150 state laws directly related to the activities of 11 of the state boards and one of the licensing programs. Of the laws tested, we found the following instances of noncompliance.

- ▶ The Board of Architect's law, section 37-65-303(2), MCA, states that after examination the department shall, if that candidate has been found qualified, grant a license to the candidate to practice architecture in this state, which may only be granted on the consent of not less than two members of the board, attested by the secretary, and have the seal of the board attached. Board procedures currently only require one person to review the file to determine if the candidate is qualified and issue a license. About 8 to 10 weeks later, when the board meets, the new architect files are reviewed and ratified. Current procedures are used to ensure that the architects receive their licenses in a timely manner.
- ▶ The Electrical Board laws, sections 37-68-304 and 305, MCA, require that the master, journeyman and residential examinations administered by the Electrical Board include specified information. The board currently contracts out the exam with a testing agency. No documentation exists of the board reviewing the exam to ensure the information required by state law is included in the exams. Board personnel indicated that it has been difficult to make arrangements with the testing company to review the test.
- ▶ The Alternative Health Care Board law, section 37-27-202, MCA, requires the examination for a license to practice direct-entry midwifery be prepared by a certified nurse-midwife designated by the board in consultation with the physician on the board. The Alternative Health Care Board currently uses a national exam and the physician on the board has not reviewed the exam since before 1992, when the state started using the national exam. The board does not believe it is necessary to have the physician on the board review the exam since it is a national exam given by the North American Registry of Midwives.
- ▶ The Board of Outfitters law, section 37-47-344, MCA, requires that 50 percent of all fines be deposited in the state special revenue fund for the use of the board. Since this law was passed in 1987, the board's state special revenue fund has not received any revenue from fines. When the current board's executive

## Findings and Recommendations

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director was hired 2½ years ago, he realized that none of the fines were being deposited in the board's state special revenue fund. Recently it was determined the board was not collecting the fines because the county collection report submitted by counties did not include the legal reference. The board is working with the Department of Revenue to add the reference to the county collection report. The Board of Outfitters has determined that, since 1997, the board's share of the fines is approximately \$16,000.

- ▶ The Alternative Health Care Board, the Board of Public Accountants, the Board of Athletics, the Board of Clinical Laboratory Science, and the Chemical Dependency Counselor's Program all have statutes requiring specific rules be adopted. These boards have adopted rules; however, the rules do not include all of the subjects that are required to be included. Each of the boards had varied reasons for not adopting all of the required rules. One of the boards was not aware that rules should be adopted, other boards did not believe the need to expand on the specific statute or relied on another statute to fulfill the criteria, and another board had not encountered any problems so they did not believe the need to adopt rules.

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### Prior Audit Recommendations

As part of our audit work at the POL boards we also followed-up on a prior audit recommendation related to compliance with state laws. The audit recommendation was a four-part recommendation. We found the department implemented three parts of the recommendation and did not implement the other part of the recommendation. As a result, we concluded this recommendation is partially implemented. Discussed below is the one part of the recommendation that was not implemented and another issue identified when we were following up on the prior audit recommendation.

- ▶ The Board of Social Work Examiners and Professional Counselors has not promulgated rules governing professional, practice, and ethical standards as required by state law. Board personnel indicated they use national standards established by the National Association of Social Workers and the American Counseling Association, and expect licensees to abide by these standards even though the board has not officially adopted the national standards. The board's legal counsel advised them not to formally adopt the national standards in administrative rules because the standards are continuously changing and they may

## Findings and Recommendations

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not always be updated in a timely manner. Administrative rules can be adopted as of a certain date, and the board can modify when deemed necessary. In addition, board personnel indicated that the current rules related to unprofessional conduct met the requirements of the statute. We believe the law requires that the rules governing professional practice should include more than unprofessional conduct that are currently included in the rules.

- ▶ While following up on this recommendation, we also found the board has not adopted rules for licensure of a person that possesses a minimum 45 semester hour graduate degree as required by section 37-23-202(2), MCA. Board personnel were not aware that this item was not included in the current rules.

Based on our audit work, board personnel are generally aware of the state laws with which they are required to comply. However, in the seven instances of non-compliance noted above, the various boards need to change either their current operating procedures or the state law to ensure compliance with statute. As of July 1, 2001, the POL division moved from the Department of Commerce to the Department of Labor and Industry (DOLI). As part of DOLI's role in administering the POL division, it should consider a review to ensure all the boards and licensing programs are aware of and comply with the applicable state laws.

### **Recommendation #5**

**We recommend the Department of Labor and Industry comply with all applicable state laws for boards and licensing programs, or seek any necessary legislation.**

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### **Distribution of Bank Examination Reports**

Section 32-1-211(2)(b), MCA, required the department to submit in writing to the examined bank or trust company a report of the examination's findings no later than 60 days after the completion of the examination. During the previous two audits we noted the department was distributing the examination reports up to 126 days after the deadline established by law.

During the current audit we determined that although significant improvements were made, the department is still not in compliance with this law. In fiscal year 1999-00, 11 out of 21 reports were late.

## **Findings and Recommendations**

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The reports ranged from 1 to 62 days late. In fiscal year 2000-01 we found 9 of the 21 reports were returned to the banks late, ranging from 1 to 31 days late.

Department officials stated that the reasons for the delay in the submission of the reports for the past two years is related to bank examiner turnover, difficulty in recruitment and hiring of staff, and concentration on high risk banks which require additional examiner time to review.

During the audit period the Banking and Financial Division was a part of the Department of Commerce. On July 1, 2001 this division moved from the Department of Commerce and became a part of the Department of Administration. The new commissioner of the division stated that new policies and procedures will be implemented to ensure that the department is in compliance with the state law.

**Recommendation #6**

**We recommend the Department of Administration ensure bank examination reports are distributed in the time frame required by state law.**



# Disclosure Issue

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## Disclosure Issue

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### Treasure State Endowment General Fund Appropriation

Chapter 10 from the May 2000 special session appropriated \$3 million from the General Fund for the biennium ending June 30, 2001 to the treasure state endowment program provided for in Title 90, chapter 6, part 7. At the end of fiscal year 2000-01, the department recorded an accrual for treasure state endowment grants for approximately \$6 million in the state Special Revenue Fund, of which \$3 million should have been made against the appropriation in the General Fund. As a result, expenditures are overstated in the Special Revenue Fund and understated in the General Fund on the fiscal year 2000-01 Schedule of Expenditures & Transfers-Out by \$3 million. Personnel at the department discovered, and are currently in the process of correcting, the error. Because we believe this is an isolated error, and was detected by department personnel, we provide this for informational purposes only and make no recommendation at this time.

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

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# LEGISLATIVE AUDIT DIVISION

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 & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Commerce for each of the fiscal years ended June 30, 2000, and 2001. The information contained in these financial schedules is the responsibility of the department'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 department's assets, liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances/property held in trust, of the Department of Commerce for each of the fiscal years ended June 30, 2000, and 2001, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

*(Signature on File)*

James Gillett, CPA  
Deputy Legislative Auditor

September 17, 2001

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DEPARTMENT OF COMMERCE  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Agency Fund</u>	<u>Expendable Trust Fund</u>	<u>Investment Trust Fund</u>	<u>Nonexpendable Trust Fund</u>
FUND BALANCE: July 1, 2000	\$ 1,346,808	\$ 14,867,336	\$ 111,480,596	\$ 332,809	\$ 0	\$ 2,350,000	\$ 481,726,557	\$ (941,510)
PROPERTY HELD IN TRUST: July 1, 2000					\$ 321,786			
<b>ADDITIONS</b>								
Budgeted Revenues & Transfers-In	6,303,608	42,511,038	34,418,726	5,292,164			32,695,998	
NonBudgeted Revenues & Transfers-In	13,505	483,186	55,463,736	25		20,125	1,043,956,397	
Prior Year Revenues & Transfers-In Adjustments	18,150	1,661,504	(3,760)	(623)				299,549
Direct Entries to Fund Balance	(2,692,485)	14,737,361	(437,058)	(5,513)	(249)			941,510
Additions To Property Held in Trust					502,808			
Total Additions	<u>3,642,778</u>	<u>59,393,089</u>	<u>89,441,644</u>	<u>5,286,053</u>	<u>502,559</u>	<u>20,125</u>	<u>1,076,652,395</u>	<u>1,241,059</u>
<b>REDUCTIONS</b>								
Budgeted Expenditure & Transfers-Out	3,478,299	63,289,019	73,953,117	5,340,189				
NonBudgeted Expenditure & Transfers-Out		(207,555)	6,670,191	55,641		3,250,000	790,139,282	
Prior Year Expenditure & Transfers-Out Adjustments	(7,045)	229,600	14,694	41,550				
Reductions in Property Held in Trust					532,025			
Total Reductions	<u>3,471,254</u>	<u>63,311,064</u>	<u>80,638,002</u>	<u>5,437,380</u>	<u>532,025</u>	<u>3,250,000</u>	<u>790,139,282</u>	<u>0</u>
FUND BALANCE: June 30, 2001	\$ 1,518,332	\$ 10,949,361	\$ 120,284,238	\$ 181,482	\$ (249)	\$ (879,875)	\$ 768,239,670	\$ 299,549
PROPERTY HELD IN TRUST: June 30, 2001					\$ 292,569			

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) with adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF COMMERCE  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Agency Fund</u>	<u>Expendable Trust Fund</u>	<u>Investment Trust Fund</u>	<u>Nonexpendable Trust Fund</u>
FUND BALANCE: July 1, 1999	\$ 2,814,048	\$ 12,658,370	\$ 105,874,092	\$ 262,322	\$ 0	\$ 0	\$ 468,786,467	\$ 117,788,395
PROPERTY HELD IN TRUST: July 1, 1999					\$ 302,188			
ADDITIONS								
Budgeted Revenues & Transfers-In	6,241,670	38,603,870	30,046,725	5,398,678			22,882,741	
NonBudgeted Revenues & Transfers-In	(6,454)	185,547	49,931,431	7,516		2,350,000	795,290,837	
Prior Year Revenues & Transfers-In Adjustments		566,748	1,245					
Direct Entries to Fund Balance	(2,972,419)	15,371,067	(100,007)	(33,623)				(118,729,905)
Additions To Property Held in Trust					715,698			
Total Additions	<u>3,262,797</u>	<u>54,727,232</u>	<u>79,879,394</u>	<u>5,372,571</u>	<u>715,698</u>	<u>2,350,000</u>	<u>818,173,578</u>	<u>(118,729,905)</u>
REDUCTIONS								
Budgeted Expenditure & Transfers-Out	2,385,947	52,910,883	67,670,433	5,238,661				
NonBudgeted Expenditure & Transfers-Out	2,350,000	44,972	6,599,576	86,576			805,233,488	
Prior Year Expenditure & Transfers-Out Adjustments	(5,910)	(437,589)	2,881	(23,153)				
Reductions in Property Held in Trust					696,100			
Total Reductions	<u>4,730,037</u>	<u>52,518,266</u>	<u>74,272,890</u>	<u>5,302,084</u>	<u>696,100</u>	<u>0</u>	<u>805,233,488</u>	<u>0</u>
FUND BALANCE: June 30, 2000	\$ 1,346,808	\$ 14,867,336	\$ 111,480,596	\$ 332,809	\$ 0	\$ 2,350,000	\$ 481,726,557	\$ (941,510)
PROPERTY HELD IN TRUST: June 30, 2000					\$ 321,786			

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) with adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF COMMERCE  
 SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	General Fund	Special Revenue Fund	Enterprise Fund	Internal Service Fund	Expendable Trust Fund	Investment Trust Fund	Nonexpendable Trust Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>								
Licenses and Permits		\$ 5,100,009	\$ 1,900					\$ 5,101,909
Taxes	\$ 27,529							27,529
Charges for Services	11,517	5,573,758	846,343	\$ 5,181,194				11,612,812
Investment Earnings		914,875	58,413,521		\$ 20,125	\$ 32,702,598		92,051,119
Fines and Forfeits	71,751							71,751
Sale of Documents, Merchandise and Property		11,244	30,371,906					30,383,150
Contributions and Premiums						1,043,949,797		1,043,949,797
Miscellaneous	24	679	165	140				1,008
Grants, Contracts, Donations and Abandonments	4,115	2,167,757	4,000					2,175,872
Other Financing Sources	6,220,327	127,176					\$ 299,549	6,647,052
Federal		30,760,230	240,867					31,001,097
Federal Indirect Cost Recoveries				110,232				110,232
Total Revenues & Transfers-In	6,335,263	44,655,728	89,878,702	5,291,566	20,125	1,076,652,395	299,549	1,223,133,328
Less: Nonbudgeted Revenues & Transfers-In	13,505	483,186	55,463,736	25	20,125	1,043,956,397	0	1,099,936,974
Prior Year Revenues & Transfers-In Adjustments	18,150	1,661,504	(3,760)	(623)	0	0	299,549	1,974,820
Actual Budgeted Revenues & Transfers-In	6,303,608	42,511,038	34,418,726	5,292,164	0	32,695,998	0	121,221,534
Estimated Revenues & Transfers-In	120,375	96,667,772	80,952,750	5,238,684	0	0	0	182,979,581
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 6,183,233	\$ (54,156,734)	\$ (46,534,024)	\$ 53,480	\$ 0	\$ 32,695,998	\$ 0	\$ (61,758,047)
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>								
Licenses and Permits		\$ 817,477	\$ (2,100)					\$ 815,377
Charges for Services	\$ (15,483)	956,583	(323,527)	\$ 42,393				659,966
Investment Earnings		(611,086)	(45,697,273)			\$ 32,695,998		(13,612,361)
Fines and Forfeits	(21,474)	(25)						(21,499)
Sale of Documents, Merchandise and Property	(150)	(11,496)	(742,034)	(200)				(753,880)
Miscellaneous	13	315	(1,463)	65				(1,070)
Grants, Contracts, Donations and Abandonments		(675,453)	(8,000)					(683,453)
Other Financing Sources	6,220,327	(64,465)	(495)	(10)				6,155,357
Federal		(54,568,584)	240,867					(54,327,717)
Federal Indirect Cost Recoveries				11,232	\$ 0		\$ 0	11,232
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 6,183,233	\$ (54,156,734)	\$ (46,534,025)	\$ 53,480	\$ 0	\$ 32,695,998	\$ 0	\$ (61,758,048)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.



DEPARTMENT OF COMMERCE  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Expendable Trust Fund</u>	<u>Investment Trust Fund</u>	<u>Total</u>
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>							
Licenses and Permits		\$ 5,417,760	\$ 1,450				\$ 5,419,210
Taxes	\$ (9,069)						(9,069)
Charges for Services	10,916	5,409,043	842,373	\$ 5,294,844			11,557,176
Investment Earnings		449,912	49,195,353			\$ 22,929,769	72,575,034
Fines and Forfeits	30,163						30,163
Sale of Documents, Merchandise and Property		15,765	29,920,860	25			29,936,650
Contributions and Premiums						795,243,809	795,243,809
Miscellaneous	2,615	8,860	3,606	7,516			22,597
Grants, Contracts, Donations and Abandonments	(5,000)	572,454	15,759				583,213
Other Financing Sources	6,205,591	5,366			\$ 2,350,000		8,560,957
Federal		27,477,005					27,477,005
Federal Indirect Cost Recoveries				103,809			103,809
Total Revenues & Transfers-In	<u>6,235,216</u>	<u>39,356,165</u>	<u>79,979,401</u>	<u>5,406,194</u>	<u>2,350,000</u>	<u>818,173,578</u>	<u>951,500,554</u>
Less: Nonbudgeted Revenues & Transfers-In	(6,454)	185,547	49,931,431	7,516	2,350,000	795,290,837	847,758,877
Prior Year Revenues & Transfers-In Adjustments	<u>0</u>	<u>566,748</u>	<u>1,245</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>567,993</u>
Actual Budgeted Revenues & Transfers-In	6,241,670	38,603,870	30,046,725	5,398,678	0	22,882,741	103,173,684
Estimated Revenues & Transfers-In	46,200	75,395,032	80,330,290	5,241,875	0	0	161,013,397
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 6,195,470</u>	<u>\$ (36,791,162)</u>	<u>\$ (50,283,565)</u>	<u>\$ 156,803</u>	<u>\$ 0</u>	<u>\$ 22,882,741</u>	<u>\$ (57,839,713)</u>
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>							
Licenses and Permits		\$ 654,471	\$ (2,550)				\$ 651,921
Charges for Services	\$ (13,084)	735,895	(347,902)	\$ 153,179			528,088
Investment Earnings		(640,599)	(49,324,327)			\$ 22,882,741	(27,082,185)
Fines and Forfeits	8,113						8,113
Sale of Documents, Merchandise and Property	(150)	(6,983)	(598,791)	(175)			(606,099)
Miscellaneous			(1,500)				(1,500)
Grants, Contracts, Donations and Abandonments	(5,000)	(226,981)	(8,000)				(239,981)
Other Financing Sources	6,205,591	(79,030)	(495)	(10)			6,126,056
Federal		(37,227,935)					(37,227,935)
Federal Indirect Cost Recoveries				3,809	\$		3,809
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 6,195,470</u>	<u>\$ (36,791,162)</u>	<u>\$ (50,283,565)</u>	<u>\$ 156,803</u>	<u>\$ 0</u>	<u>\$ 22,882,741</u>	<u>\$ (57,839,713)</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.

DEPARTMENT OF COMMERCE  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT	PROGRAM (SUB-CLASS) NOT SPECIFIED	BANKING & FINANCIAL DIVISION	BOARD OF HORSE RACING	BOARD OF INVESTMENTS	BUILDING CODES DIVISION	COMMUNITY DEVELOPMENT DIVISION	CONSUMER AFFAIRS	DIRECTOR/ MANAGEMENT SERVICES	ECONOMIC DEVELOPMENT DIVISION	HEALTH FACILITY AUTHORITY	HOUSING DIVISION	LOCAL GOV'T SERVICES DIVISION	LOCAL GOV'T ASSISTANCE ADMIN	MONTANA PROMOTION DIVISION	MONTANA STATE LOTTERY	POL DIVISION	RESEARCH & COMMERCIALIZATION	WEIGHT & MEASURES DIVISION	Total
PERSONAL SERVICES																			
SALARIES		\$ 632,717	\$ 89,007	\$ 1,421,842	\$ 1,599,705	\$ 457,662	\$ 166,916	\$ 878,012	\$ 903,476	\$ 90,082	\$ 1,030,163	\$ 348,278	\$ 105,522	\$ 759,977	\$ 962,155	\$ 1,757,390	\$ 35,613	\$ 319,963	\$ 11,558,480
OTHER COMPENSATION		850	750	8,850	200	2,100			2,750	11,850				38,325	104,455	1,650			171,780
EMPLOYEE BENEFITS		156,694	20,191	314,406	459,261	118,663	44,731	204,900	227,809	20,214	285,281	88,680	23,157	200,785	266,334	506,246	8,481	90,320	3,036,153
PERSONAL SERVICES-OTHER	\$ 49,766																		49,766
Total	49,766	790,261	109,948	1,745,098	2,059,166	578,425	211,647	1,082,912	1,131,285	113,046	1,327,294	436,958	128,679	960,762	1,266,814	2,368,091	45,744	410,283	14,816,179
Operating Expenses																			
Other Services		45,202	12,362	271,751	227,130	164,757	15,293	37,915	1,784,493	33,792	2,789,383	20,905	670	2,608,656	4,658,530	1,016,978	3,257,186	26,332	16,971,335
Supplies & Materials		22,105	2,229	75,035	121,929	34,166	824	46,891	174,296	3,167	105,979	21,894	16	120,679	235,936	129,526	14,791	33,492	1,142,955
COMMUNICATIONS		22,886	4,700	51,925	98,013	22,025	7,277	25,920	147,446	3,855	96,726	15,236	1	2,636,515	684,911	255,232	5,320	8,666	4,086,654
TRAVEL		92,007	14,641	36,053	145,184	27,633	3,992	16,231	139,157	18,077	115,649	29,610		91,563	24,924	386,435	2,574	32,056	1,175,786
Rent		49,831	3,703	172,359	81,391	30,337	8,029	38,844	64,525	17,989	100,147	51,388		62,740	85,608	196,146	6,058	14,534	983,629
UTILITIES		3,708							1,757		11,985			12,886				2,210	32,546
REPAIR & MAINTENANCE		2,997	747	7,856	53,898	5,697	1,816	1,265	16,320	215	70,161	2,451		35,918	15,403		3	22,365	251,408
OTHER EXPENSES	40,375	115,921	14,780	516,829	221,168	180,360	24,725	18,617	229,895	18,496	1,052,656	80,108	13,369	324,800	16,751,197	2,089,482	4,787	44,529	21,742,094
GOODS PURCHASED FOR RESALE				5,856											620,111	1,281			627,248
Total	40,375	354,657	53,162	1,131,808	954,569	464,975	61,956	185,683	2,557,889	95,591	4,342,686	221,592	14,056	5,859,249	23,110,021	4,090,483	3,290,719	184,184	47,013,655
Equipment & Intangible Assets																			
Equipment	(6,823)				172,190			33,621	21,694		(8,054)			110		13,115		5,959	231,812
INTANGIBLE ASSETS					12,720						8,700								21,420
Total	(6,823)				184,910			33,621	21,694		646			110		13,115		5,959	253,232
LOCAL ASSISTANCE																			
FROM STATE SOURCES																			
FROM FEDERAL SOURCES									3,741					2,462,889					2,462,889
Total									3,741					2,462,889					2,466,630
GRANTS																			
FROM STATE SOURCES						10,788,707			5,000										11,385,702
FROM FEDERAL SOURCES						4,799,774			2,075,481		21,679,098			591,995					28,554,353
FROM OTHER SOURCES									(400,000)										(400,000)
Total						15,588,481			1,680,481		21,679,098			591,995					39,540,055
BENEFITS & CLAIMS																			
TO INDIVIDUALS																			
DISBURSEMENTS TO LOCAL GOV'TS				790,139,282												16,875			16,875
Total				790,139,282												16,875			790,139,282
TRANSFERS																			
ACCOUNTING ENTITY TRANSFERS						82,834			299,549					100,000	6,137,493	9,611			6,629,487
Total						82,834			299,549					100,000	6,137,493	9,611			6,629,487
Debt Service																			
BONDS				3,666,630							40,715,406								44,382,036
LOANS						800,898													800,898
Leases								221								4,403			4,624
INSTALLMENT PURCHASES														184,029					184,029
Total				3,666,630		800,898		221			40,715,406			184,029		4,403			45,371,587
Total Expenditures & Transfers-Out	\$ 83,318	\$ 1,144,918	\$ 163,110	\$ 796,682,818	\$ 3,198,645	\$ 17,515,613	\$ 273,603	\$ 1,302,437	\$ 5,694,639	\$ 208,637	\$ 68,065,130	\$ 658,550	\$ 142,735	\$ 9,975,005	\$ 30,698,357	\$ 6,502,578	\$ 3,336,463	\$ 600,426	\$ 946,246,982
EXPENDITURES & TRANSFERS-OUT BY FUND																			
General Fund						354,466	217,606		2,406,516			406,203					86,463		3,471,254
Special Revenue Fund		1,144,918	163,110	25,320	3,198,645	17,161,147	55,997	16,787	3,288,123		22,968,631			9,975,005		4,712,955		600,426	63,311,064
Enterprise Fund	41,994			4,340,168						208,637	45,096,499	252,347			30,698,357				80,638,002
Internal Service Fund	41,324			2,178,048				1,285,650					142,735			1,789,623			5,437,380
Expendable Trust Fund																	3,250,000		3,250,000
Investment Trust Fund				790,139,282															790,139,282
Total Expenditures & Transfers-Out	83,318	1,144,918	163,110	796,682,818	3,198,645	17,515,613	273,603	1,302,437	5,694,639	208,637	68,065,130	658,550	142,735	9,975,005	30,698,357	6,502,578	3,336,463	600,426	946,246,982
Less: Nonbudgeted Expenditures & Transfers-Out	88,150	0	0	790,442,031	0	82,834	0	7,601	(400,000)	0	846,877	0	0	100,000	5,480,455	9,611	3,250,000	0	799,907,559
Prior Year Expenditures & Transfers-Out Adjustments	(4,832)	7,431	(954)	42,283	4,306	48,200	(1,425)	18,255	153,134	1,660	137,762	210	8	(75,760)	124	(50,603)	0	(999)	278,800
Actual Budgeted Expenditures & Transfers-Out	0	1,137,487	164,064	6,198,504	3,194,339	17,384,579	275,028	1,276,581	5,941,505	206,977	67,080,491	658,340	142,727	9,950,765	25,217,778	6,543,570	86,463	601,425	146,060,623
Budget Authority	0	2,618,179	244,325	6,509,709	3,325,324	25,031,874	356,377	1,290,295	8,372,672	216,591	79,204,300	745,583	153,402	10,007,821	27,404,519	7,179,838	148,796	640,491	173,450,096
Unspent Budget Authority	\$ 0	\$ 1,480,692	\$ 80,261	\$ 311,205	\$ 130,985	\$ 7,647,295	\$ 81,349	\$ 13,714	\$ 2,431,167	\$ 9,614	\$ 12,123,809	\$ 87,243	\$ 10,675	\$ 57,056	\$ 2,186,741	\$ 636,268	\$ 62,333	\$ 39,066	\$ 27,389,473
UNSPENT BUDGET AUTHORITY BY FUND																			
General Fund						3,001,449	41,796		10,604			4,425						62,333	3,120,607
Special Revenue Fund		1,480,692	80,261	12,172	130,985	4,645,846	39,553	4,474	2,420,563		10,618,543			57,056		581,807		39,066	20,111,018
Enterprise Fund				296,992						9,614	1,505,266	82,818			2,186,741				4,081,431
Internal Service Fund				2,041				9,240					10,675			54,461			76,417
Unspent Budget Authority	\$ 0	\$ 1,480,692	\$ 80,261	\$ 311,205	\$ 130,985	\$ 7,647,295	\$ 81,349	\$ 13,714	\$ 2,431,167	\$ 9,614	\$ 12,123,809	\$ 87,243	\$ 10,675	\$ 57,056	\$ 2,186,741	\$ 636,268	\$ 62,333	\$ 39,066	\$ 27,389,473

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF COMMERCE  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT	PROGRAM (SUB-CLASS) NOT SPECIFIED	BANKING & FINANCIAL DIVISION	BOARD OF HORSE RACING	BOARD OF INVESTMENTS	BUILDING CODES DIVISION	COMMUNITY DEVELOPMENT DIVISION	CONSUMER AFFAIRS	DIRECTOR/ MANAGEMENT SERVICES	ECONOMIC DEVELOPMENT DIVISION	HEALTH FACILITY AUTHORITY	HOUSING DIVISION	LOCAL GOVT SERVICES DIVISION	LOCAL GOVT ASSISTANCE ADMIN	MONTANA PROMOTION DIVISION	MONTANA STATE LOTTERY	POL DIVISION	RESEARCH & COMMERCIALIZATION	WEIGHT & MEASURES DIVISION	Total
PERSONAL SERVICES																			
SALARIES		\$ 704,715	\$ 85,539	\$ 1,300,952	\$ 1,539,116	\$ 430,086	\$ 131,440	\$ 857,806	\$ 926,746	\$ 87,626	\$ 901,862	\$ 328,821	\$ 103,288	\$ 773,166	\$ 938,184	\$ 1,679,108		\$ 334,150	\$ 11,122,605
OTHER COMPENSATION		450	500	10,650	600	2,625	50	175	600	5,150	12,350			70,844	99,050				203,044
EMPLOYEE BENEFITS		178,294	19,294	290,889	439,726	110,407	34,212	199,485	229,999	19,890	246,014	80,957	22,549	203,661	253,994	480,657		94,767	2,904,795
PERSONAL SERVICES-OTHER	\$ 96,876																		96,876
Total	96,876	883,459	105,333	1,602,491	1,979,442	543,118	165,702	1,057,466	1,157,345	112,666	1,160,226	409,778	125,837	976,827	1,263,022	2,258,815		428,917	14,327,320
Operating Expenses																			
Other Services		(61,653)	54,186	240,565	96,896	166,810	22,206	68,578	1,122,453	18,970	2,558,465	22,994	1,188	2,188,084	4,558,293	1,334,295		25,229	12,417,559
Supplies & Materials		34,406	2,566	174,103	99,581	42,868	23,119	45,254	104,110	19,274	103,315	34,631	1,781	149,713	259,851	157,047		43,034	1,294,653
COMMUNICATIONS		16,056	4,593	100,094	119,790	25,670	13,655	19,818	95,551	8,835	71,416	19,723	249	2,583,296	727,944	266,336	1,204	7,699	4,081,929
TRAVEL		109,195	13,405	46,361	125,927	36,212	9,674	26,750	151,077	21,289	105,811	28,985		125,380	27,089	373,791		39,522	1,240,468
Rent		52,509	3,443	149,695	39,768	29,352	10,155	33,039	61,012	11,101	85,296	40,082		39,183	86,475	127,580		12,567	781,257
UTILITIES		3,182		118					3,614	6	10,654				13,538			1,891	33,003
REPAIR & MAINTENANCE		2,581	707	41,285	46,420	5,128	1,611	2,996	11,494	2,607	66,117	2,684		13,358	47,526	14,981		25,467	284,962
OTHER EXPENSES	417,800	117,721	14,158	243,839	237,394	180,147	21,786	25,631	214,155	19,459	474,894	88,404	13,039	317,630	15,965,510	2,217,388		46,448	20,615,403
GOODS PURCHASED FOR RESALE					6,629										917,271	1,790			925,690
Total	417,800	273,997	93,058	996,060	772,405	486,187	102,206	222,066	1,763,466	101,541	3,475,968	237,503	16,257	5,416,644	22,603,497	4,493,208	1,204	201,857	41,674,924
Equipment & Intangible Assets																			
Equipment	(23,338)			(14,189)	81,882	6,309		(26,020)			25,255				23,338			63,000	136,237
INTANGIBLE ASSETS											17,500								17,500
Total	(23,338)			(14,189)	81,882	6,309		(26,020)			42,755				23,338			63,000	153,737
LOCAL ASSISTANCE																			
FROM STATE SOURCES								12,500						2,365,613					2,378,113
Total								12,500						2,365,613					2,378,113
GRANTS																			
FROM STATE SOURCES						3,038,752			(40,086)					420,961					3,419,627
FROM FEDERAL SOURCES						6,060,453			1,321,753		17,185,923								24,568,129
FROM OTHER SOURCES	(325,000)								725,000										400,000
Total	(325,000)					9,099,205			2,006,667		17,185,923			420,961					28,387,756
BENEFITS & CLAIMS																			
TO INDIVIDUALS																59,050			59,050
DISBURSEMENTS TO LOCAL GOVTS	805,233,488																		805,233,488
Total	805,233,488															59,050			805,292,538
TRANSFERS																			
ACCOUNTING ENTITY TRANSFERS	8,560,957																		8,560,957
Total	8,560,957																		8,560,957
Debt Service																			
BONDS				3,095,257							36,344,716								39,439,973
LOANS						1,601,798													1,601,798
Leases								377								7,548			7,925
INSTALLMENT PURCHASES															231,724				231,724
Total				3,095,257		1,601,798		377			36,344,716				231,724				41,281,420
Total Expenditures & Transfers-Out	\$ 813,960,783	\$ 1,157,456	\$ 198,391	\$ 5,679,619	\$ 2,833,729	\$ 11,736,617	\$ 267,908	\$ 1,266,389	\$ 4,927,478	\$ 214,207	\$ 58,209,588	\$ 647,281	\$ 142,094	\$ 9,180,045	\$ 24,121,581	\$ 6,818,621	\$ 1,204	\$ 693,774	\$ 942,056,765
EXPENDITURES & TRANSFERS-OUT BY FUND																			
General Fund	\$ 2,350,000					\$ 357,454	\$ 242,938		\$ 1,377,711			\$ 400,730					\$ 1,204		\$ 4,730,037
Special Revenue Fund	44,972	\$ 1,157,456	\$ 198,391	\$ 32,981	\$ 2,833,729	11,379,163	24,970	\$ 101,662	3,549,767		\$ 18,195,604			\$ 9,180,045	\$ 5,125,752			\$ 693,774	\$ 52,518,266
Enterprise Fund	6,212,550			3,464,017						\$ 214,207	40,013,984	246,551		\$ 24,121,581					74,272,890
Internal Service Fund	119,773			2,182,621				1,164,727					\$ 142,094		1,692,869				5,302,084
Investment Trust Fund	805,233,488																		805,233,488
Total Expenditures & Transfers-Out	813,960,783	1,157,456	198,391	5,679,619	2,833,729	11,736,617	267,908	1,266,389	4,927,478	214,207	58,209,588	647,281	142,094	9,180,045	24,121,581	6,818,621	1,204	693,774	942,056,765
Less: Nonbudgeted Expenditures & Transfers-Out	813,960,829		0	33,819		0	0	(24,709)			286,983				57,121				814,314,612
Prior Year Expenditures & Transfers-Out Adjustments	(46)	(86,497)	(59)	(13,532)	(572)	(26,172)	(44)	(7,627)	(171,723)	241	18,270	(58)	(39)	(170,162)	551	(6,296)		(7)	(463,772)
Actual Budgeted Expenditures & Transfers-Out	0	1,243,953	198,450	5,659,332	2,834,301	11,762,789	267,952	1,298,725	5,099,201	213,966	57,904,335	647,339	142,133	9,350,207	24,063,909	6,824,348	1,204	693,781	128,205,925
Budget Authority	0	2,441,831	241,214	6,126,412	3,068,039	28,316,183	360,298	1,350,531	8,426,845	229,201	70,667,403	735,290	150,644	10,114,123	25,742,801	7,544,863	150,000	698,024	166,363,702
Unspent Budget Authority	\$ 0	\$ 1,197,878	\$ 42,764	\$ 467,080	\$ 233,738	\$ 16,553,394	\$ 92,346	\$ 51,806	\$ 3,327,644	\$ 15,235	\$ 12,763,068	\$ 87,951	\$ 8,511	\$ 763,916	\$ 1,678,892	\$ 720,515	\$ 148,796	\$ 4,243	\$ 38,157,777
UNSPENT BUDGET AUTHORITY BY FUND																			
General Fund						\$ 3,000,663	\$ 29,924		\$ 1,243,304			\$ 3,793						\$ 148,796	\$ 4,426,480
Special Revenue Fund		\$ 1,197,878	\$ 42,764	\$ 15,019	\$ 233,738	13,552,731	62,422	\$ 13,989	2,084,340		\$ 12,064,071			\$ 763,916	\$ 709,563			\$ 4,243	\$ 30,744,674
Enterprise Fund				428,675						\$ 15,235	698,997	84,158		\$ 1,678,892					2,905,957
Internal Service Fund				23,386				37,817					\$ 8,511		10,952				80,666
Unspent Budget Authority	\$ 0	\$ 1,197,878	\$ 42,764	\$ 467,080	\$ 233,738	\$ 16,553,394	\$ 92,346	\$ 51,806	\$ 3,327,644	\$ 15,235	\$ 12,763,068	\$ 87,951	\$ 8,511	\$ 763,916	\$ 1,678,892	\$ 720,515	\$ 148,796	\$ 4,243	\$ 38,157,777

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.

# Notes to the Financial Schedules

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## 1. Summary of Significant Accounting Policies

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### Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental, Expendable Trust, and Agency Funds. In applying the modified accrual basis, the department records:

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

The department uses accrual basis accounting for Proprietary, Investment Trust, and Nonexpendable Trust Funds. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned when measurable and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

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### Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial activity of the associated Boards of Investments and Housing, the Lottery Commission, and Montana Facility Finance Authority are audited and separate audit reports are issued. All financial activity for the Board of Housing, Lottery Commission, and Montana Facility Finance Authority and administrative activity only for Board of Investments are included in the financial schedules of the department. The financial schedules are prepared from the

## Notes to the Financial Schedules

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transactions posted to the state's accounting system with adjustments for the state's financial investing activity of the Board of Investments. This activity is not included because it is reported on the participant's financial records.

Accounts are organized in funds according to state law. The department uses the following funds:

### Governmental Funds

**General Fund** - to account for all financial resources except those required to be accounted for in another fund. General Fund accounts support some of the department's Economic Development Division, Community Development Bureau, Consumer Affairs and Local Government Services Bureau activities.

**Special Revenue Fund** - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Department Special Revenue Funds include operations of programs funded with assessments paid by state-regulated financial institutions, inspections and professional and occupational license fees, and accommodations tax funds. The department's Housing Assistance, Community Development Block Grants, and Economic Development Programs are accounted for as Federal Special Revenue Funds.

### Proprietary Funds

**Internal Service Fund** - to account for providing goods or services to other agencies or departments on a cost-reimbursement basis. Department Internal Service Funds include operations of the Centralized Services Division, the Local Government Services Assistance Administration, the Board of Investments, and the Professional and Occupational Licensing Bureau administration.

**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; or (b) where the legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate. Department Enterprise Funds

## Notes to the Financial Schedules

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include the Board of Housing, the Health Facility Authority, the Board of Investment Industrial Revenue Bonds, the Montana State Lottery, and the Local Government Services Audit Review Program.

### **Fiduciary Funds**

**Trust and Agency Funds** - to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. Department fiduciary funds include Agency Funds, Investment Trust Funds, Nonexpendable Trust Funds, and Expendable Trust Funds.

Agency Fund - includes a consumer affairs account and receipts from horse racing exotic wagering.

Investment Trust Fund - includes the Short Term Investment Pool (STIP) investing activity for local governments.

Nonexpendable Trust Fund - includes a portion of the Permanent Coal Trust Fund.

Expendable Trust Fund - includes the Renewable Resource Fund. The funds are invested by the Board of Investments. Earnings are appropriated to the Board of Research and Commercialization Technology.

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### **2. General Fund Balance**

Each agency does not have a separate General Fund since its only authority is to pay obligations from the statewide General Fund within its appropriation limits. The department's total assets placed in the fund exceed outstanding liabilities, resulting in positive ending General Fund balances of \$1,346,808 and \$1,518,332 for each of the two fiscal years ended June 30, 2000 and June 30, 2001, respectively.

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### **3. Expenditure Program (Sub-class)**

As part of the implementation of a new accounting system in fiscal year 1999-00, state officials determined that a sub-class designation would identify the program to which an expenditure should be charged. State officials did not require nonbudgeted expenditure transactions to be identified to a sub-class until September of fiscal

## Notes to the Financial Schedules

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year 2000-01. The program designations in the Schedules of Total Expenditures & Transfers-Out are based on the sub-class designation used when the expenditures were recorded. The new edit requires that all expenditure transactions entered through the general ledger include a subclass value. All nonbudgeted activity not identified to a sub-class is included in the column titled "Program (Sub-class) Not Specified" on the Schedules of Total Expenditures & Transfers-Out.

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### 4. Nonbudgeted Revenues and Expenditures

The Local Government STIP investing activity in the Investment Trust Fund is recorded as nonbudgeted revenue and expenditures. Invested funds are recorded as Contributions and Premiums revenue and amounted to \$795,243,809 and \$1,043,949,797; and Disbursements to Local Governments expenditures were \$805,233,488 and \$790,139,282 for fiscal years 1999-00 and 2000-01, respectively.

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### 5. Direct Entries to Fund Balance

Direct entries to fund balances in the General, Special Revenue, Agency, Internal Service, Enterprise, and Nonexpendable Trust fund types in fiscal year 2000-01 include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

Special Revenue Fund – The direct entries in the Special Revenue Fund were \$15,371,067 and \$14,737,360 in fiscal years 1999-00 and 2000-01, respectively. The direct entries are summarily comprised of the following two accounts: a percentage of the accommodations and bed tax collected by the Department of Revenue is statutorily appropriated to the Department of Commerce for tourism promotion, and promotion of the state as a location for motion pictures and television commercials. The department received \$9,452,094 and \$9,609,619 related to this activity in fiscal years 1999-00 and 2000-01, respectively. The Treasure State Endowment Program receives interest earnings from the Treasure State Endowment Fund, which is a subfund of the Permanent Coal Trust. The department received \$4,300,899 and \$5,700,000 in fiscal years 1999-00 and 2000-01, respectively.

Nonexpendable Trust Fund – The Nonexpendable Trust Fund direct entry amount of \$118,729,905 in fiscal year 1999-00 represents the net of cash and investments transferred out of the department to the Department of Revenue (DOR) in the Permanent Trust Fund shared by both departments to show positive cash in the DOR's share of the fund.

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**6. Research and Commercialization Expendable Trust Fund**

Chapter 10(7) from the May 2000 special session appropriated \$2.35 million to the research and commercialization expendable trust fund for the biennium ending June 30, 2001. The funds were to be transferred from the General Fund to the Expendable Trust Fund. As a result, during fiscal year 1999-00 the Department of Commerce recorded \$2.35 million on the Schedule of Total Revenues & Transfers-In as Other Financing Sources and Transfers-Out in the same amount on the Schedule of Expenditures & Transfers-Out. Starting in fiscal year 2002, the trust fund will receive an annual appropriation.

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**7. Federal Revenue Estimates**

During fiscal years 1999-00 and 2000-01, federal revenues in the Special Revenue Fund were under estimated by approximately \$37 million and \$54 million, respectively, on the Schedules of Total Revenues & Transfers-In. The majority of these resulted from two major federal programs: Community Development Block Grant (CDBG), and Project Based Section 8. The CDBG estimates the full grant revenue amount in one year, although the grant is generally received over a several-year period. The Project Based Section 8 program was expected to begin during fiscal year 1999-00; however, the state did not receive the funding until February of fiscal year 2000-01.

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**8. Subsequent Events**

Senate Bill 445, Chapter 483, Laws of 2001, reorganized the Department of Commerce. As of July 1, 2001, the Montana State Lottery, the Banking and Financial Institutions Division, Local Government Services Bureau, and the Consumer Affairs Office moved to the Department of Administration. The Department of Labor and Industry received the Professional and Occupational Licensing Boards, the Weights and Measures Bureau, and the Building Codes Division. The Board of Horse Racing moved to the Department of Livestock.



# **Departments' Responses**

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# MONTANA DEPARTMENT OF COMMERCE

Director's Office  
1424 9th Avenue PO Box 200501  
Helena, MT 59620-0501

Phone: (406) 444-3494  
FAX: (406) 444-2903  
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November 30, 2001

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

NOV 30 2001

RE: Response to Financial-Compliance Audit Report on the Department of Commerce's Financial Activity for FY 1999-00 and 2000-01

Dear Mr. Seacat:

The Department of Commerce has reviewed the audit report recommendations. We appreciate the opportunity to comment on the report.

Our comments on the recommendations contained in the audit report are as follows:

**Recommendation #2 - We recommend the department establish controls to ensure HOME program subrecipients are in compliance with federal regulations related to program income.**

The department concurs. HOME Program grantees are required to provide the department with a program income plan before funds are released on their contract. Current grantee program income plans are being reviewed to insure program compliance. The HOME program requires annual reports on program income received and expended, sources of the balance, and identification of expenditures. During periods of affordability site visits and program monitoring visits, HOME Program staff will verify the annual reports.

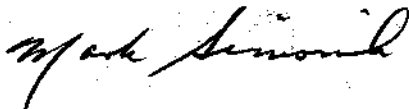
**Recommendation #3 - We recommend the department establish controls to ensure only costs allowable under federal regulations are charged to the HOME and Section 8 programs.**

The department concurs. The department will insure that circular A-87 requirements will be met for all federal programs. Department personnel who approve expenditures on any of the federal programs have been provided with copies of A-87 and instructions to review the circular prior to authorizing expenditures. Again, no instances of unallowable costs have been discovered.

**Recommendation #4 – We recommend the department implement procedures to ensure adequate documentation exists for administrative expenditures paid by the HOME program.**

The department will insure procedures exist to insure adequate documentation of all HOME grantee administrative costs. A form has been devised for local grantees to certify administrative costs. HOME program personnel will continue to check administrative costs during processing of draw down requests and program reviews of individual projects in the field. Local grantees are currently required by HOME to have independent audits performed. The results of those audits are forwarded to the HOME program, where they are reviewed, and actions taken where problems are found to exist.

Sincerely,



Mark A. Simonich  
Director

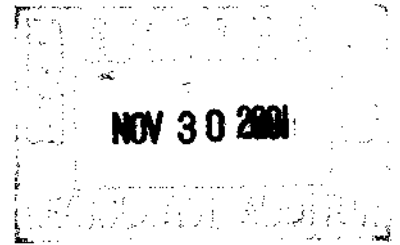


JUDY MARTZ, GOVERNOR

# Montana

## Department of Labor and Industry

Commissioner's Office



November 30, 2001

Scott A. Seacat  
Legislative Auditor  
Office of the Legislative Auditor  
PO Box 201705  
Helena, MT 59620-1705

Dear Mr. Seacat:

Enclosed please find the Department's response to the financial compliance audit report sections that apply to those professional and occupational licensing boards and programs that were transferred on July 1, 2001 to the Department from the Department of Commerce.

Our response contains the Business Standards Division response for each recommendation. The subject licensing boards and programs are now located in either the Health Care Licensing Bureau or the Business and Occupational Licensing Bureau of the Business Standards Division. We have included whether or not we concur with the recommendation, action plan and, when possible, anticipated time frames for completion of each plan.

Please feel free to contact me if you have any questions about the enclosed response.

Sincerely,

A handwritten signature in cursive script that reads "Wendy Keating".

Wendy Keating  
Commissioner

Cc: James F. Brown, P.E., Administrator  
Business Standards Division  
Tammy Peterson, Administrator  
Centralized Services Division

**MONTANA DEPARTMENT OF LABOR AND INDUSTRY  
RESPONSE TO FINANCIAL COMPLIANCE AUDIT  
OF TRANSFERRED  
PROFESSIONAL AND OCCUPATIONAL LICENSING BOARDS & PROGRAMS**

This document contains the Business Standards Division response to the financial compliance audit report on the professional and occupational licensing boards and programs that were transferred on July 1, 2001 to the Department of Labor and Industry from the Department of Commerce. The audit is actually of the Department of Commerce and the portions relating to the professional and occupational licensing boards and programs contained references to previous audit recommendations.

**Recommendation #1**

**We recommend the Department of Labor and Industry correct inequitable allocations of system development costs for its professional and occupational licensing boards.**

**Response:**

**Concur.** The Business Standards Division will study the previous method for allocation of the costs of conversion to Oracle, including development costs, and create a fair and equitable method for distributing those costs to the 33 professional and occupational licensing boards and 5 programs involved. The Division will complete its study of the matter by March 31, 2002. It is anticipated that board/program budgets for the 2005 and subsequent bienniums will reflect the reallocation of costs of conversion to Oracle, for those boards/programs that will incur additional costs. In order to minimize impacts on affected licensees, it is anticipated that substantial additional costs of conversion may have to be spread over a period of up to ten years.

**Recommendation #5:**

**We recommend the Department of Labor and Industry comply with all applicable state laws for boards and licensing programs, or seek any necessary legislation.**

**Response:**

**Concur.** For the boards and programs specifically addressed in the audit, the Business Standards Division will initiate the following course of actions:

**Board of Architects:** Internal processing revisions have already been implemented to obtain the consent of two board members prior to the issuance of a license. The Board may also seek legislation during the 2003 Legislative Session to remove antiquated statute sections or requirements that hinder the timely processing of applications and issuance of licenses.

**State Electrical Board:** Arrangements will be made with the testing company that is under contract to provide for a review by the board members to ensure that the examination contains all information required by the statutes. This review will be completed by March 15, 2002. After the review, the Board may seek legislation during the 2003 Legislative Session to remove sections or requirements in the statutes that are outdated.

**Alternative Health Care Board:** The Board feels that Section 37-27-202, MCA, is outdated because a national exam is now used. Therefore, the Board will propose legislation during the 2003 Legislative Session to amend the statutes to remove the requirement that the physician on the Board review the examination for licensure as a direct-entry midwife and clarify that the Board uses a national licensing examination.

**Board of Outfitters:** As a result of previous and ongoing efforts to solve this problem the Department of Revenue has already added a specific fund number (7449) to the County Collection Report which will ensure that the Board receives 50% of the fines collected. Board staff is also working with the Department of Fish Wildlife and Parks to obtain an accurate listing of past violations and will work with the individual counties to determine where the fines were sent and secure deposit of the monies in the proper account. The staff will attempt to go back five years to recoup the approximately \$16,000 in fines that should have been deposited in the Board's account. The Board's target date for recovering the funds is June 30, 2002.

**Alternative Health Care Board, Board of Public Accountants, Board of Athletics, Board of Clinical Laboratory Science Practitioners, and the Chemical Dependency Counselor's Program:** The Division has commenced internal reviews to ensure that administrative rules include all required subject areas mandated by the pertinent statutes. The boards will propose administrative rule changes as necessary to comply with the recommendations by December 31, 2002, and, if legislation is needed to remove outdated sections or requirements from the statutes, such legislation will be proposed during the 2003 Legislative Session.

The Division will implement a review of the statutes and associated administrative rules of all of the professional and occupational licensing boards and programs, except the 11 boards and one program previously reviewed by the Legislative Auditor's office, to ensure compliance with all applicable statutes. The boards and programs that will be reviewed are listed below, by Bureau, and the target date for completion of the internal review is December 31, 2002. If the review reveals instances of noncompliance, the boards will correct any identified deficiencies that can be corrected by amendment of administrative rules as soon as practicable, with a target date of December 31, 2003. If statutory changes are necessary to remove or amend outdated sections or requirements from the statutes, such legislation will be proposed during the 2005 Legislative Session.

**Business & Occupational Licensing Bureau**

Board of Barbers  
Board of Cosmetologists  
Board of Real Estate Appraisers  
Board of Sanitarians  
Board of Private Security Patrol Officers &  
Investigators  
Fire Protection Permitting Program  
Boiler Operator Licensing Program  
Construction Blaster Licensing Program  
Crane Operator Licensing Program

**Health Care Licensing Bureau**

Board of Chiropractors  
Board of Dentistry  
Board of Funeral Service  
Board of Hearing Aid Dispensers  
Board of Medical Examiners  
Board of Nursing  
Board of Nursing Home Administrators  
Board of Occupational Therapy Practice  
Board of Optometry  
Board of Pharmacy  
Board of Physical Therapy Examiners  
Board of Psychologists  
Board of Radiologic Technologists  
Board of Respiratory Care Practitioners  
Board of Social Work Examiners and Professional Counselors  
Board of Speech-Language Pathologists and Audiologists  
Board of Veterinary Medicine

**Prior Audit Recommendations:**

**The Board of Social Work Examiners and Professional Counselors adopt rules defining ethical standards and allowing for the licensure of a person possessing a minimum 45-semester hour graduate degree.**

**Response:**

**Concur. The Board will propose legislation during the 2003 Legislative Session to eliminate the requirement that the Board adopt administrative rules governing ethical standards. Immediately following the December 2001 meeting of the Board, staff will file a proposed rule amendment notice allowing the licensure of a person possessing a minimum 45-semester hour graduate degree.**



DEPARTMENT OF ADMINISTRATION  
DIRECTOR'S OFFICE

NOV 28 2001



JUDY MARTZ, GOVERNOR

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November 28, 2001

Scott Seacat  
Legislative Auditor  
Legislative Audit Division  
State Capitol  
Helena, MT 59620

Dear Mr. Seacat:

We have reviewed the recommendation pertaining to the Department of Commerce's Financial-Compliance Audit for the two fiscal years ended June 30, 2001. The audit recommendation we reviewed pertains to the Banking and Financial Institution Division, which was transferred to the Department of Administration effective July 1, 2001. Our response is as follows:

**RECOMMENDATION #6: WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION ENSURE BANK EXAMINATION REPORTS ARE DISTRIBUTED IN THE TIME FRAME REQUIRED BY STATE LAW.**

Response:

We concur. Certain bank examination reports were not distributed within the time frame provided by state law due to significant bank examiner turnover during the past two years. Without the bank examiners to complete the examination review and the report of the bank, delays of the submission of the report occurred. In addition, high risk financial institutions required additional examiner staff time to review and supervise the institution. The bank examinations are joint examinations with either the FDIC or the Federal Reserve Bank. The joint bank examination reporting between the federal and state governments further delayed the submission of the reports.

Since June of 2001, the following changes have been implemented to meet compliance with statutory requirement:

1. The division hired ten staff members, four of whom are bank examiners. However, with the hiring of the new examiners, additional time to train and educate the inexperienced staff will be required before the examiners are able to competently perform

the work required. Additionally, a national chartered bank and a credit union have opted to convert to a state charter with the division of Banking and Financial Institutions as the primary regulator. The conversion to state chartered institutions will require additional staff and resources in the examination and supervision of the institutions.

The division is also addressing the staff turnover by working on a competency pay program with the State Personnel Division in an attempt to adequately compensate the bank examiners.

2. A policy has been developed and implemented in the division to monitor and track the examinations of banks. The policy sets forth specific deadlines to assure the timely completion and submission of the examination reports.

3. The Division met with the Federal Reserve and the FDIC to improve the efficiency of processing bank examination reports. Agreements were reached that will streamline and coordinate the review of examination reports.

Our goal is to be in complete compliance with the statutory requirements.

We appreciate the opportunity to work with your staff on the issue.

Sincerely,



Steve Bender  
Acting Director