A Report
to the
Montana
Legislature

Financial-Compliance Audit

Department of Administration

For the Two Fiscal Years Ended June 30, 2010

November 2010

Legislative Audit
Division

10-13

Legislative Audit Committee

Representatives

Dee Brown, Vice Chair
Betsy Hands
Scott Mendenhall
Carolyn Pease-Lopez
Wayne Stahl
Bill Wilson

Senators

Mitch Tropila, Chair
Greg Barkus
John Brenden
Taylor Brown
Mike Cooney
Cliff Larsen

Audit Staff

Financial-Compliance

Mark Alldredge
Pearl M. Allen
Anthony T. Cacace II
Frank A. Cornwell
Amber Dushin
Jennifer Erdahl
Jeane Carstensen-Garrett
Chris G. Darragh
Brenda Kedish
Paul J. O'Loughlin
Delsi Plummer
Jay S. Phillips
Vickie Rauser
Zac Yates

Fraud Hotline
Help eliminate fraud, waste, and abuse in state government. Call the Fraud Hotline at:

(Statewide)
1-800-222-4446

(in Helena)
444-4446

Financial-Compliance Audits

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. 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, 2009, was issued March 1, 2010. The Single Audit Report for the two fiscal years ended June 30, 2011, will be issued by March 31, 2012. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, MT 59620-1705

Direct comments or inquiries to:
Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, MT 59620-1705
(406) 444-3122

Reports can be found in electronic format at:
http://leg.mt.gov/audit

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel

Deputy Legislative Auditors
James Gillett
Angie Grove

November 2010

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Administration for the two fiscal years 2008-09 and 2009-10. This report contains six recommendations related to Voluntary Employees' Beneficiary Association expenses, fund balance classification errors, accounting errors, Davis-Bacon Act requirements, Internal Service Fund fees commensurate with costs, and state compliance issues. This report also contains a disclosure issue related to cost allocations for general and automobile liability insurance, and rent and maintenance.

The department's written response to the audit recommendations is included beginning on page B-1 of the audit report. We thank the director and department staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

Room 160 • State Capitol Building • PO Box 201705 • Helena, MT • 59620-1705
Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

TABLE OF CONTENTS

Figures and Tables

Tables

Appointed and Administrative Officials

Department of Administration

Janet R. Kelly, Director

Sheryl Olson, Deputy Director

Paul Christofferson, Administrator, State Accounting Division

Thomas B. O'Connell, Administrator, Architecture and Engineering Division

Marvin Eicholtz, Administrator, General Services Division

Russell Hill, Administrator, Health Care and Benefits Division

Dick Clark, Chief Information Officer, Information Technology Services Division

Anne Goodwin, Commissioner, Banking and Financial Institutions Division

Brett Dahl, Administrator, Risk Management and Tort Defense Division

George Parisot, Director, Montana State Lottery*

Paula Stoll, Administrator, State Human Resources Division

Karen Powell, Chair, State Tax Appeal Board*

*Officials of entities attached to the Department of Administration (department) for administrative purposes are listed above if the entities' financial activities are included in the department's financial schedules. The Public Employees' Retirement Administration, the Teachers' Retirement System, the Office of the State Public Defender, and the Montana State Fund, which are also administratively attached to the department are audited separately, so officials of these entities are not listed.

For additional information concerning the Department of Administration, contact:

Patricia McNamee, Office of Finance and Budget Bureau Chief
Department of Administration
P.O. Box 200101
Helena, MT 59620-0101

e-mail: pmcnamee@mt.gov

Montana Legislative Audit Division

Financial-Compliance

Department of Administration

For the Two Fiscal Years Ended June 30, 2010

November 2010 | 10-13 | Report Summary

The Department of Administration (department) is crucial to state government in that it is responsible for providing the following services to other state agencies: accounting and financial reporting, payroll and employee benefits, warrant writing, capitol complex maintenance, state treasury, insurance and risk management, information systems development, personnel management, purchasing, statewide leasing, and surplus property administration.

Context

The department is fairly unique in that it accounts for activity from nearly every funding source applicable to a government. The department is heavily funded through internal service, enterprise, capital projects, debt service, federal special revenue and general funds, the largest of which are the internal service funds.

In fiscal years 2009-10 and 2008-09, the department received revenues from internal service fund operations of approximately $230.1 million and $220.6 million, respectively. Department internal service funds include: Information Technology Services Division; Intergovernmental Training; Rent and Maintenance; Print & Mail Services; Central Stores; Agency Insurance; Management Services; Group Benefits; Payroll; Warrant Writing; Statewide Accounting, Budgeting, and Human Resources System; and Workers' Compensation Management. We reviewed the rates charged for each internal service fund as required by §17-8-101(6), MCA.

Results

The report contains six recommendations related to Voluntary Employees' Beneficiary Association (VEBA) expenses, fund balance classification errors, accounting errors, Davis-Bacon Act requirements, internal service fund fees commensurate with costs, and state compliance issues. This report also contains a disclosure issue related to cost allocations for general and automobile liability insurance, and rent and maintenance.

Our prior audit report for the two fiscal years ended June 30, 2008, contained 11 recommendations. The department implemented four, partially implemented five, and did not implement two. The recommendations not implemented relate to unconstitutional payments from the General Fund and rent and maintenance fees commensurate with costs.

The unconsitutional payments from the General Fund has been included in our last two audit reports. The issue still exists but we are not making a further recommendation in this report.

The second recommendation has also been included in our prior two audit reports and the department has not fully reimbursed the group benefits internal service fund for VEBA administrative costs.

The disclosure issue related to the cost allocations for general and automobile liability insurance, and rent and maintance is included for the purpose of providing information to the Legislature and we do not make any recommendation.

Recommendation Concurrence	
Concur	5
Partially Concur	1
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the website at http://leg.mt.gov/audit.
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail lad@mt.gov.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Department of Administration (department) for the two fiscal years ended June 30, 2010. The objectives of the audit were to:

1. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvement in management and internal controls of the department.
2. Determine whether the department complied with selected state and federal laws and regulations.
3. Evaluate the implementation status of prior audit recommendations.
4. Determine whether the department's financial schedules present fairly the results of its operations for the two fiscal years ended June 30, 2010.

Auditing standards require us to communicate, in writing, deficiencies in internal control we identified as a result of audit objective #1 above and considered to be significant or material. A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or detect and correct misstatements or noncompliance issues on a timely basis. A material weakness is one or more deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules or material noncompliance will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is one or more deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Table 1 below outlines the status of significant deficiencies and material weaknesses we identified during this audit.

Table 1
Summary of Deficiencies in Internal Controls

Subject	Significant Deficiency	Material Weakness	Page
Fund Balance Classification Errors	Yes	No	8
Construction Work in Progress	Yes	No	10

This report contains six recommendations to the department. Other areas of concern deemed not to have a significant effect on the successful operations of the department are not included in this report, but have been communicated to management. In accordance with §5-13-307(2), MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report.

In accordance with §17-8-101(6), MCA, we reviewed the rates charged and the fund equity of the department's internal service funds. In fiscal year 2008-09, fees were not commensurate with costs in the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) Internal Service Fund. In fiscal year 2009-10, the department refunded state agencies for the excess revenues collected in fiscal year 2008-09. The following table summarizes the department's internal service funds and whether the rates charged were commensurate with costs and fund equity at fiscal year-end 2009-10.

Table 2

Internal Service Funds at Fiscal Year-End 2009-10

Internal Service Fund and Description	Fund Equity Reasonable	Rates Commensurate with Costs
ISD Proprietary – Manages information technology services for state government such as central mainframe computer processing, local and long-distance telephone networking, electronic government planning and coordination, and the Statewide Accounting, Budgeting and Human Resources System.	Yes	Yes
Intergovernmental Training – Provides a variety of training products and facilitation services to state agencies.	Yes	Yes
Rent and Maintenance – Provides maintenance, security, and custodial services for buildings in the state Capitol area.	No	No
Print & Mail Services – Provides mail room staff to operate a centralized mailing operation and services for printing and administration of a photocopy pool.	Yes	Yes
Central Stores – Purchases, warehouses, sells and delivers commonly used items to all state agencies and other governments such as office supplies, paper, janitorial supplies, and printed forms.	Yes	Yes
Agency Insurance – Provides for the investigation, defense, and payment of bodily injury and property damage claims incurred by all agencies, officers, and employees of the state of Montana.	Yes	Yes
Management Services – Coordinates preparation of the department's biennial budget for submission to the Office of Budget and Program Planning and its presentation to the legislature, processes budget change documents, and monitors approved budgets for compliance with state law and legislative intent. This also includes legal services which advises all divisions within the department on legal matters and the human resource unit which processes payroll and provides human resource functions for all divisions of the department.	Yes	Yes
Group Benefits Claims – Provides state employees, retirees, and their dependents with adequate medical, dental, prescription drug, life and other related group benefits.	Yes	Yes
Payroll Fund – Provides for preparation and distribution of payroll and associated withholding and deductions of state employees.	Yes	Yes
Warrant Writing – Provides the warrant writer program to most state agencies for check writing and automatic deposit capabilities.	No	No
SABHRS - Provides services for the Statewide Accounting, Budgeting, and Human Resources System.	Yes	Yes
Workers' Compensation Management - Provides a way to manage and reduce the state's workers' compensation injuries and premiums.	No	No

Internal Service Funds with a "No" are further discussed on page 12.

Source: Compiled by the Legislative Audit Division.

Department Organization and Functions

The department provides services to other state agencies in the areas of accounting and financial reporting, payroll and employee benefits, warrant writing, capitol complex maintenance, state treasury services, insurance and risk management, information systems development, personnel management, purchasing, statewide leasing, and surplus property administration.

The following paragraphs describe the divisions which perform the department's primary functions and authorized full-time equivalent (FTE) positions for fiscal year 2009-10.

Office of the Director (15.5 FTE) is responsible for the overall supervision and coordination of department programs and administratively attached boards and agencies. The office also provides management support (accounting, budgeting, payroll, personnel management, and legal services) to the department and supports the Board of Examiners.

State Accounting Division (46.5 FTE) establishes state accounting policies and procedures, operates the financial portion of the Statewide Accounting, Budgeting, and Human Resources System (SABHRS), administers the federal Cash Management Improvement Act (CMIA), processes warrants for all state agencies, and prepares the state's Basic Financial Statements. The division provides technical assistance and training to local government accounting and financial personnel. The division also provides the central banking function for state agencies.

Architecture and Engineering Division (17 FTE) manages the remodeling and construction of state buildings. The division also formulates a long-range building plan for legislative consideration each session.

Banking and Financial Institutions Division (39 FTE) is responsible for protecting the public's interest by regulation of all state-chartered banks and financial institutions. Supervision of regulated financial institutions is accomplished through on-site financial safety and soundness examinations conducted by division examiners.

General Services Division (101.1 FTE) manages facilities leasing and repair and maintenance services for state agencies in the Capitol complex and several state-owned buildings in the Helena area. The procurement and printing function of the division provides centralized purchasing, printing, and mail services to state agencies located in the Helena area.

Health Care and Benefits Division (16.87 FTE) provides state employees and retirees with group medical, dental, prescription drug, life insurance, and other related group

benefits. The division also administers employees' flexible spending accounts, a sick leave fund, and performs workers' compensation oversight for the state.

Information Technology Services Division (184 FTE) establishes and enforces statewide information technology policies and standards. The division, administered by the Chief Information Officer, provides computer processing services for state agencies that access the central mainframe computer. The division is responsible for the development and implementation of the Strategic Plan for Information Technology. The division designs and develops data processing applications and provides maintenance support. The division provides data processing training, support, and consulting services for microcomputer and office automation systems. Disaster recovery facilities for critical data processing applications are also managed by the division.

Montana State Lottery (31.5 FTE) sets policy and oversees activities and procedures of the lottery. The program director coordinates the lottery's marketing, operations, security, and administration. Legislative Audit Division information systems auditors perform biennial audits of lottery security (10DP-06). Financial activity of the Montana State Lottery is audited annually by the Legislative Audit Division.

Risk Management and Tort Defense (16 FTE) provides insurance coverage for state agencies, administers the self-insurance and risk management program, and defends state agencies in tort claims lawsuits.

State Human Resources Division (50.5 FTE) provides state agencies with human resource management services including training, position classification and pay, collective bargaining, and employee relations. The Office of Labor Relations is responsible for collective bargaining. Additionally, the division publishes state rules, standards, and policies relating to recruitment, selection, discipline, grievance, performance appraisal, leave, and other matters. The division also administers employee incentive awards. The division administers the state's human resource module within the Statewide Accounting, Budgeting, and Human Resources System supplying payroll and other human resource information systems for state government.

State Tax Appeal Board (7.5 FTE) resolves tax appeals concerning real and personal property, income, corporate, natural resource, centrally assessed property, and new industry taxes. The three-member board and its staff are administratively attached to the department.

Prior Audit Recommendations

The prior audit report for the two fiscal years ended June 30, 2008, contained 11 recommendations to the department. The department implemented four, partially implemented five, and did not implement two recommendations. Recommendations not implemented relate to unconstitutional payments from the General Fund and rent and maintenance fees commensurate with costs. The recommendation related to unconstitutional payments from the General Fund is still applicable and is further discussed below. The recommendation related to fees commensurate with costs is discussed on page 12.

The recommendations partially implemented relate to reimbursing the group benefits fund for VEBA administrative costs charged to the group benefits fund; requesting and obtaining monthly certifications from agencies with long-term interentity loans; internal controls over software licensing agreements; monitoring and testing of internal controls; local government audits; and stale-dated warrants.

Unconstitutional Payments from the General Fund

The prior two audit reports recommended the department pay the procurement credit card bill through an appropriation as required by the state Constitution. Department personnel have not implemented procedures to ensure compliance because they believe they comply with the intent of the Constitution. The actual credit card bill is paid out of the General Fund using a liability account rather than an expenditure account to circumvent the appropriation control. Liability account transactions do not get charged against appropriations. After the credit card bill is paid, the charges are distributed to the responsible agencies where the charges are recorded to expenditure accounts and appropriations. We continue to disagree with the department and recommend they comply with the state Constitution when paying the state's credit card bills.

Chapter II – Findings and Recommendations

Voluntary Employees' Beneficiary Association (VEBA) Expenses

The department has not reimbursed the Group Benefits Internal Service Fund for payments made on behalf of the VEBA fund in fiscal years 2004-05, 2005-06, and 2006-07, contrary to law.

In our prior two audit reports of the department, we noted the department paid administrative costs of the VEBA fund from the Group Benefits Internal Service Fund. The Health Care Benefits Division (HCBD) paid $55,645, $232,576, and $150,000 in VEBA administrative expenses from the state employee group benefit plan in fiscal years 2006-07, 2005-06, and 2004-05, respectively. Section 2-18-812(3), MCA, requires all reserve funds and premiums paid to the state employee group benefit plan account within the state self-insurance reserve fund to be expended for claims under the plan. As we reported in our prior two audit reports, these payments were a diversion of plan assets since they were not for the payment of claims, thereby shifting costs of the VEBA fund to the health plan participants.

Legislation enacted during the 2007 Legislative Session allowed employees to place their payout of accumulated vacation hours, in addition to sick leave payouts, in VEBA. As a result, additional VEBA accounts and related administration charges were generated in fiscal year 2007-08, but the increase was not sufficient to repay the VEBA administrative expenses from prior years.

The department made one payment to repay the group benefits fund in fiscal year 2008-09; however, it stopped paying in fiscal year 2009-10 due to the estimated time it would take to repay the fund in full. HCBD personnel estimated it would take approximately 25 to 30 years to repay the fund. HCBD personnel now plan to seek a supplemental appropriation from the General Fund for repayment of this loan.

In addition to paying VEBA expenses with group benefits funds, the department has, in effect, created a loan relationship between these two funds, but has not recorded the loan on the state's accounting records. At June 30, 2010, the VEBA fund still owed the group benefits fund $469,082, which includes $64,006 in interest.

Recommendation #1

We recommend the department:

A. *Fully reimburse the group benefits fund for administrative costs paid on behalf of the Voluntary Employees' Beneficiary Association, contrary to law.*

B. *Appropriately account for the financial activity between the Voluntary Employees' Beneficiary Association and group benefits funds on the state's accounting records.*

Fund Balance Classification Errors

The early implementation of a new accounting principle caused many errors on the state's accounting records at June 30, 2010.

In fiscal year 2009-10, the department decided to early-implement the Governmental Accounting Standard Board Statement No. 54 (GASB 54), "Fund Balance Reporting and Governmental Fund Type Definitions." With the implementation of GASB 54, fund balance is to be classified on the state's accounting records as nonspendable, committed, restricted, assigned, or unassigned based on the nature and extent of the constraints placed on the government's fund balances. The fund balance classification should depict the nature of the resources reported in a governmental fund.

The State Accounting Division drafted a policy and provided state agencies with GASB 54 guidance, instruction, and training prior to fiscal year-end 2009-10. However, guidance was not adequate and resulted in significant errors related to fund balance classifications, recording encumbrances, and classifying long-term advances, loans and notes, as detailed below:

- The department identified the risk of errors in fund balance classifications spread across at least 12 agencies and over 40 SABHRS funds, resulting in over $31 million in fund balance classification errors on the state's accounting records at June 30, 2010. Approximately $4 million of the errors identified included the department's own fund balance classifications. In general, the classification errors resulted from placing more constraints on fund balances than were warranted. More recently department personnel stated the risk of errors is substantially less that the original $31 million estimate. Department personnel continue to work to identify the errors with fund balance classifications.
- We found that encumbrances in the state's governmental funds were recorded as net assets on the state's accounting records even though

governmental funds do not have net assets. The terminology that GASB uses when referring to governmental funds is fund balance and the terminology used for proprietary and fiduciary funds is net assets. GASB 54 states encumbering amounts for specific purposes for which resources already have been restricted, committed, or assigned should not result in separate display of the encumbered amounts within those classifications. Encumbered amounts should be included within committed or assigned fund balance. The Accounting Division directed all agencies to account for encumbrances as net assets. Department personnel stated the encumbrances are not used for financial reporting or any other purpose so it does not matter how they are recorded on SABHRS. Because GASB defines governmental funds as having fund balances rather than net assets, classifying encumbrances as net assets in governmental funds is misleading on the state's accounting records and does not comply with GASB 54.

- We found that agencies were advised by the Accounting Division to move all "Reserve for Long-Term Advances" and "Reserve for Long-Term Notes and Loans" to the nonspendable classification. In many cases, the proceeds of these long-term collections are restricted, committed, or assigned, and these are the classifications that should have been used.

Accounting Division personnel stated they are still learning GASB 54 and are working on finalizing the draft policy. Accounting Division personnel stated they provided further guidance on the nonspendable classification since the draft policy did not provide appropriate guidance. Department personnel indicated in many cases agency personnel do not know enough about their funds, so regardless of the training and guidance provided, errors would still have been made. We agree that some state agency personnel may not have known enough about their funds to properly classify fund balances, but with the errors being significantly wide-spread across the state, more time, guidance, and training should have been provided to help reduce the number of errors on the state's accounting records.

RECOMMENDATION #2

We recommend the department issue state accounting policy that provides adequate guidance related to fund balance classifications, recording encumbrances, and recording long-term advances, loans and notes, in accordance with Governmental Accounting Standards Board Statement No. 54.

Accounting Errors

Section 17-1-102(4), MCA, requires the department to input all necessary transactions before the end of the fiscal year to present the receipt, use, and disposition of all money and property, for which it is accountable, in accordance with generally accepted accounting principles (GAAP). The department develops and establishes state accounting policy to implement this statute. State accounting policy also requires agencies to implement internal control procedures to ensure all transactions necessary for compliance with GAAP are recorded in SABHRS before fiscal year-end.

The following items describe instances where, due to internal control deficiencies, the department recorded transactions that did not comply with state law or accounting policy and resulted in misstatements on the state's accounting records. In each of the instances described below, we brought the errors to the department's attention.

- The Information Technology Services Division (ITSD) did not record construction work in progress (CWIP) at June 30, 2009, for its network expansion project. State accounting policy requires assets to be capitalized for the portion of work completed as construction work in progress at June 30. The department should have recorded CWIP for approximately $1.6 million.

  ITSD personnel stated they are familiar with state accounting policy and track capitalizable assets so they can record CWIP entries, but overlooked this one. ITSD procedures were not properly designed to prevent or detect and correct this type of error.

- The Long Range Building Program (LRBP) made a $3 million error in recording its budget authority for fiscal year 2009-10 by erroneously including the wrong program code on the budget document. As a result, the budget authority was recorded in the Departments & Agencies Program, as the form instructed, rather than the University System Program on the Schedule of Expenditures & Transfers-Out in fiscal year 2009-10.

  LRBP personnel stated they did not realize they made an error on the budget document and thought there was an edit check to catch this type of error. The department does not have adequate procedures to prevent or detect these errors since the budgets were established at the beginning of the fiscal year and the error went undetected through fiscal year-end.

- ITSD did not reduce the Montana School for the Deaf and Blind's (school) internet access bills for discounts received. The Universal Service Administrative Company (USAC) administers a program that assists schools and libraries with internet access fees. USAC entered into an agreement with the school in fiscal years 2008-09 and 2009-10 to provide funding assistance for internet access fees to the school in the amounts of $8,232 and $9,408, respectively. Current ITSD procedures include reducing the school's internet fees billed for the discounts and then collecting the funds from USAC. In fiscal years 2008-09 and 2009-10, ITSD did not request payment from USAC and did not reduce the school's bill for the discounts until we brought this to their attention in June 2010. In June 2010, ITSD gave the school

credit for fiscal year 2008-09 and then reduced the June 2010 ITSD bill. ITSD also requested payment from USAC.

ITSD personnel stated they overlooked both the request for payment from USAC and the reduction to the school's bill during our audit period. ITSD had no internal controls to prevent or detect these errors.

RECOMMENDATION #3

We recommend the department implement controls to ensure the account balances and activity recorded on the state's accounting records are in accordance with state law and accounting policy related to:

A. *Accounting for construction work in progress in the Information Technology Services Division.*

B. *Recording budget authority at the Architecture and Engineering Division.*

C. *Recording internet access fees in the Information Technology Services Division.*

Davis-Bacon Requirements

Internal controls related to the receipt and review of certified weekly payrolls funded by federal grants, including American Recovery and Reinvestment Act (ARRA) funds, are deficient.

The department's Architecture and Engineering Division (A&E) administers construction projects for various state agencies. Many of the current construction projects are federally funded and include Davis-Bacon prevailing wage requirements. 29 CFR, §5.5(a)(3)(ii)(A), requires the contractor to submit a copy of the certified weekly payroll. Federal regulations also require the department to maintain internal controls over the requirements of the federal program. State accounting policy requires the department to document its internal controls.

A&E requires the contractors submit a copy of the certified weekly payroll, but does not have a documented process to ensure certified payrolls are received and reviewed prior to payment to the contractor. The project managers are responsible for ensuring all required documentation is received. However, through discussion with A&E management and review of project files, we found there are no written procedures or controls in place to ensure the required documentation is received and reviewed prior to payment. We reviewed six projects that involved federal ARRA funds, from four different project managers. We did not identify any improper wages paid, but

determined certified payrolls were not received weekly and A&E was unaware it had not received them on a weekly basis. Without adequate controls there is the potential for questioned costs related to the payment of improper wages that the department might not recover from the contractor.

Department management stated they do verify all required documents are received prior to the completion of the project, but because of increased workloads due to ARRA funds, the project managers do not have time to ensure the certified weekly payrolls are received prior to payment. Department management also stated they do not have procedures in place to review the wages included on the certified weekly payrolls because they are not the grantor agency so are not required to do so. A&E receives the certified weekly payrolls so should work with the grantor agencies and provide them with the payrolls so a review of the Davis-Bacon wages can be completed to ensure proper wages are paid.

Recommendation #4

We recommend the department:

A. *Implement procedures to ensure certified weekly payrolls are received as required by federal regulations, prior to paying contractors.*

B. *Provide grantor agencies with certified weekly payrolls so they can ensure proper wages are paid.*

Internal Service Funds

Fees are not commensurate with costs for three of the department's internal service funds as required by state law.

In accordance with §17-8-101(6), MCA, we reviewed the rates charged and the fund equity of the department's internal service funds for the two fiscal years ended June 30, 2010. We found fees for the rent and maintenance, warrant writer, and workers' compensation management funds were not commensurate with costs during fiscal year 2009-10.

Rent and Maintenance

General Services Division personnel stated the 2007 Legislative Session provided authority to the Long-Range Building Program for capitol complex projects. Consequently, the division increased its rent and maintenance fee revenue. This

additional revenue amounts to approximately $1.3 million each year. The department was not able to spend the additional revenue in fiscal years 2007-08, 2008-09, or 2009-10 due primarily to the length of time involved in getting projects approved and in process.

Total revenues exceeded expenditures by approximately $2.6 million and $1.2 million in fiscal years 2008-09 and 2009-10, respectively. The department reduced its rates for fiscal years 2009-10 and 2010-11 due to budget cuts.

The General Services Division should work with the Long-Range Building Program to set-up projects for the capital complex mechanical and energy improvement funds and set fees to be commensurate with the project costs.

Warrant Writer

Department personnel stated the Department of Revenue, Department of Public Health and Human Services, and Department of Labor and Industry each experienced an unusually high volume of payment transactions in fiscal year 2009-10 so these departments paid more for their warrant writer services than had been anticipated. By fiscal year-end 2009-10, total revenues exceeded expenditures by approximately $73,000. Department management stated the proposed rates for the next biennium are designed to under-recover and use the excess fund equity balance. Instead of designing rates to under-recover in the next biennium, the department should reduce rates during the year, as necessary, to ensure rates are commensurate with costs.

Workers' Compensation Management

The Workers' Compensation Management Internal Service Fund was new in fiscal year 2009-10. The fund was created to help manage and reduce the state's workers compensation injuries and premiums. Internal service fund rates were set to include additional revenues for the purchase of a database.

Health Care Benefits Division (HCBD) personnel stated they had hoped the workers' compensation database project would have been further along at fiscal year-end 2009-10 than it was. The decision as to whether to purchase a database or have one built was not made by fiscal year-end, but the revenue was available. Total revenues exceeded expenditures by approximately $48,000 at fiscal year-end. HCBD personnel indicated a decision will be made in fiscal year 2010-11 and fees will be adjusted to ensure they are commensurate with costs, as required.

Recommendation #5

We recommend:

A. *General Services Division work with the Long-Range Building Program to determine the Capitol complex projects that can be completed each fiscal year.*

B. *The department adjust rates to ensure compliance with state law for the rent and maintenance, warrant writer, and workers' compensation management funds.*

State Compliance

The department is not in compliance with the state laws related to obligating cigarette tax revenue to Architecture and Engineering projects prior to obligating other funds; assigning auditors to local government entities within the time period required; and sending notices to apparent owners of abandoned property.

The department is responsible for administering and enforcing numerous laws covering a broad range of activities. During our current audit, we noted the following three instances of noncompliance with state law.

- Section 17-7-205(2), MCA, requires the Architecture and Engineering share of cigarette tax revenue to be obligated prior to other funds. The department received approximately $1.9 million each year in fiscal years 2009-10 and 2008-09. The department does not obligate these funds prior to obligating other funds. A&E personnel indicated they were aware of this law and the requirement to obligate these funds first, but were unsure of how to obligate the funds first. A&E personnel stated the funds are always obligated each fiscal year.
- State law requires local government entities to submit financial reports to the department's Local Government Services Bureau each year. Depending on the financial information reported, the department may require an audit. Section 2-7-506(5), MCA, requires the department to designate an independent auditor to perform the audit if a local government entity fails to present a signed contract to the department for approval within 90 days of receipt of the audit notice. As of May 2010, five entities that received a notice had not furnished an audit contract within the 90 days. Department personnel stated they have drafted legislation for the 2011 Legislative Session to change the requirement so that it is permissive.
- Section 70-9-808(5), MCA, requires the department to submit reports of all property assumed abandoned (stale-dated warrants), and file an affidavit stating that it has sent written notices to the apparent owners of

the abandoned property. The department is not sending written notices to the apparent owners, and therefore not signing an affidavit. Department personnel indicated the Department of Revenue already includes all of these stale-dated warrants in its abandoned property notification so sending an additional notice is redundant, the addresses are typically old, and it is costly. Department personnel stated they have drafted legislation for the 2011 Legislative Session to eliminate the requirement to send written notices.

Recommendation #6

We recommend the department comply with laws related to:

A. *Obligating cigarette tax revenue to Architecture and Engineering projects prior to obligating other funds.*

B. *Assigning auditors to local government entities within the time period required.*

C. *Sending notices to apparent owners of abandoned property.*

Chapter III – Disclosure Issues

Cost Allocations for General and Automobile Liability Insurance, and Rent and Maintenance

Internal service funds are designed to function on a cost-reimbursement basis. That is, an internal service fund is simply a means of accumulating costs related to a given activity so that the costs can subsequently be allocated to the benefitting participants in the form of fees and charges. The following sections describe instances where fees and charges are not allocated equitably to the participants.

General and Automobile Liability Insurance

Section 2-9-202(1), MCA, requires the department to apportion the costs of all insurance purchased to the individual state participants. The statute does not require the costs to be apportioned using an equitable method. Risk Management and Tort Defense (RMTD) apportions the costs of general and automobile liability insurance on a biennial basis based on actuarial estimates. The actuary provides RMTD with two potential methods of apportioning cost. The first method is a cost allocation by agency, taking into consideration each participant's recent historical loss experience, exposure, and risk factors. The actuary also provides RMTD with the total cost increase or decrease for the state as a whole. RMTD chooses to apportion costs by taking the total increase or decrease and spreading the costs uniformly amongst the agencies, still collecting the full amount, but doing so in a uniform manner so no one agency experiences significant increases. RMTD has been using this method to apportion costs since fiscal year 2005-06. RMTD sets other insurance rates, such as aviation and property, by apportioning costs to the participants based on recent historical loss experience, exposure, and risk factors. The method RMTD uses to apportion the automobile and general liability costs does not factor in each participant's recent historical loss experience, exposure, and risk factors. For example, the Office of the Public Defender became part of the Department of Administration in fiscal year 2006-07, which increased the number of full-time employees (FTE) by approximately 212. The number of FTE is an element of exposure, but because of the method used to apportion costs, the department's rates did not increase due to this additional exposure.

The following table portrays the agencies with the most notable differences in the two actuarial methods for apportioning general liability insurance from fiscal year 2005-06 to fiscal year 2010-11. The cost allocation by agency, taking into consideration each participant's recent historical loss experience, exposure, and risk factors is Method 1. The total cost increase or decrease for all agencies is Method 2. The agencies paid the amounts under Method 2. The difference column shows how much more, or less, the agencies paid under Method 2 than they would have paid under Method 1.

Table 3
General Liability Insurance

Agency	Method 1	Method 2	Difference
The University System	$8,130,458	$6,890,572	($1,239,886)
Department of Justice	$1,791,251	$1,330,079	($461,172)
Department of Transportation	$13,124,287	$13,813,198	$688,911
Department of Public Health and Human Services	$6,800,119	$7,136,128	$336,009
Department of Environmental Quality	$755,023	$989,084	$234,061

Source: Compiled by the Legislative Audit Division.

The following table portrays the agencies with the most notable differences in the two actuarial methods for apportioning automobile liability insurance from fiscal year 2005-06 to fiscal year 2010-11.

Table 4
Automobile Liability Insurance

Agency	Method 1	Method 2	Difference
The University System	$1,164,340	$878,547	($285,793)
The Supreme Court	$28,807	$20,622	($8,185)
Department of Environmental Quality	$54,742	$46,808	($7,934)
Department of Transportation	$3,312,629	$3,393,029	$80,400
Department of Justice	$334,239	$410,710	$76,471
Department of Natural Resources and Conservation	$451,284	$511,657	$60,373
Department of Public Health and Human Services	$146,247	$194,515	$48,268

Source: Compiled by the Legislative Audit Division.

RMTD personnel stated they use method 2 so that no one agency suffers from a large increase that may cause it financial difficulties. They said they will be changing their method for automobile liability insurance to using the cost allocations by agency based on current historical loss experience, exposure, and risk for the 2012-2013 biennium. RMTD personnel stated they will consider using this method for general liability insurance in the future.

Rent and Maintenance

Electricity, security, janitorial, and garbage services are provided to state buildings through the Rent and Maintenance Internal Service Fund. During our audit we noted the cafeteria operators in the Mitchell, Capitol, Walt Sullivan, Sanders, and Cogswell buildings have not paid rent like other occupants of these buildings. Despite not paying rent, the cafeteria operators still receive the benefits that other occupants receive through paying rent. The state's contracts with the cafeteria operators state, "The department expects the pricing to remain as low as possible in exchange for rent." We are not sure how the state can assess compliance with this provision.

Department personnel stated cafeteria operators in state buildings have not paid rent for as long as they could remember, but recently department personnel have considered charging them rent. We reviewed the most recent contract between the department and the Mitchell building cafeteria effective for fiscal year 2010-11 and no rent is charged.

Summary

We disclose these two issues for the purpose of providing information to the Legislature and we make no recommendation at this time.

Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel

Deputy Legislative Auditors
James Gillett
Angie Grove

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 Administration for each of the fiscal years ended June 30, 2010, and 2009. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express opinions on these financial schedules based on our audit. We did not audit the fiscal year 2008-09 financial statements of the Montana State Lottery, which represent 9 percent of the Schedule of Expenditures & Transfers-Out and 11 percent of the Schedule of Revenues & Transfers-In. These financial statements were audited by other auditors whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Montana State Lottery, are based on the report of the other auditors.

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 disclosures 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 and the report of other auditors provide a reasonable basis for our opinions.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is 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, based on our audit and the report of other auditors, 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 Administration for each of the fiscal years ended June 30, 2010, and 2009, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

September 29, 2010

Room 160 • State Capitol Building • PO Box 201705 • Helena, MT • 59620-1705
Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Pension Trust Fund	Unexpended Plant Fund	Renewal & Replacement Fund	Agency Fund
FUND BALANCE: July 1, 2009	$ 471,137,260	$ 11,432,516	$ 135,443	$ 732,479	$ 118,070,157	$ 1,165,640	$ 58,002,591	$ 814,233	$ 2,201,740	$ (3,614,927)	$ (157,974)	$ 0
PROPERTY HELD IN TRUST: July 1, 2009												$ 5,982,322
ADDITIONS												
Budgeted Revenues & Transfers-In	30,446,429	6,952,619	39,134,928		12,806,053	53,936,085	228,796,331					
Nonbudgeted Revenues & Transfers-In	643,462	2,432,588	(76)	42,140,921	18,196,949	18,767	1,262,039	568,707	1,646,520			
Prior Year Revenues & Transfers-In Adjustments	32,018	17,762	9,354	2		2,155,891	72,050		8,359			
Direct Entries to Fund Balance	(1,933,051)	33,417,457	(9,135,630)		4,426,860	550,436	1,898,518	190	193,739	17,542,794	1,925,097	
Additions to Property Held in Trust												873,668,868
Total Additions	29,188,858	42,820,426	30,008,576	42,140,923	35,429,862	56,661,179	232,028,938	568,897	1,848,618	17,542,794	1,925,097	873,668,868
REDUCTIONS												
Budgeted Expenditures & Transfers-Out	45,566,893	35,671,007	31,048,312		65,893,392	44,463,246	225,143,216			14,454,788	2,133,517	
Nonbudgeted Expenditures & Transfers-Out	87,934,662	464,036		42,366,340	4,427,538	10,712,800	(2,431,034)	575,877	1,108,738			
Prior Year Expenditures & Transfers-Out Adjustments	(17,554)	(717,630)	(52)		(9,483)	1,164,740	(334,380)		0			
Reductions in Property Held in Trust												864,343,212
Total Reductions	133,484,001	35,417,413	31,048,260	42,366,340	70,311,447	56,340,786	222,377,802	575,877	1,108,738	14,454,788	2,133,517	864,343,212
FUND BALANCE: June 30, 2010	$ 366,842,117	$ 18,835,529	$ (904,241)	$ 507,062	$ 83,188,572	$ 1,486,033	$ 67,653,727	$ 807,253	$ 2,941,620	$ (526,921)	$ (366,394)	$ 0
PROPERTY HELD IN TRUST: June 30, 2010												$ 15,307,978

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-9.

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Pension Trust Fund	Unexpended Plant Fund	Renewal & Replacement Fund	Agency Fund
FUND BALANCE: July 1, 2008	$ 466,025,049	$ 10,386,344	$ 37,184	$ 746,953	$ 83,951,486	$ 1,277,218	$ 57,243,102	$ 2,609,159	$ 2,309,873	$ (1,270,412)	$ (4,632)	$ 0
PROPERTY HELD IN TRUST: July 1, 2008												$ 496,519
ADDITIONS												
Budgeted Revenues & Transfers-In	38,684,576	6,496,025	31,596,779		35,777,736	52,736,976	218,962,117					
Nonbudgeted Revenues & Transfers-In	1,593,874	2,107,406	189	21,036,033	63,156,271	30,012	1,411,439	550	888,833			
Prior Year Revenues & Transfers-In Adjustments	60,881	33,193			18,595	(400)	305,941	(550)	300,160			
Direct Entries to Fund Balance	120,617,220	27,603,398	566,749		183,076	19,340	53,033	(1,106,640)	276,760	23,362,570	799,198	
Additions to Property Held in Trust												868,789,179
Total Additions	160,956,551	36,240,022	32,163,717	21,036,033	99,135,678	52,785,928	220,732,530	(1,106,640)	1,465,753	23,362,570	799,198	868,789,179
REDUCTIONS												
Budgeted Expenditures & Transfers-Out	49,377,376	34,678,964	32,067,251		60,807,022	41,720,265	215,579,900			25,710,239	952,540	
Nonbudgeted Expenditures & Transfers-Out	106,035,315	720,172	(1,793)	21,050,507	4,201,215	11,176,868	4,621,748	688,286	843,527			
Prior Year Expenditures & Transfers-Out Adjustments	431,649	(205,286)			8,770	373	(228,607)		730,359	(3,154)		
Reductions in Property Held in Trust												863,303,376
Total Reductions	155,844,340	35,193,850	32,065,458	21,050,507	65,017,007	52,897,506	219,973,041	688,286	1,573,886	25,707,085	952,540	863,303,376
FUND BALANCE: June 30, 2009	$ 471,137,260	$ 11,432,516	$ 135,443	$ 732,479	$ 118,070,157	$ 1,165,640	$ 58,002,591	$ 814,233	$ 2,201,740	$ (3,614,927)	$ (157,974)	$ 0
PROPERTY HELD IN TRUST: June 30, 2009												$ 5,982,322

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-9.

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Pension Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS										
Licenses and Permits		$ 705,828				$ 2,250				$ 708,078
Taxes	$ 5,117	15	$ 71			603	$ 899			6,705
Charges for Services	9,643,974	3,750,144			$ 154,826	8,323,245	218,247,936			240,120,125
Investment Earnings	4,246,243	21,819	656	$ 4,984	220,465	19,063	2,503,111		$ 102,097	7,118,438
Fines and Forfeits	4,683,647						13,892			4,697,539
Capital Contributions						408,464				408,464
Sale of Documents, Merchandise and Property		183,797				47,348,401	4,854,919			52,387,117
Rentals, Leases and Royalties	130									130
Contributions and Premiums									1,552,782	1,552,782
Grants, Contracts, and Donations		1,699,418					21,545	$ 568,707		2,289,670
Transfers-in	11,104,954	1,862,650	173,766	21,019,047	30,642,111		616,046			65,418,574
Intra-entity Revenue		75,000								75,000
Bond Proceeds				974,939						974,939
Capital Asset Sale Proceeds	39,594					686	2,156			42,436
Proceeds of Refunding Bonds				20,220,000						20,220,000
Miscellaneous	1,043,120	1,104,298		(78,047)	(14,400)	8,031	1,656,928			3,719,930
Federal	355,130		38,969,713				2,212,988			41,537,831
Total Revenues & Transfers-In	31,121,909	9,402,969	39,144,206	42,140,923	31,003,002	56,110,743	230,130,420	568,707	1,654,879	441,277,758
Less: Nonbudgeted Revenues & Transfers-In	643,462	2,432,588	(76)	42,140,921	18,196,949	18,767	1,262,039	568,707	1,646,520	66,909,877
Prior Year Revenues & Transfers-In Adjustments	32,018	17,762	9,354	2		2,155,891	72,050		8,359	2,295,436
Actual Budgeted Revenues & Transfers-In	30,446,429	6,952,619	39,134,928	0	12,806,053	53,936,085	228,796,331	0	0	372,072,445
Estimated Revenues & Transfers-In	37,124,777	10,560,922	64,978,123		61,987,896	53,331,825	239,403,691			467,387,234
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (6,678,348)	$ (3,608,303)	$ (25,843,195)	$ 0	$ (49,181,843)	$ 604,260	$ (10,607,360)	$ 0	$ 0	$ (95,314,789)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS										
Licenses and Permits	$ (14,000)	$ 280,403				$ (7,800)				$ 258,603
Taxes	(10,890)									(10,890)
Charges for Services	(688,030)	(502,354)			$ (278,506)	(313,782)	$ (11,418,352)			(13,201,024)
Investment Earnings	(5,295,426)	(126,230)	$ (1,404)		(1,449,931)	(155,384)	(699,411)			(7,727,786)
Fines and Forfeits	566,837									566,837
Monetary Settlements	(50,050)									(50,050)
Capital Contributions						(111,536)				(111,536)
Sale of Documents, Merchandise and Property		12,052				1,192,762	(145,081)			1,059,733
Rentals, Leases and Royalties	112									112
Grants, Contracts, and Donations		(129,515)								(129,515)
Transfers-in	(302,895)	(1,946,054)	(252,300)		(47,453,406)		232,161			(49,722,494)
Capital Asset Sale Proceeds	7,593									7,593
Miscellaneous	(884,165)	(1,196,605)					1,116,958			(963,812)
Federal	(7,434)		(25,589,491)				306,365			(25,290,560)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (6,678,348)	$ (3,608,303)	$ (25,843,195)	$ 0	$ (49,181,843)	$ 604,260	$ (10,607,360)	$ 0	$ 0	$ (95,314,789)

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-9.

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Pension Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS										
Licenses and Permits		$ 334,080				$ 8,850				$ 342,930
Taxes	$ 5,554	25	$ 66			910	$ 1,187			7,742
Charges for Services	7,376,150	3,730,070			$ 597,528	8,529,589	206,224,312			226,457,649
Investment Earnings	17,062,974	61,069	2,000	$ 79,041	1,115,743	68,804	2,633,246		$ (389,268)	20,633,609
Fines and Forfeits	4,130,612									4,130,612
Capital Contributions						321,045				321,045
Sale of Documents, Merchandise and Property		162,695				43,826,880	5,022,044			49,011,619
Rentals, Leases and Royalties	22									22
Contributions and Premiums									1,578,261	1,578,261
Grants, Contracts, and Donations		869,362					15,070			884,432
Transfers-in	10,704,134	2,066,261		20,956,992	97,228,059		907,655			131,863,101
Intra-entity Revenue							250,000			250,000
Capital Asset Sale Proceeds	23,076					300	7,811			31,187
Miscellaneous	698,675	1,413,062			11,272	10,210	2,293,491			4,426,710
Federal	338,134		31,594,902				3,324,681			35,257,717
Total Revenues & Transfers-In	40,339,331	8,636,624	31,596,968	21,036,033	98,952,602	52,766,588	220,679,497	0	1,188,993	475,196,637
Less: Nonbudgeted Revenues & Transfers-In	1,593,874	2,107,406	189	21,036,033	63,156,271	30,012	1,411,439	$ 550	888,833	90,224,606
Prior Year Revenues & Transfers-In Adjustments	60,881	33,193			18,595	(400)	305,941	(550)	300,160	717,820
Actual Budgeted Revenues & Transfers-In	38,684,576	6,496,025	31,596,779	0	35,777,736	52,736,976	218,962,117	0	0	384,254,209
Estimated Revenues & Transfers-In	47,006,475	19,300,778	14,669,665		103,847,602	47,657,546	211,835,265			444,317,331
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (8,321,899)	$ (12,804,753)	$ 16,927,114	$ 0	$ (68,069,866)	$ 5,079,430	$ 7,126,852	$ 0	$ 0	$ (60,063,122)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS										
Licenses and Permits		$ (336,656)				$ 6,850				$ (329,806)
Taxes	$ (10,954)									(10,954)
Charges for Services	(713,153)	(1,135,286)			270,593	1,716,813	$ 4,935,547			5,074,514
Investment Earnings	(6,313,986)	(167,907)	$ (156)		(721,435)	(112,158)	(514,159)			(7,829,801)
Fines and Forfeits	(870,118)									(870,118)
Monetary Settlements	(50,050)									(50,050)
Capital Contributions						(8,955)				(8,955)
Sale of Documents, Merchandise and Property		(112,305)				3,476,880	22,044			3,386,619
Rentals, Leases and Royalties	(78)									(78)
Grants, Contracts, and Donations		356,876								356,876
Transfers-in	935,775	(2,029,377)	(488,000)		$ (67,619,024)		490,624			(68,710,002)
Capital Asset Sale Proceeds	(14,924)									(14,924)
Miscellaneous	(1,168,325)	419,902					492,796			(255,627)
Federal	(116,086)	(9,800,000)	17,415,270				1,700,000			9,199,184
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (8,321,899)	$ (12,804,753)	$ 16,927,114	$ 0	$ (68,069,866)	$ 5,079,430	$ 7,126,852	$ 0	$ 0	$ (60,063,122)

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-9.

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	ARCHITECTURE & ENGINEERING DIVISION	BANKING AND FINANCIAL DIVISION	CORRECTIONS	DEPARTMENTS & AGENCIES	DIRECTOR'S OFFICE	DPHHS	GENERAL SERVICES DIVISION	HEALTH CARE & BENEFITS DIVISION	INFORMATION TECHNOLOGY SERVICES DIVISION	MONTANA STATE LOTTERY	RISK MANAGEMENT & TORT DEFENSE	STATE ACCOUNTING DIVISION	STATE HUMAN RESOURCES DIVISION	STATE TAX APPEAL BOARD	UNIVERSITY SYSTEM	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT																
Personal Services																
Salaries	$ 1,012,135	$ 1,808,141			$ 798,936		$ 3,092,058	$ 871,754	$ 12,530,495	$ 1,352,461	$ 759,876	$ 2,195,838	$ 2,369,908	$ 298,297		$ 27,089,899
Hourly Wages							17,088									17,088
Other Compensation										1,200				31,140		32,340
Employee Benefits	291,276	505,892			247,126		1,177,656	270,754	3,498,216	461,262	229,269	696,215	727,357	84,950		8,189,973
Personal Services-Other					47,500		(13,139)	(9,245)	(45,133)	(8,485)	5,153	(45,664)	(63,139)			(132,152)
Total	1,303,411	2,314,033			1,093,562		4,273,663	1,133,263	15,983,578	1,806,438	994,298	2,846,389	3,034,126	414,387		35,197,148
Operating Expenses																
Other Services	423,997	169,171			124,487		3,358,435	5,771,834	3,648,258	6,305,006	5,373,038	1,876,324	1,283,691	21,936		28,356,177
Supplies & Materials	34,088	97,161			35,156		366,519	85,115	1,768,121	154,870	39,401	132,453	240,331	17,072		2,970,287
Communications	39,838	55,618			25,525		4,674,142	93,092	6,223,752	764,115	21,667	483,085	82,446	10,124		12,473,404
Travel	49,176	231,765			4,814		9,350	13,405	128,287	53,454	14,598	36,549	37,127	21,332		599,857
Rent	56,988	142,229			34,498		1,721,067	166,705	6,789,268	121,527	61,954	144,120	141,107	20,412		9,399,875
Utilities							2,511,660		28,990	17,505	6,236					2,564,391
Repair & Maintenance	4,719	6,742			9,867		2,198,803	1,780	2,043,534	19,827	13,691	966,109	390,513	1,608		5,657,193
Other Expenses	79,309	127,728	$ 152,566	$ 1,229,427	169,021		1,194,093	1,140,475	3,626,073	26,639,479	274,511	2,687,834	451,115	12,353	$ 398,385	38,182,369
Goods Purchased For Resale							9,090,495			946,219						10,036,714
Total	688,115	830,414	152,566	1,229,427	403,368		25,124,564	7,272,406	24,256,283	35,022,002	5,805,096	6,326,474	2,626,330	104,837	398,385	110,240,267
Equipment & Intangible Assets																
Equipment		13,329	(152,566)	(1,194,253)			(540,677)		707,604	(150,470)					527,881	(789,152)
Capital leases - equipment							547,282			45,448						592,730
Intangible Assets							(83,023)				(110,266)		16,123			(177,166)
Total		13,329	(152,566)	(1,194,253)			(76,418)		707,604	(105,022)	(110,266)		16,123		527,881	(373,588)
Capital Outlay																
Buildings			3,106,794	23,528,471		$ 6,354,407	125,318		1,613,942						51,796,050	86,524,982
Other Improvements							(69,800)			(45,448)						(115,248)
Total			3,106,794	23,528,471		6,354,407	55,518		1,613,942	(45,448)					51,796,050	86,409,734
Local Assistance																
From State Sources					18,141,123									21,450		18,162,573
From Federal Sources					35,988,843											35,988,843
From other sources									10,369,354							10,369,354
Total					54,129,966				10,369,354					21,450		64,520,770
Grants																
From State Sources									706,919							706,919
From Federal Sources							7,940		152,909							160,849
Total							7,940		859,828							867,768
Benefits & Claims																
From State Sources								136,245,602								136,245,602
Insurance Payments								(640,000)			5,017,904					4,377,904
Other Financing Uses/Deduction					20,985,463											20,985,463
Total					20,985,463			135,605,602			5,017,904					161,608,969
Transfers-out																
Fund transfers	2,170,000		661,876	5,592,511	105,588,841	1,892,988	371,022		77,693	10,609,274	616,046	575,877			742,271	128,898,399
Total	2,170,000		661,876	5,592,511	105,588,841	1,892,988	371,022		77,693	10,609,274	616,046	575,877			742,271	128,898,399
Debt Service																
Bonds					21,110,193											21,110,193
Capital Leases									27,027			3,827				30,854
Installment Purchases							32,050									32,050
Total					21,110,193		32,050		27,027			3,827				21,173,097
Other Post Employment Benefits																
Other Post Employment Benefits					38,502		201,437	45,552	509,577	83,673	40,240	74,057	83,367			1,076,405
Total					38,502		201,437	45,552	509,577	83,673	40,240	74,057	83,367			1,076,405
Total Expenditures & Transfers-Out	$ 4,161,526	$ 3,157,776	$ 3,768,670	$ 29,156,156	$ 203,349,895	$ 8,247,395	$ 29,989,776	$ 144,056,823	$ 54,404,886	$ 47,370,917	$ 12,363,318	$ 9,826,624	$ 5,759,946	$ 540,674	$ 53,464,587	$ 609,618,969
EXPENDITURES & TRANSFERS-OUT BY FUND																
General Fund				$ 12,467	$ 123,716,942		$ 2,171,048	$ 1	$ 1,871,019			$ 3,511,895	$ 1,659,955	$ 540,674		$ 133,484,001
State Special Revenue Fund	$ 1,991,526	$ 3,157,776	$ 7,350	4,068,223	11,209,993	$ 1,152,936	604,330	41,314	12,105,799	$ 153,882	$ 616,046		23,830		$ 284,408	35,417,413
Federal Special Revenue Fund			661,876	1,432,499	24,787,090	830,988	16,700		2,092,595			4,909			1,221,603	31,048,260
Debt Service Fund					42,366,340											42,366,340
Capital Projects Fund	2,170,000		2,946,878	22,256,020	62,976	6,263,471			1,613,942						34,998,160	70,311,447
Enterprise Fund				670,233	12,125		608,085	7,518,919		47,217,035		314,389				56,340,786
Internal Service Fund			152,566	716,714	1,195,155		26,589,613	135,387,125	36,721,531		11,747,272	5,419,554	4,076,161		372,111	222,377,802
Private Purpose Trust Fund												575,877				575,877
Pension Trust Fund					(726)			1,109,464								1,108,738
Unexpended Plant Fund															14,454,788	14,454,788
Renewal & Replacement Fund															2,133,517	2,133,517
Total Expenditures & Transfers-Out	4,161,526	3,157,776	3,768,670	29,156,156	203,349,895	8,247,395	29,989,776	144,056,823	54,404,886	47,370,917	12,363,318	9,826,624	5,759,946	540,674	53,464,587	609,618,969
Less: Nonbudgeted Expenditures & Transfers-Out	2,169,700	(688)		2,257,538	130,400,565		927,591	526,645	(4,333,400)	10,451,645	1,712,473	830,303	216,717	(132)		145,158,957
Prior Year Expenditures & Transfers-Out Adjustments	(2,996)	5,646		(37,532)	6,265	(9,483)	(91,545)	(491,331)	(380,939)	1,115,682	(25,444)	(5,398)	2,629	87		85,641
Actual Budgeted Expenditures & Transfers-Out	1,994,822	3,152,818	3,768,670	26,936,150	72,943,065	8,256,878	29,153,730	144,021,509	59,119,225	35,803,590	10,676,289	9,001,719	5,540,600	540,719	53,464,587	464,374,371
Budget Authority	2,024,362	4,090,943	20,029,813	156,545,142	77,379,247	39,538,926	30,236,731	145,882,928	158,749,861	38,420,638	17,962,113	9,544,262	5,686,924	543,705	257,031,560	963,667,155
Unspent Budget Authority	$ 29,540	$ 938,125	$ 16,261,143	$ 129,608,992	$ 4,436,182	$ 31,282,048	$ 1,083,001	$ 1,861,419	$ 99,630,636	$ 2,617,048	$ 7,285,824	$ 542,543	$ 146,324	$ 2,986	$ 203,566,973	$ 499,292,784
UNSPENT BUDGET AUTHORITY BY FUND																
General Fund				$ 61,041	$ 446,567		$ 63,717	$ 47,953	$ 3,205,302			$ 61,828	$ 113,873	$ 2,986		$ 4,003,267
State Special Revenue Fund	$ 29,540	$ 938,125	$ 336,289	42,945,845	1,255	$ 3,176,386	116,048	6,682	20,037,674	$ 151,617	$ 1,065,106				$ 1,740,408	70,544,975
Federal Special Revenue Fund			2,194,124	14,332,399	3,922,147	4,525,254	252,300		53,225,565			36,487			7,475,397	85,963,673
Capital Projects Fund			12,928,090	67,149,188		23,580,408			22,940,269						44,977,394	171,575,349
Enterprise Fund			109,640	1,079,768			41,524	358,770		2,465,431		5,396				4,060,529
Internal Service Fund			693,000	4,040,751	66,213		609,412	1,448,014	221,826		6,220,718	438,832	32,451		126,919	13,898,136
Unexpended Plant Fund															128,181,924	128,181,924
Renewal & Replacement Fund															21,064,931	21,064,931
Unspent Budget Authority	$ 29,540	$ 938,125	$ 16,261,143	$ 129,608,992	$ 4,436,182	$ 31,282,048	$ 1,083,001	$ 1,861,419	$ 99,630,636	$ 2,617,048	$ 7,285,824	$ 542,543	$ 146,324	$ 2,986	$ 203,566,973	$ 499,292,784

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-9.

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	ARCHITECTURE & ENGINEERING DIVISION	BANKING AND FINANCIAL DIVISION	CORRECTIONS	DEPARTMENTS & AGENCIES	DIRECTOR'S OFFICE	DPHHS	GENERAL SERVICES DIVISION	GOVERNOR-ELECT PROGRAM	HEALTH CARE & BENEFITS DIVISION	INFORMATION TECHNOLOGY SERVICES DIVISION	MT CONSENSUS COUNCIL	MONTANA STATE LOTTERY	RISK MANAGEMENT & TORT DEFENSE	STATE ACCOUNTING DIVISION	STATE HUMAN RESOURCES DIVISION	STATE TAX APPEAL BOARD	UNIVERSITY SYSTEM	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT																		
Personal Services																		
Salaries	$ 991,049	$ 1,632,698			$ 726,818		$ 3,007,313		$ 824,779	$ 12,215,240		$ 1,373,902	$ 763,305	$ 2,070,667	$ 2,270,251	$ 283,791		$ 26,159,813
Hourly Wages							18,341											18,341
Other Compensation																2,025		2,025
Employee Benefits	277,219	447,506			219,823		1,128,630		244,049	3,317,716	$ 1,475	457,184	225,737	637,184	678,456	81,299		7,716,278
Personal Services-Other					26,443		43,600		27,602	5,248		11,664	5,208	(35,839)	94,426			178,352
Total	1,268,268	2,080,204			973,084		4,197,884		1,096,430	15,538,204	1,475	1,842,750	994,250	2,672,012	3,043,133	367,115		34,074,809
Operating Expenses																		
Other Services	248,330	154,101			51,910		3,158,085		6,685,762	4,725,720		5,717,504	5,559,256	1,944,963	1,181,453	15,013		29,442,097
Supplies & Materials	36,413	28,190			12,835		372,806		52,034	2,041,107		346,838	22,813	64,213	162,628	3,829		3,143,706
Communications	27,633	36,542			14,875		3,914,786		62,649	11,018,656	(2)	959,339	13,837	482,605	57,896	4,546		16,593,362
Travel	44,483	227,241			10,816		15,244		15,333	258,800		76,380	16,028	40,127	50,410	2,393		757,255
Rent	55,068	140,367			32,101		2,233,257		135,846	9,373,321		140,376	62,393	136,117	146,699	19,776		12,475,321
Utilities							2,661,452					17,511	7,587					2,686,550
Repair & Maintenance	3,462	12,147			2,202		1,177,175			1,604,915		105,267	2,197	373,881	355,824	2,056		3,639,126
Other Expenses	52,507	93,920	$ 193,731	$ 634,428	104,096		916,248		797,370	4,120,836		23,999,149	339,383	2,595,652	332,834	8,555	$ 583,072	34,771,781
Goods Purchased For Resale							9,044,370					601,813						9,646,183
Total	467,896	692,508	193,731	634,428	228,835		23,493,423		7,748,994	33,143,355	(2)	31,964,177	6,023,494	5,637,558	2,287,744	56,168	583,072	113,155,381
Equipment & Intangible Assets																		
Equipment			(138,731)	(634,428)			(588,552)			2,083,493		150,470			5,099		(582,072)	295,279
Capital leases - equipment							583,697											583,697
Intangible Assets															66,900			66,900
Total			(138,731)	(634,428)			(4,855)			2,083,493		150,470			71,999		(582,072)	945,876
Capital Outlay																		
Buildings			2,285,838	16,690,331		$ 2,955,215				3,609,675							66,554,452	92,095,511
Other Improvements							33,353			100,015								133,368
Total			2,285,838	16,690,331		2,955,215	33,353			3,709,690							66,554,452	92,228,879
Local Assistance																		
From State Sources					14,833,028											502		14,833,530
From Federal Sources					39,983,579													39,983,579
From other sources										11,558,571								11,558,571
Total					54,816,607					11,558,571						502		66,375,680
Grants																		
From State Sources										676,314								676,314
From Federal Sources					25,209													25,209
Total					25,209					676,314								701,523
Benefits & Claims																		
From State Sources									128,662,758									128,662,758
Insurance Payments									3,550,000				4,509,086					8,059,086
Total									132,212,758				4,509,086					136,721,844
Transfers-out																		
Fund transfers	2,021,261		7,059	5,036,445	123,943,874	599,080	450,750		33,146		2,356	10,136,213	874,509	688,286			561,670	144,354,650
Total	2,021,261		7,059	5,036,445	123,943,874	599,080	450,750		33,146		2,356	10,136,213	874,509	688,286			561,670	144,354,650
Debt Service																		
Bonds				8,927	21,050,507													21,059,434
Capital Leases										13,252				11,761				25,013
Installment Purchases							32,050											32,050
Total				8,927	21,050,507		32,050			13,252				11,761				21,116,497
Other Post Employment Benefits																		
Other Post Employment Benefits					43,185		251,230		44,161	605,529		111,820	50,278	88,137	94,027			1,288,367
Total					43,185		251,230		44,161	605,529		111,820	50,278	88,137	94,027			1,288,367
Total Expenditures & Transfers-Out	$ 3,757,426	$ 2,772,712	$ 2,347,897	$ 21,735,703	$ 201,081,301	$ 3,554,295	$ 28,453,835	$ 0	$ 141,135,489	$ 67,328,408	$ 3,829	$ 44,205,430	$ 12,451,617	$ 9,097,754	$ 5,496,903	$ 423,785	$ 67,117,122	$ 610,963,506
EXPENDITURES & TRANSFERS-OUT BY FUND																		
General Fund			$ 366,368	$ 806,424	$ 138,460,903	$ 756,959	$ 2,602,990		$ 202,241	$ 5,893,297	$ 590			$ 3,420,256	$ 1,442,385	$ 423,785	$ 1,468,142	$ 155,844,340
State Special Revenue Fund	$ 1,736,165	$ 2,772,712	102,239	3,504,286	11,679,861	369,259	514,127		28,518	12,990,281	3,239	$ 136,625	874,509		24,529		457,500	35,193,850
Federal Special Revenue Fund				424,868	28,338,089	36,422				3,250,340				15,739				32,065,458
Debt Service Fund					21,050,507													21,050,507
Capital Projects Fund	2,021,262		1,685,558	16,523,215	481,991	2,391,655				3,939,463							37,973,864	65,017,007
Enterprise Fund			94,340				688,913		7,761,425			44,068,805		284,023				52,897,506
Internal Service Fund			99,392	476,910	1,069,950		24,647,805		131,569,419	41,255,027			11,577,108	4,689,450	4,029,989		557,991	219,973,041
Private Purpose Trust Fund														688,286				688,286
Pension Trust Fund									1,573,886									1,573,886
Unexpended Plant Fund																	25,707,085	25,707,085
Renewal & Replacement Fund																	952,540	952,540
Total Expenditures & Transfers-Out	3,757,426	2,772,712	2,347,897	21,735,703	201,081,301	3,554,295	28,453,835	0	141,135,489	67,328,408	3,829	44,205,430	12,451,617	9,097,754	5,496,903	423,785	67,117,122	610,963,506
Less: Nonbudgeted Expenditures & Transfers-Out	2,021,202	(131)		2,179,955	127,161,311		(180,293)		4,502,245	3,041,276	2,356	10,822,762	(1,510,391)	900,712	394,868	(26)		149,335,846
Prior Year Expenditures & Transfers-Out Adjustments	(1,743)	(278)	(4,400)	(91,529)	451,859		(31,653)		716,103	(317,868)	(2)	(399)	31,253	5,867	(12,459)	18	(10,664)	734,105
Actual Budgeted Expenditures & Transfers-Out	1,737,967	2,773,121	2,352,297	19,647,277	73,468,131	3,554,295	28,665,781	0	135,917,141	64,605,000	1,475	33,383,067	13,930,755	8,191,175	5,114,494	423,793	67,127,786	460,893,555
Budget Authority	1,823,357	3,952,901	16,521,094	164,582,785	78,280,337	$ 40,028,662	29,552,108	$ 50,000	140,028,523	115,022,584	239,433	35,595,406	15,216,959	8,939,015	5,321,591	424,827	300,039,994	955,619,576
Unspent Budget Authority	$ 85,390	$ 1,179,780	$ 14,168,797	$ 144,935,508	$ 4,812,206	36,474,367	$ 886,327	$ 50,000	$ 4,111,382	$ 50,417,584	$ 237,958	$ 2,212,339	$ 1,286,204	$ 747,840	$ 207,097	$ 1,034	$ 232,912,208	$ 494,726,021
UNSPENT BUDGET AUTHORITY BY FUND																		
General Fund				$ 61,041	$ 979,193		$ 20,340	$ 50,000	$ 187,973	$ 70,265	$ 65,822			$ 83,720	$ 113,992	$ 1,034		$ 1,633,380
State Special Revenue Fund	$ 85,390	$ 1,179,780	$ 343,640	46,766,666	70,533	$ 4,363,237	78,864		515,317	3,306,125	172,136	$ 163,375	$ 421,742				$ 1,266,432	58,733,237
Federal Special Revenue Fund				11,644,554	3,723,455	3,470,243	244,000			22,256,498				72,494				41,411,244
Capital Projects Fund			12,869,951	81,554,063	109	28,640,887				23,891,321							72,482,234	219,438,565
Enterprise Fund			109,640				178,051		260,038			2,048,964		48,711				2,645,404
Internal Service Fund			845,566	4,909,184	38,916		365,072		3,148,054	893,375			864,462	542,915	93,105		499,030	12,199,679
Unexpended Plant Fund																	139,967,613	139,967,613
Renewal & Replacement Fund																	18,696,899	18,696,899
Unspent Budget Authority	$ 85,390	$ 1,179,780	$ 14,168,797	$ 144,935,508	$ 4,812,206	$ 36,474,367	$ 886,327	$ 50,000	$ 4,111,382	$ 50,417,584	$ 237,958	$ 2,212,339	$ 1,286,204	$ 747,840	$ 207,097	$ 1,034	$ 232,912,208	$ 494,726,021

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-9.

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Capital Projects and Debt Service) and certain liabilities of defined benefit pension plans and certain post employment healthcare plans. In applying the modified accrual basis, the department records:

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

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

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

Basis of Presentation

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

In order to reflect the total department operations, the financial schedules present the combined operations of three separate business units identified on the state's accounting system for the fiscal year ending June 30, 2009; Department of Administration, Long-Range Building, and the Montana Consensus Council.

Due to the discontinuation of the Montana Consensus Council, the financial schedules for the fiscal year ending June 30, 2010, present the combined operations of only the Department of Administration and the Long-Range Building business units.

Department accounts are organized in funds according to state law applicable at the time transactions were recorded. The department uses the following funds:

Governmental Fund Category

- **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include the 911 Telecommunications Program, Architecture and Engineering Construction, Public Safety Radio, Banking and Financial Institutions Division, and Mineral Impact.
- **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include Federal surplus property, GIS federal funding, Homeland Security Grant, GIS Homeland Security Grant, Job and Growth Tax Relief Act, Public Safety Communications, Federal Forest Reserve, and the federal portion of the State Fund dividend.
- **Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses this fund for the Long-Range Building Program and Information Technology Bonds.
- **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund to account for activity in the Long-Range Building Program and for Long-Range Information Technology Projects.

Proprietary Fund Category

- **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The Department has 12 Internal Service Funds. The three largest internal service funds include: Information Technology Services Division, Agency Insurance, and Group Benefits.
- **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues

earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Department Enterprise Funds include flexible spending funds, state lottery, and surplus prop**erty.**

Fiduciary Fund Category

- **Pension and Other Employee Benefit Trust Funds** – to account for resources required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post employment benefit plans, or other employee benefit plans. Department pension trust funds include Voluntary Employee Beneficiary Association Trust.
- **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. Department private-purpose trust funds include stale-dated warrants.
- **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end. The department agency funds include Central Payroll and Federal Withholding.

Plant Funds

- **Plant Funds** – to account for transactions related to construction of university system properties. Because the Architecture and Engineering Division expends funds for university construction projects, the department records activity in the following sub-funds:
- **Unexpended Plant Funds** – comprised of amounts which have been appropriated or designated for construction or purchase of university improvements, buildings, and equipment.
- **Renewal and Replacement Funds** – provide resources for the remodeling or replacement of university properties.

2. General Fund Balance

The department has authority 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 for each of the fiscal years ended June 30, 2009, and June 30, 2010. As stated in note 3, the department is the administrator of the General Fund. As a result, the cash balances in the General Fund at fiscal year-end for all other state agencies are closed and recorded on the department's accounting records.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General, State Special Revenue, Federal Special Revenue Fund, Capital Projects, Internal Service, Enterprise, Pension Trust, Unexpended Plant and Renewal & Replacement funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. The department is the administrator of the General Fund. The direct entry to fund balance in the amount of approximately $120,617,220 in fiscal year 2008-09 and $(1,933,051) in fiscal year 2009-10, reflects the department closing cash balances of other agencies sharing the General Fund. The General Fund balance shown on the Schedules of Changes in Fund Balances & Property Held in Trust is not the total fund balance of the state's General Fund.

4. Unspent Budget Authority

On the Schedule of Total Expenditures & Transfers-Out for both fiscal years 2008-09 and 2009-10, the columns titled Departments & Agencies, Corrections, DPHHS, Information Technology Services Division, and University Systems have material unspent budget authority amounts. These amounts are related to active projects administered by the Long-Range Building Program. The entire estimated cost of the project is encumbered when the project is started. Many projects are not completed in one fiscal year resulting in the unspent budget amounts on the schedules. The unspent budget amounts represent estimated costs to complete the active projects.

5. Montana Consensus Council

The Montana Consensus Council has not generated sufficient income to cover the costs of its operations. The Consensus Council Board voted to close the office effective June 30, 2008. The remaining expenditures included on the Schedule of Expenditures & Transfer-Out for the fiscal year ended June 30, 2009 are related to personal services and transfers to the General Fund.

6. Governor Elect Program

The Governor Elect Program had no expenditures during the two fiscal years ending June 30, 2010 because the incumbent governor was elected.

7. Related Party Transactions

A former staff member in the Department of Administration, Health Care and Benefits Division, served as a Director of the Montana Association of Health Care Purchasers for no remuneration. The Department pays this association $1 per member per year to maintain its membership as well as a monthly fee of $.70 per member. The monthly fees are payment for data analysis, actuarial analysis, and consulting services performed by association staff on behalf of member employers. The Montana University System is also a member of the organization.

Department of Administration

Department Response

DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE

BRIAN SCHWEITZER, GOVERNOR
JANET R. KELLY, DIRECTOR

STATE OF MONTANA

(406) 444-2032
FAX (406) 444-6194

MITCHELL BUILDING
125 N. ROBERTS, RM 155
PO BOX 200101
HELENA, MONTANA 59620-0101

October 28, 2010

RECEIVED
OCT 28 2010
LEGISLATIVE AUDIT DIV.

Ms. Tori Hunthausen
Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, MT 59620-1705

Re: Financial Compliance Audit #10-13: Department of Administration for the two fiscal years ended June 30, 2010.

Dear Ms. Hunthausen:

The Department of Administration has reviewed the October 2010 Financial Compliance Audit for the two fiscal years ending June 30, 2010. Our responses to the recommendations appear below.

Recommendation #1
We recommend the Department:

A. Fully reimburse the group benefits fund for administrative costs paid on behalf of the Voluntary Employees' Beneficiary Association (VEBA), contrary to law.

B. Appropriately account for the financial activity between the Voluntary Employees' Beneficiary Association and group benefits funds on the state's accounting records.

Response:

A. Concur. The department has requested a supplemental appropriation of General Funds to repay the VEBA costs. If the appropriation is not approved, the department will develop a repayment schedule.

B. Concur. The department will appropriately account for the activity between VEBA and group benefit funds.

Recommendation #2
We recommend the department issue state accounting policy that provides adequate guidance related to fund balance classifications, recording encumbrances, and recording long-term advances, loans and notes, in accordance with Governmental Accounting Standards Board Statement No. 54.

Response:

Concur. The department will update policy to reflect the additional guidance provided in the recently released implementation guides. A new encumbrance assignment account will be established and used as the offset for encumbrances on SABHRS for fiscal year end 2011, instead of using the existing net assets account.

Recommendation #3
We recommend the department implement controls to ensure the account balances and activity recorded on the state's accounting records are in accordance with state law and accounting policy related to:

A. Accounting for construction work in progress in the Information Technology Services Division.

B. Recording budget authority at the Architecture and Engineering Division.

C. Recording internet access fees in the Information Technology Services Division.

Response:

A. Concur. State Information Technology Services Division has written Asset Management procedures to track and account for construction work in progress.

B. Concur. The Architecture & Engineering Division will implement a fiscal year end process to verify sub-class numbers are recorded in the correct program.

C. Concur. State Information Technology Services Division is currently writing new reimbursement procedures to track and account for internet access fees.

Recommendation #4
We recommend the Department:

A. Implement procedures to ensure certified weekly payrolls are received as required by federal regulations, prior to paying contractors.

B. Provide grantor agencies with certified weekly payrolls so they can ensure proper wages are paid.

Response:

A. Concur. The Architecture & Engineering Division will develop and implement procedures to verify certified payrolls are received on a weekly basis when required by federal regulations.

B. Concur. The Architecture & Engineering Division will develop and implement procedures to provide grantee agencies with copies of certified weekly payrolls, when requested, for agency verification of properly paid wages.

Recommendation #5
We recommend:

A. General Services Division work with the Long-Range Building Program to determine the Capitol complex projects that can be completed each fiscal year.

B. The department adjust rates to ensure compliance with state law for the rent and maintenance, warrant writer and workers' compensation management funds.

Response:

A. Concur. The General Services Division will continue to work with the Long Range Building Program to initiate and complete Capitol Complex projects. However, many variables affect our ability to complete projects in a specific fiscal year. Therefore, we will work with the Office of Budget and Program Planning and the Long Range Building Program to properly account for funds appropriated for Capitol Complex projects.

B1. Rent and Maintenance: Concur. The General Services Division rates are commensurate with costs if we exclude funds appropriated for Long Range Building Program projects. Therefore, we will work with the Office of Budget and Program Planning and the Long Range Building Program to properly account for funds appropriated for Capitol Complex projects.

B2. Warrant Writer: Concur. The State Accounting Division will periodically review the working capital balance and either adjust rates or refund cash to agencies to manage the working capital balance, if needed.

B3. Workers' Compensation Management: Concur. The Health Care and Benefits Division will annually review fees and adjust rates if needed.

Recommendation #6
We recommend the department comply with laws related to:

A. Obligating cigarette tax revenue to Architecture and Engineering projects prior to obligating other funds.

B. Assigning auditors to local government entities within the time period required.

C. Sending notices to apparent owners of abandoned property.

Response:

A. Conditionally Concur. The Architecture & Engineering Division will propose legislation in the 2011 Legislature to remove the current statutory requirement.

B. Conditionally Concur. The department will propose legislation in the 2011 Legislature to address this issue.

C. Conditionally Concur. The department will propose legislation in the 2011 Legislature to address this issue.

I want to thank you and your staff for their hard work and careful examination during this audit. We always look upon the audit process as an opportunity to improve the department's operations and performance.

The Department's Corrective Action Plan (CAP) is enclosed.

Sincerely,

Janet R. Kelly

Janet R. Kelly, Director

Enclosure

Department of Administration
Preliminary Response
Corrective Action Plan (CAP): Audit Report #10-13
Financial Compliance Audit
Two Fiscal Years Ended June 30, 2010
October 28, 2010

Agency	Recommendation #	Does this affect a federal program?	CFDA # (if previous YES)	Management View	CAP – Corrective Action Plan	Person responsible for CAP	Target Date
61010 DOA	**Recommendation #1** We recommend the Department:						
	A. Fully reimburse the group benefits fund for administrative costs paid on behalf of the Voluntary Employees' Beneficiary Association (VEBA), contrary to law.	No		Concur	**A.** The department has requested a supplemental appropriation of General Funds to repay the VEBA costs. If the appropriation is not approved, the department will develop a repayment schedule.	Russ Hill	6/30/2011
	B. Appropriately account for the financial activity between the Voluntary Employees' Beneficiary Association and group benefits funds on the state's accounting records.	No		Concur	**B.** The department will appropriately account for the activity between VEBA and group benefit funds.	Russ Hill	6/30/2011
61010 DOA	**Recommendation #2** We recommend the department issue state accounting policy that provides adequate guidance related to fund balance classifications, recording encumbrances, and recording long-term advances, loans and notes, in accordance with	No		Concur	The department will update policy to reflect the additional guidance provided in the recently released implementation guides. A new encumbrance assignment account will be established and used as the offset for encumbrances on SABHRS	Paul Christofferson	6/30/2011

Agency	Recommendation #	Does this affect a federal program?	CFDA # (if previous YES)	Management View	CAP – Corrective Action Plan	Person responsible for CAP	Target Date
	Governmental Accounting Standards Board Statement No. 54.				for fiscal year end 2011, instead of using the existing net assets account.		
61010 DOA	**Recommendation #3** We recommend the department implement controls to ensure the account balances and activity recorded on the state's accounting records are in accordance with state law and accounting policy related to:						
	A. Accounting for construction work in progress in the Information Technology Services Division.	No		Concur	**A.** State Information Technology Services Division has written Asset Management procedures to track and account for construction work in progress.	Doug Volesky	Implemented
	B. Recording budget authority at the Architecture and Engineering Division.	No		Concur	**B.** The Architecture & Engineering Division will implement a fiscal year end process to verify sub-class numbers are recorded in the correct program.	Janelle McBreen	7/1/2011
	C. Recording internet access fees in the Information Technology Services Division.	No		Concur	**C.** State Information Technology Services Division is currently writing new reimbursement procedures to track and account for internet access fees.	Doug Volesky	12/1/2010

Agency	Recommendation #	Does this affect a federal program?	CFDA # (if previous YES)	Management View	CAP – Corrective Action Plan	Person responsible for CAP	Target Date
61010 DOA	**Recommendation #4** We recommend the Department:						
	A. Implement procedures to ensure certified weekly payrolls are received as required by federal regulations, prior to paying contractors.	No		Concur	**A.** The Architecture & Engineering Division will develop and implement procedures to verify certified payrolls are received on a weekly basis when required by federal regulations.	Russ Katherman	7/1/2011
	B. Provide grantor agencies with certified weekly payrolls so they can ensure proper wages are paid.	No		Concur	**B.** The Architecture & Engineering Division will develop and implement procedures to provide grantee agencies with copies of certified weekly payrolls, when requested, for agency verification of properly paid wages.	Russ Katherman	7/1/2011
61010 DOA	**Recommendation #5** We recommend:						
	A. General Services Division work with the Long-Range Building Program to determine the Capitol complex projects that can be completed each fiscal year.	No		Concur	**A.** The General Services Division will continue to work with the Long Range Building Program to initiate and complete Capitol Complex projects. However, many variables affect our ability to complete projects in a specific fiscal year. Therefore, we will work with the Office of Budget and Program	Marv Eicholtz	6/30/2011

Agency	Recommendation #	Does this affect a federal program?	CFDA # (if previous YES)	Management View	CAP – Corrective Action Plan	Person responsible for CAP	Target Date
	B. The department adjust rates to ensure compliance with state law for the rent and maintenance, warrant writer and workers' compensation management funds.	No			Planning and the Long Range Building Program to properly account for funds appropriated for Capitol Complex projects.		
				Concur	**B1. Rent and Maintenance:** The General Services Division rates are commensurate with costs if we exclude funds appropriated for Long Range Building Program projects. Therefore, we will work with the Office of Budget and Program Planning and the Long Range Building Program to properly account for funds appropriated for Capitol Complex projects.	Marv Eicholtz	6/30/2011
				Concur	**B2. Warrant Writer:** The State Accounting Division will periodically review the working capital balance and either adjust rates or refund cash to agencies to manage the working capital balance, if needed.	Paul Christofferson	6/30/2011
				Concur	**B3. Workers' Compensation Management:** The Health Care and Benefits Division will annually review fees and adjust rates if needed.	Russ Hill	6/30/2011

Agency	Recommendation #	Does this affect a federal program?	CFDA # (if previous YES)	Management View	CAP – Corrective Action Plan	Person responsible for CAP	Target Date
61010 DOA	**Recommendation #6** We recommend the department comply with laws related to:						
	A. Obligating cigarette tax revenue to Architecture and Engineering projects prior to obligating other funds.	No		Conditionally Concur	**A.** The Architecture & Engineering Division will propose legislation in the 2011 Legislature to remove the current statutory requirement.	Joe Triem	10/31/2011
	B. Assigning auditors to local government entities within the time period required.	No		Conditionally Concur	**B.** The department will propose legislation in the 2011 Legislature to address this issue.	Paul Christofferson	10/31/2011
	C. Sending notices to apparent owners of abandoned property.	No		Conditionally Concur	**C.** The department will propose legislation in the 2011 Legislature to address this issue.	Paul Christofferson	10/31/2011