



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

# *Department of Labor and Industry*

*For the Two Fiscal Years Ended  
June 30, 2011*

OCTOBER 2011

LEGISLATIVE AUDIT  
DIVISION

11-15

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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.

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Tori Hunthausen, Legislative Auditor  
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Deputy Legislative Auditors  
Cindy Jorgenson  
Angie Grove

October 2011

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Labor and Industry for the two fiscal years ended June 30, 2011. Included in this report are compliance and internal control issues related to the Workforce Investment Act and Unemployment Insurance programs, Internal Service Fund fees, and Schedule of Expenditures of Federal Awards.

We thank the Commissioner and department staff for their assistance and cooperation during the audit.

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA  
Legislative Auditor

## TABLE OF CONTENTS

Figures and Tables.....	ii
Appointed and Administrative Officials .....	iii
Report Summary .....	S-1
<b>CHAPTER I – INTRODUCTION .....</b>	<b>1</b>
Introduction .....	1
Background.....	1
Prior Audit Recommendations.....	5
<b>CHAPTER II – FINDINGS AND RECOMMENDATIONS.....</b>	<b>7</b>
Workforce Investment Act .....	7
Subrecipient Monitoring .....	7
Report Certification.....	8
Compliance With State Unemployment Insurance Laws.....	9
Excess Cash in Benefit Account.....	9
Amounts Withheld for Income Tax .....	10
Report to the Legislature.....	11
Unapproved Internal Service Fund Fees.....	12
Schedule of Expenditures of Federal Awards.....	13
<b>INDEPENDENT AUDITOR'S REPORT AND DEPARTMENT FINANCIAL SCHEDULES</b>	
Independent Auditor's Report .....	A-1
Schedule of Changes in Fund Balances & Property Held in Trust for the Fiscal Year Ended June 30, 2011 .....	A-3
Schedule of Changes in Fund Balances & Property Held in Trust for the Fiscal Year Ended June 30, 2010.....	A-4
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2011 .....	A-5
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2010.....	A-6
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2011 .....	A-7
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2010.....	A-8
Notes to the Financial Schedules .....	A-9
<b>DEPARTMENT RESPONSE</b>	
Department of Labor and Industry.....	B-1

## FIGURES AND TABLES

### Tables

Table 1	Department of Labor and Industry Full-Time Equivalent Employees At June 30, 2011 .....	3
Table 2	Business Standards Division Boards and Programs.....	4

## APPOINTED AND ADMINISTRATIVE OFFICIALS

### Department of Labor and Industry

Keith Kelly, Commissioner

Jack Kane, Administrator, Business Standards Division

Kim Moog, Administrator, Centralized Services Division

Jerry Keck, Administrator, Employment Relations Division

Roy Mulvaney, Administrator, Unemployment Insurance Division

Mike Cooney, Administrator, Workforce Services Division

### Administratively Attached Functions

James Shea, Judge, Workers' Compensation Court

Jan Lombardi, Executive Director, Office of Community Services

### Administratively Attached Boards and Commissions

Board of Labor Appeals

Board of Personnel Appeals

Commission for Human Rights

Professional and Occupational Licensing Boards  
(listed on page 4)

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# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL-COMPLIANCE AUDIT

### Department of Labor and Industry

#### For the Two Fiscal Years Ended June 30, 2011

OCTOBER 2011

11-15

REPORT SUMMARY

The Department of Labor and Industry (department) works to promote the well being of Montana's workers, employers, and citizens and to uphold their rights and responsibilities. At the end of the 2011 biennium, the department was supplementing its 820.83 permanent full-time equivalent employees (FTE) with 98 modified FTE, primarily to address increased workloads resulting from the economic downturn for paying unemployment insurance benefits and providing job location and training services.

### Context

The department assists individuals in preparing for and finding jobs, assists employers in finding workers, and pays workers unemployment benefits if they are temporarily unemployed through no fault of their own. It enforces state and federal labor, state wage and hour, workers' compensation, discrimination, and state and federal health and safety laws. The department conducts research, collects statistics, and provides rulings in labor management disputes. It also administers building codes enforcement, weights and measures, and professional and occupational licensing.

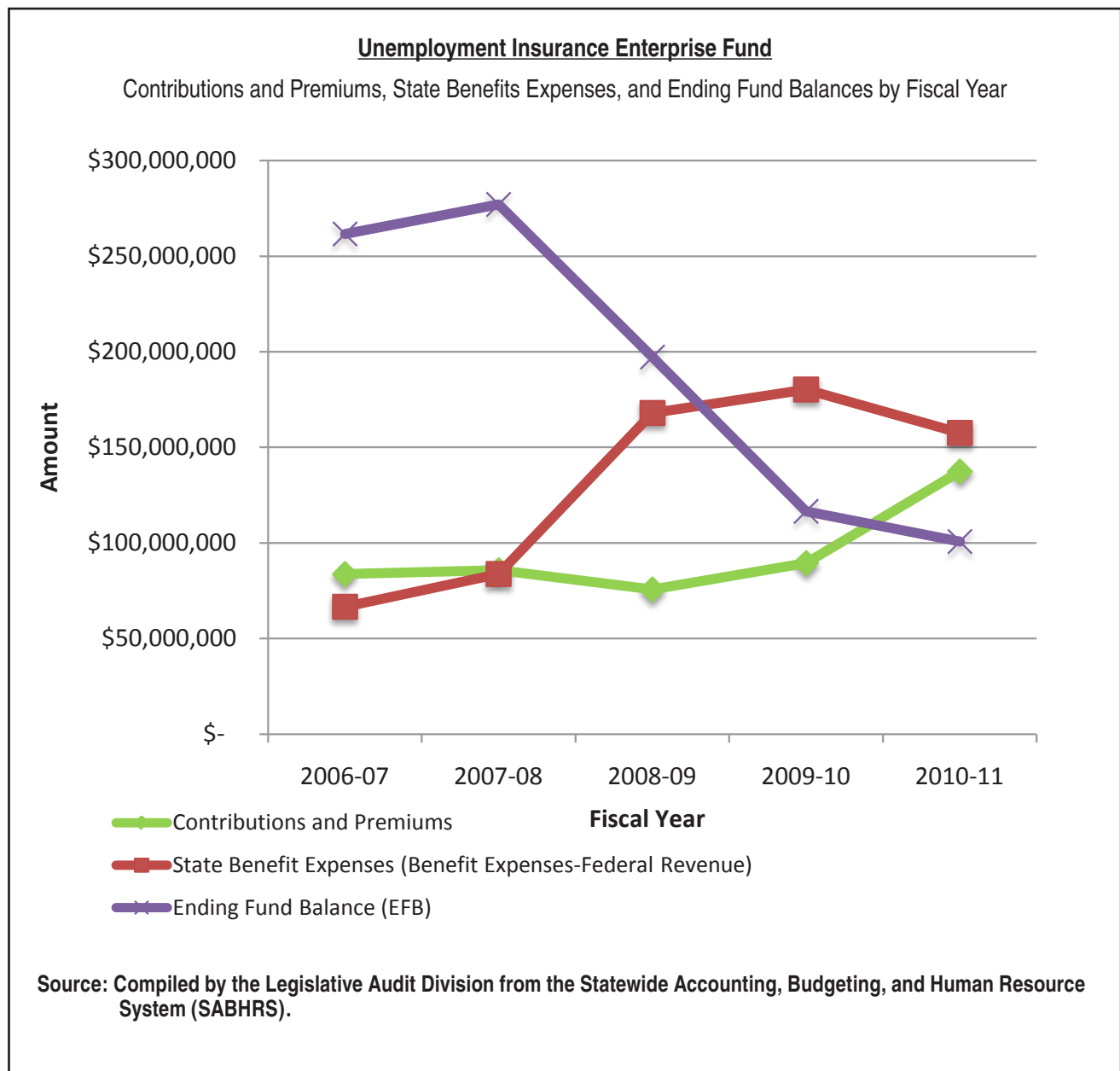
Significant activity levels and ending fund balances for the Unemployment Insurance Enterprise Fund for the past five fiscal years are shown on the chart on the next page.

### Results

The report contains two federal compliance and control issues regarding the Workforce Investment Act (WIA) program. It identifies three state compliance issues related to the department's Unemployment Insurance program. The report also discusses unapproved Internal Service Fund fees and recommends the department improve controls over preparation of its Schedule of Expenditures of Federal Awards.

We issued an unqualified opinion on the department's financial schedules for each of the fiscal years ended June 30, 2011, and 2010.

Recommendation Concurrence	
Concur	7
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	



For a complete copy of the report (11-15) or for further information, contact the  
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# Chapter I – Introduction

## **Introduction**

We performed a financial-compliance audit of the Department of Labor and Industry (department) for the two fiscal years ended June 30, 2011. 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 improvements in management and internal controls of the department.
2. Determine department compliance with selected applicable state and federal laws and regulations.
3. Determine if the financial schedules present fairly the department's results of operations and changes in fund balances for each of the fiscal years ended June 30, 2011, and June 30, 2010.
4. Determine the implementation status of prior audit recommendations.

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

As required by §17-8-101(6), MCA, we analyzed the reasonableness of Internal Service Fund fees and charges and fund equity balances at the department. The statute requires fees and charges for services be based upon commensurate costs. We found the fees and charges were commensurate with costs for the activities in the Internal Service Fund during the 2011 biennium. We determined the fund equity balances at June 30, 2011, were reasonable because they were less than 1/6, or 60 days, of fiscal year 2010-11 expenses.

## **Background**

The Department of Labor and Industry operates as part of a national employment, unemployment insurance, and job training system that assists individuals in preparing for and finding work. The department assists employers in finding workers and pays workers unemployment benefits if they are temporarily unemployed through no fault of their own.

The department enforces state and federal labor, state wage and hour, workers' compensation, discrimination, and state and federal health and safety laws. In addition,

the department conducts research, collects statistics, and provides rulings in labor management disputes. The department also administers building codes enforcement, weights and measures, and professional and occupational licensing.

The department is organized into the Commissioner's Office, five divisions, and two administratively attached units. A brief description of the Commissioner's Office, divisions, and administratively attached units follows.

**Commissioner's Office** – The Commissioner's Office provides administrative and support services to the department. It is responsible for the overall administration of the department, including direction and program focus. The office provides legal, personnel-related, and computer services for the department and administratively attached boards and commissions.

**Centralized Services Division** – Centralized Services provides central services including payroll, accounting, purchasing, budgeting, and general services. It provides administrative hearing and dispute resolution services.

**Employment Relations Division** – Employment Relations administers and enforces federal and state wage and hour, labor relations, workers' compensation, workplace safety, contractor registration, and human rights statutes. In addition, both the Board of Personnel Appeals and Human Rights Commission, which are administratively attached to the department, are part of this division.

**Unemployment Insurance Division** – Unemployment Insurance administers the state's unemployment insurance laws and related federal programs. The division operates through the Contributions, Program Support, and Claims Processing Bureaus. The Board of Labor Appeals, which is administratively attached to the department, is part of this division.

**Workforce Services Division** – Workforce Services administers and operates employment, training, and re-training programs, including the job service offices. It collects, analyzes, and disseminates employment statistics, provides services to veterans and dislocated workers, and offers trade adjustment assistance to individuals affected by the North American Free Trade Agreement.

**Business Standards Division** – Business Standards oversees professional and occupational licensing, weights and measures, and building codes administration. Thirty-three licensing boards that are administratively attached to the department are part of this division. Table 2, on page 4, provides the name of each licensing board or program and the number and frequency of licenses and registration.

**Workers' Compensation Court** – The court provides a legal forum for Montana's employees and the insurance industry to resolve disputes arising out of work-related injuries and occupational disease.

**Office of Community Services** – The office administers federal programs including AmeriCorps and Campus Corps and coordinates community service and volunteer efforts statewide.

Due to increases in workload, the department added 98 modified full-time equivalent employees (FTE) to its permanent staff of 820.83 FTE, for a total workforce of 918.83 FTE at June 30, 2011. The FTE were allocated as follows.

Table 1  
**Department of Labor and Industry Full-Time Equivalent Employees**  
**At June 30, 2011**

Location	Permanent HB 2 FTE	Permanent Proprietary FTE	Modified FTE*	Total FTE
Commissioner's Office	8.00	40.75	1.00	49.75
Centralized Services Division	9.00	25.00	-	34.00
Employment Relations Division	129.10	-	1.00	130.10
Unemployment Insurance Division	153.00	-	24.00	177.00
Workforce Services Division	294.95	-	68.00	362.95
Business Standards Division	150.03	-	-	150.03
Workers Compensation Court	7.00	-	-	7.00
Office of Community Services	4.00	-	4.00	8.00
<b>Total</b>	<b>755.08</b>	<b>65.75</b>	<b>98.00</b>	<b>918.83</b>

\*Modified FTE includes HB 645 positions.

**Source: Compiled by Department of Labor and Industry personnel.**

Table 2  
**Business Standards Division Boards and Programs**  
 Number and Frequency of Licenses and Registrations in Fiscal Year 2010-11

Board or Program	Annually	Biennially	Other
Addiction Counselors*	649		
Alternative Health Care	119		
Architects and Landscape Architects	1,511		
Athletics*			271 N
Athletic Trainers	133		
Barbers and Cosmetologists	3,581	8,547	
Boiler Operators/ Engineers*	3,225		
Chiropractors	509		
Clinical Laboratory Science Practitioners	934		
Construction Blasters*	211		
Crane/Hoisting Operators*	1,368		
Dentistry	1,554		
Electrical		3,447	2,021 N
Elevator Contractors, Inspectors, and Mechanics*		114	
Fire Prevention Licensure*	512		48 N
Funeral Service	436		10 F
Hearing Aid Dispensers	111		
Massage Therapy	1,273		
Medical Examiners		9,964	
Nursing	5	18,452	
Nursing Home Administrators	208		
Occupational Therapy Practice	413		
Optometry	274		
Outfitters	1,619		
Pharmacy	4,569		525 N
Physical Therapy Examiners	1,194		
Plumbers	1,347		252 N
Private Alternative Adolescent Residential or Outdoor Programs	15		
Private Security	1,749		
Professional Engineers and Professional Land Surveyors	997	5,430	6,720 I
Psychologists	231		
Public Accountants	3,933		
Radiologic Technologists	1,422		
Real Estate Appraisers	434		
Realty Regulation	5,628		44 N
Respiratory Care Practitioners	594		
Sanitarians	186		
Social Work Examiners and Professional Counselors	1,802		
Speech-Language Pathologists and Audiologists	447		225 N
Veterinary Medicine	1,106		

\*Program licensed by the department rather than a board.

F - Every Five Years I - Indefinitely N - Nonrenewable

**Source: Compiled by Department of Labor and Industry Personnel.**

### **Prior Audit Recommendations**

The prior financial-compliance audit of the Department of Labor and Industry for the two fiscal years ended June 30, 2009, contained 10 recommendations. The department has implemented eight recommendations, partially implemented one recommendation, and not implemented one recommendation. The recommendation partially implemented concerns the Schedule of Expenditures of Federal Awards, which is discussed beginning on page 13.

The recommendation not implemented concerns Property Held in Trust. During the prior audit, the department did not properly account for wage collections in accordance with §39-3-213(1), MCA. This law requires the commissioner to deposit wages collected from employers on behalf of individuals who did not receive their wages timely or pursuant to their employment contracts into the wage collection fund and to disburse the wages to the individual entitled to them. The department does not deposit the majority of its wage collections because the wages come in the form of a paycheck to the wage claimant, which the department forwards on to the claimant at the resolution of the wage claim. The department was successful in seeking legislation during the 2011 Legislative Session to make §39-3-213, MCA, permissive, effective October 1, 2011. Because the recommendation is not applicable after September 30, 2011, we do not take further issue with this situation in the audit report.



## Chapter II – Findings and Recommendations

### Workforce Investment Act

The department received over \$19.3 million in federal Workforce Investment Act (WIA) funds in the 2011 biennium, which included nearly \$5.7 million in federal American Recovery and Reinvestment Act (ARRA) funds. The Workforce Investment Act of 1998 reformed federal job training programs and created a comprehensive workforce investment system. The cornerstone of this system is One-Stop service delivery, which unifies numerous training, education, and employment programs into a single system in each community.

Programs for adults and dislocated workers seek to improve employment, retention, and earnings of WIA participants and increase their educational and occupational skill attainment. Youth activities aim to increase attainment of basic skills, work readiness or occupational skills, and secondary diplomas or other credentials.

While testing compliance with federal WIA program requirements, we determined the department should follow its subrecipient monitoring procedures and improve control procedures for certifying federal reports. These issues are discussed in the following two sections.

### Subrecipient Monitoring

---

**Department personnel do not comply with established control procedures to ensure WIA subrecipients meet federal audit requirements and the department issues a management decision letter within six months of receiving an audit report.**

---

The department subgrants WIA funds to various subrecipients each fiscal year. Federal regulations require the department, as the pass-through entity, to (1) ensure subrecipients expending \$500,000 or more in federal awards during the subrecipient's fiscal year have met federal audit requirements, including that the required audits are completed within nine months of the end of the subrecipient's audit period, and (2) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report.

During the 2011 biennium, the department maintained a spreadsheet to track for which periods each subrecipient audit report was due, an "x" to indicate it had received a report, and the date the management decision letter was sent in response to each report. Department personnel did not document when the required reports were

completed and received on the spreadsheet. Based on analysis of the dates department personnel were subsequently able to obtain from the reports received, we identified two of thirteen subrecipients in each fiscal year 2009-10 and 2010-11 that did not have an audit completed within nine months. In addition, we determined ten of the 24 management decision letters sent by the department for reports received in fiscal years 2009-10 and 2010-11 were not sent within the required six month period.

Department personnel told us reviewing the subrecipient audit reports and issuing management decision letters is not a high priority and, because of workload, is often deferred and discussed with subrecipients during the department's annual monitoring visits. By not complying with federal subrecipient monitoring regulations, the department increases the risk of not identifying and resolving noncompliance issues with subrecipients, such as unallowable costs, in a timely manner. This could jeopardize federal funds.

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#### **RECOMMENDATION #1**

*We recommend the department follow its established control procedures to ensure:*

- A. *Workforce Investment Act subrecipients comply with federal audit requirements.*
  - B. *The department issues a management decision letter within six months of receiving a subrecipient audit report.*
- 

## **Report Certification**

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**The department did not maintain segregation of duties between the preparer and approver of WIA reports as required by federal regulations.**

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The department submits approximately 36 financial reports quarterly and one program report monthly for the WIA program throughout the program year. Federal regulations require report preparation and approval duties be segregated. The primary contact person is supposed to certify the accuracy of each report by entering a federally provided personal identification number (PIN) and the secondary contact person is supposed to enter the report data using a federally provided password.

The fiscal officer responsible for preparing WIA reports also certified those reports with the administrator's PIN number throughout the audit period. Department personnel



knowingly submitted the WIA reports using the PIN of an administrator who did not review or certify the reports, and who did not work for the department for a period of nearly eight months during the 2011 biennium. The submissions misrepresent the existence of the approval function and segregation of duties to the federal government. Additionally, the department knowingly placed an individual in a position of being responsible for report contents of which they know nothing.

Department personnel said they did not change the certifying PIN because it is a difficult process to remove or change the PIN, which automatically populates into the report they complete online. The department should obtain a new PIN or password when there is a change in primary or secondary contact personnel so the federal government knows who actually entered data and certified the report.

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#### **RECOMMENDATION #2**

*We recommend the department update electronic identification code information when the personnel entering data for, or certifying approval of, Workforce Investment Act reports change to comply with federal requirements.*

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## **Compliance With State Unemployment Insurance Laws**

The department operates the state's Unemployment Insurance (UI) program. It collects unemployment insurance premiums from employers in the state and provides state and federal UI benefits to eligible individuals. In fiscal years 2009-10 and 2010-11, the department incurred unemployment benefit expenses of \$356,159,935 and \$282,319,334, respectively. During our audit, we identified three areas, discussed in the following report sections, where the department was not complying with state laws related to the UI program.

### **Excess Cash in Benefit Account**

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**The department retained \$1.8 million in excess cash in the UI benefit account during fiscal years 2009-10 and 2010-11, contrary to the requirements of state law.**

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Section 39-51-403(4), MCA, requires the department to use excess money in the UI benefit account to reduce future draws for benefit payments from, or to return the excess money to, the state's trust fund account after the period for which it was

drawn expires. As noted in the prior audit, during fiscal year 2007-08, the department determined the benefit account had excess cash of about \$6.6 million. The department identified reasons for and returned \$4.8 million dollars of this excess to the state's trust fund account in June 2008. The department did not deposit the remaining \$1.8 million of excess cash, which department personnel determined was created prior to fiscal year 2007-08, to the state's trust fund account until June 27, 2011. We estimate the state's UI trust fund account lost approximately \$150,000 in investment earnings during the 2011 biennium, as well as lost investment earnings in previous years.

Program personnel said they were not able to identify the original cause for the \$1.8 million in excess cash and that the increase in workload resulting from the number of UI claims processed in the 2011 biennium limited the time available to research and resolve the issue. They said they wanted to make sure there was no other issue affecting the excess cash balance and that the excess cash balance remained steady before they returned the money to the trust fund account. Program personnel expressed concern that, once the excess cash was returned, the cash balance in the benefit account may go negative at times under their current draw pattern. They indicated they are studying alternative draw patterns to avoid that situation.

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**RECOMMENDATION #3**

*We recommend the department use excess cash in the Unemployment Insurance benefit account, or return it to the state's account in the Unemployment Trust Fund, after the period for which it was drawn expires, in compliance with §39-51-403(4), MCA.*

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## **Amounts Withheld for Income Tax**

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**Federal income tax amounts withheld from UI benefit payments are not being held in the unemployment insurance fund until remitted to the Internal Revenue Service, as required by state law.**

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UI claimants can elect to have federal income tax withheld from their benefit payments. During fiscal years 2009-10 and 2010-11, the department withheld federal income tax of \$17,316,409 and \$13,977,747, respectively, from UI benefit payments. Section 39-51-2207(2), MCA, requires that funds deducted and withheld from unemployment compensation remain in the unemployment insurance fund until the funds are transferred to the Internal Revenue Service (IRS). The process the state uses to transfer income tax payments to the IRS does not comply with this requirement.

Each day, the department issues an electronic fund transfer (EFT) to the Department of Administration for the amount of federal income taxes withheld from benefit payments processed that day. This transaction moves the taxes withheld from the state's trust fund account within the department's unemployment insurance fund to an agency fund at the Department of Administration, contrary to the requirements of §39-51-2207(2), MCA. The IRS requires the Department of Administration to make semiweekly deposits of UI taxes withheld. Taxes withheld for payments made on Wednesday through Friday are to be deposited the following Wednesday and taxes withheld for payments made on Saturday through Tuesday are to be deposited the following Friday. Any time the taxes withheld reach \$100,000, the IRS requires the Department of Administration to deposit all of the taxes withheld the next banking day.

Department personnel told us they thought the Department of Administration remitted taxes withheld to the IRS daily. By not keeping funds withheld from benefit payments in the state's trust fund account within the unemployment insurance fund, we estimate the department lost at least \$5,300 in investment earnings during the 2011 biennium.

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#### **RECOMMENDATION #4**

*We recommend the department work with the Department of Administration to develop a process for remitting income tax withheld on unemployment insurance payments in accordance with §39-51-2207(2), MCA.*

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## **Report to the Legislature**

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**The department did not report demographic information regarding UI benefits applied for and granted to victims of domestic violence, sexual assault, or stalking, as required by state law.**

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Section 39-51-2111(4), MCA, requires the department to provide a report to the legislature, as provided in §5-11-210, MCA, regarding the benefits applied for and granted for victims of domestic violence, sexual assault, and stalking. This statute requires the report to include a summary of the demographics of applicants for, and recipients of, the benefits, average benefits provided, and total cost of benefits provided. The department submits a biennial report to the legislature detailing the number of claimants who apply for UI benefits as victims of domestic violence, sexual assault,

or stalking. The report submitted to the 2011 Legislature detailed, by claim type and state fiscal year, the number of claims allowed, the number of claims denied, and the amount of benefits paid. The report did not provide any information on the demographics, such as age, gender, or race, of applicants for and recipients of these UI benefits, as required by state law.

Department personnel told us the department has not included demographics with the report since inception of the requirement in the 2001 Legislative Session. They believe there are so few cases that it would be possible for people to figure out who was receiving victims benefits if they provided the demographic information. The department reported paying victims benefits of \$44,097 to 32 claimants and denying 18 claimants victims benefits in fiscal year 2009-10.

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**RECOMMENDATION #5**

*We recommend the department report demographic information on applicants for and recipients of UI benefits for victims of domestic violence, sexual assault, or stalking, as required by §39-51-211(4), MCA.*

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## **Unapproved Internal Service Fund Fees**

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**The department charged fees that were not approved by the 2009 Legislature for one of its five internal service funds, contrary to state law.**

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Section 17-7-123(1)(f)(ii), MCA, states, "... Fees and charges in the internal service fund type must be approved by the legislature in the general appropriations act. Fees and charges in a biennium may not exceed the level approved by the legislature in the general appropriations act effective for that biennium." The department has five internal service funds, and the legislature approved fees for four of the funds.

Fees for the fund that accounts for legal services provided to the Workforce Services Division (WSD) were not included in the budget request for consideration by the legislature, so were not included in the general appropriations act approved by the legislature. Department personnel indicated they did not include the WSD legal services fund in the budget proposal because they intended to charge users the actual costs of services.

The law does not make this distinction; an internal service fund's level of revenue must be approved by the legislature. The legislature has approved "Actual Cost" as a fee rate in other instances. Expenses in the legal services fund totaled \$40,121 during the 2011 biennium.

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**RECOMMENDATION #6**

*We recommend the department ensure all internal service fund fees and charges are within the limits approved by the Legislature in accordance with §17-7-123(1)(f)(ii), MCA.*

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## **Schedule of Expenditures of Federal Awards**

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**The department established controls that were not adequate to ensure it appropriately reported grant expenditure and note amounts on its Schedule of Expenditures of Federal Awards (SEFA).**

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In the prior audit, we recommended the department establish internal control procedures to ensure it reports federal American Recovery and Reinvestment Act expenditures on its SEFA in accordance with federal regulations. The department prepared written control procedures, including review of the department's SEFA and related note information. The design of these procedures was not effective in preventing or detecting errors in the SEFA and inconsistencies between the SEFA and related note information.

The department received and expended \$1,394,697 from an American Recovery and Reinvestment Act "Special Transfer for Unemployment Compensation Administration" from the U.S. Department of Labor during fiscal year 2010-11. Due to the manner in which these funds were accounted for on the state's accounting system, the department included the expenditures in SEFA amounts twice. Consequently, the amounts reported for Unemployment Insurance were overstated by a total of \$1,394,697 in fiscal year 2010-11.

The department is required to prepare certain note information related to Unemployment Insurance. The note information, which was prepared by personnel in Unemployment Insurance Division, did not agree to the amounts on the SEFA, which was prepared by personnel in Centralized Services Division. The procedures do not require the reviewer to ensure the note information agrees to the SEFA and to resolve any discrepancies.

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**RECOMMENDATION #7**

*We recommend the department improve its control procedures to ensure it accurately reports expenditures of federal financial assistance on its Schedule of Expenditures of Federal Awards and related note information in accordance with federal regulations.*

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# **Independent Auditor's Report and Department Financial Schedules**

## LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors  
Cindy Jorgenson  
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 Labor & Industry for each of the fiscal years ended June 30, 2011, and 2010. 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 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 provides 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, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Department of Labor & Industry for each of the fiscal years ended June 30, 2011, and 2010, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

*/s/ Cindy Jorgenson*

Cindy Jorgenson, CPA  
Deputy Legislative Auditor

September 2, 2011





DEPARTMENT OF LABOR & INDUSTRY  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund
FUND BALANCE: July 1, 2010	\$ (78,478)	\$ 34,914,697	\$ 155,768	\$ 114,137,562	\$ 379,544	\$ 0	\$ 19,508,010
PROPERTY HELD IN TRUST: July 1, 2010						\$ 85,809	
ADDITIONS							
Budgeted Revenues & Transfers-In	49,577	44,685,065	49,166,743	269,980,977	6,765,580		
Nonbudgeted Revenues & Transfers-In	591	183,308	7,066	7,203	258	479,383	5,314,894
Prior Year Revenues & Transfers-In Adjustments	63	(1,091,398)	(2,357)	2,323,144	1		
Direct Entries to Fund Balance	2,283,374	857,657	5,062	(2,544,410)			
Additions to Property Held in Trust						331,665	
Total Additions	2,333,605	44,634,632	49,176,514	269,766,914	6,765,839	811,048	5,314,894
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	2,337,175	39,699,814	49,074,025	281,290,348	6,311,329		
Nonbudgeted Expenditures & Transfers-Out		349,896		678,012	219,555	357,969	
Prior Year Expenditures & Transfers-Out Adjustments	(28)	122,328	(4,717)	3,103,972	(360)		
Reductions in Property Held in Trust						318,067	
Total Reductions	2,337,147	40,172,038	49,069,308	285,072,332	6,530,524	676,036	0
FUND BALANCE: June 30, 2011	\$ (82,020)	\$ 39,377,291	\$ 262,974	\$ 98,832,144	\$ 614,859	\$ 121,414	\$ 24,822,904
PROPERTY HELD IN TRUST: June 30, 2011						\$ 99,407	

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 LABOR & INDUSTRY  
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	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund
FUND BALANCE: July 1, 2009	\$ (114,496)	\$ 36,097,303	\$ (42,221)	\$ 194,682,414	\$ 413,179	\$ 0	\$ 16,535,306
PROPERTY HELD IN TRUST: July 1, 2009						\$ 62,159	
<b>ADDITIONS</b>							
Budgeted Revenues & Transfers-In	51,803	39,695,359	48,631,565	276,464,897	6,567,984		
Nonbudgeted Revenues & Transfers-In	531	1,116,225	6,360	20,529	337		3,131,704
Prior Year Revenues & Transfers-In Adjustments		(1,682,842)	(17,336)	(127,170)			
Direct Entries to Fund Balance	2,289,886	2,052,125	(98,547)		18,657		
Additions to Property Held in Trust					213,032		
Total Additions	2,342,220	41,180,867	48,522,042	276,358,256	6,586,978	213,032	3,131,704
<b>REDUCTIONS</b>							
Budgeted Expenditures & Transfers-Out	2,311,312	41,976,005	48,359,327	356,856,483	6,354,535		
Nonbudgeted Expenditures & Transfers-Out		314,105	53	158,701	266,092		159,000
Prior Year Expenditures & Transfers-Out Adjustments	(5,110)	73,363	(35,327)	(112,076)	(14)		
Reductions in Property Held in Trust					189,382		
Total Reductions	2,306,202	42,363,473	48,324,053	356,903,108	6,620,613	189,382	159,000
FUND BALANCE: June 30, 2010	\$ (78,478)	\$ 34,914,697	\$ 155,768	\$ 114,137,562	\$ 379,544	\$ 0	\$ 19,508,010
PROPERTY HELD IN TRUST: June 30, 2010						\$ 85,809	

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 LABOR & INDUSTRY  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**TOTAL REVENUES & TRANSFERS-IN BY CLASS**

	General Fund	Slate Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund	Total
Licenses and Permits								
Taxes								
Charges for Services	\$ 591	\$ 13,757,639	\$ 7,067		\$ 415			\$ 13,757,639
Investment Earnings		11,778	5,900		5,182,519			19,851
Fines and Forfeits		2,026,007						7,214,427
Monetary Settlements	49,132	43,219	\$ 596,548	\$ 4,401,275				4,444,494
Sale of Documents, Merchandise and Property		3,068,898		1,121				3,715,699
Rentals, Leases and Royalties		161,117						161,117
Contributions and Premiums		46,517		1,188				47,705
Grants, Contracts, and Donations		49,349						49,349
Transfers-in		20,691,685		138,345,114				159,036,799
Capital Asset Sale Proceeds		(65,231)						5,729,046
Federal Indirect Cost Recoveries		3,948,194	1,583,582		1,550	\$ 479,383	\$ 5,314,894	5,533,326
Miscellaneous	508	35,554			1,581,355			36,062
Federal		2,249		4,771,581				1,581,355
Total Revenues & Transfers-In	50,231	43,776,975	46,978,355	124,791,045	6,765,839	479,383	5,314,894	171,769,400
Less: Nonbudgeted Revenues & Transfers-In	591	183,308	49,171,452	272,311,324	258	479,383	5,314,894	377,870,098
Prior Year Revenues & Transfers-In Adjustments	63	(1,091,398)	7,066	7,203	1			5,992,703
Actual Budgeted Revenues & Transfers-In	49,577	44,685,065	(2,357)	2,323,144	6,765,580	0	0	1,229,453
Estimated Revenues & Transfers-In	102,508	46,872,527	49,166,743	269,980,977	6,742,938	0	0	370,647,942
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (52,931)	\$ (2,187,462)	\$ (10,048,444)	\$ (12,783,844)	\$ 22,642	\$ 0	\$ 0	\$ (25,050,039)

**BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS**

Licenses and Permits	\$ (1,719,070)							\$ (1,719,070)
Taxes								
Charges for Services	(7,915)	\$ (490)		\$ (0)				(8,405)
Investment Earnings	(271,526)	(36,120)		(2,500)	(13,808)			(323,954)
Fines and Forfeits	(338,611)			(13,908,363)				(14,246,974)
Sale of Documents, Merchandise and Property	776,067	55,984		(2,479)				776,704
Rentals, Leases and Royalties	189			(61,913)				(61,724)
Contributions and Premiums	(6,500)							(6,500)
Grants, Contracts, and Donations	(515,740)			33,279,612				32,763,872
Transfers-in	(81,656)							(81,656)
Capital Asset Sale Proceeds	(36,123)	(505,437)						(541,560)
Federal Indirect Cost Recoveries	15,322							15,259
Miscellaneous	(1,899)			1,971,581	36,450			36,450
Federal				(34,059,782)				1,969,682
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (52,931)	\$ (2,187,462)	\$ (9,562,381)	\$ (34,059,782)	\$ 22,642	\$ 0	\$ 0	\$ (43,622,163)
			\$ (10,048,444)	\$ (12,783,844)				\$ (25,050,039)

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

**TOTAL REVENUES & TRANSFERS-IN BY CLASS**

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Total
Licenses and Permits							
Taxes	\$ 531	\$ 12,916,223					\$ 12,916,223
Charges for Services		12,106	\$ 6,352		337		19,326
Investment Earnings		1,947,068	32,200		5,136,456		7,115,724
Fines and Forfeits		41,715					6,940,890
Monetary Settlements	51,803	(250,733)	485,616	\$ 6,899,175			267,200
Sale of Documents, Merchandise and Property		704,292		514			704,292
Rentals, Leases and Royalties		43,972		73,530			117,502
Contributions and Premiums		46,130					46,130
Grants, Contracts, and Donations		19,697,942		90,145,917			109,843,859
Transfers-in		3,884,080				\$ 3,131,704	7,015,784
Capital Asset Sale Proceeds		58,004	188,410				246,414
Federal Indirect Cost Recoveries		27,943			1,431,528		27,943
Miscellaneous				3,263,026			3,263,026
Federal			47,928,011	175,976,094			223,904,105
Total Revenues & Transfers-In	52,334	39,128,742	48,620,589	276,358,256	6,588,321	3,131,704	373,859,946
Less: Nonbudgeted Revenues & Transfers-In	531	1,116,225	6,360	20,529	337	3,131,704	4,275,686
Prior Year Revenues & Transfers-In Adjustments		(1,882,842)	(17,336)	(127,170)			(1,827,348)
Actual Budgeted Revenues & Transfers-In	51,803	39,695,359	48,631,565	276,464,897	6,567,984	0	371,411,608
Estimated Revenues & Transfers-In	108,343	46,320,749	54,797,758	229,381,988	6,368,442		336,977,280
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (56,540)	\$ (6,625,390)	\$ (6,166,193)	\$ 47,082,909	\$ 199,542	\$ 0	\$ 34,434,328

**BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS**

Licenses and Permits							
Taxes		\$ (1,786,910)					\$ (1,786,910)
Charges for Services		(7,915)	\$ (490)				(8,405)
Investment Earnings		(677,024)	8,200	\$ (2,500)	\$ 600,791		(70,533)
Fines and Forfeits		(269,859)		(11,123,790)			(11,393,649)
Sale of Documents, Merchandise and Property	\$ (50,197)	(3,824,044)	(74,384)	(3,390)			(3,952,015)
Rentals, Leases and Royalties		(2,957)		10,430			7,473
Contributions and Premiums		(6,500)					(6,500)
Grants, Contracts, and Donations		48,448		(16,102,265)			(16,053,817)
Transfers-in		406,496					406,496
Capital Asset Sale Proceeds	(6,343)	(56,996)	(11,590)				(68,586)
Federal Indirect Cost Recoveries		4,499					(1,844)
Miscellaneous		(150)		663,026			662,876
Federal		(452,478)	(6,087,929)	73,641,398			67,100,991
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (56,540)	\$ (6,625,390)	\$ (6,166,193)	\$ 47,082,909	\$ 199,542	\$ 0	\$ 34,434,328

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 LABOR & INDUSTRY  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Business Standards Division	Commissioner's Office & Centralized Services Division	Employment Relations Division	Office of Community Services	Unemployment Insurance Division	Workers Compensation Court	Workforce Services Division	Total
Personal Services								
Salaries	\$ 5,907,515	\$ 4,049,839	\$ 5,630,679	\$ 296,984	\$ 7,167,133	\$ 354,343	\$ 12,401,950	\$ 35,808,443
Other Compensation	106,100		9,725	1,450	8,100		2,436	127,811
Employee Benefits	2,204,940	1,266,800	1,991,356	108,458	2,778,075	113,127	4,678,831	13,141,587
Personal Services-Other		8,251						8,251
Total	8,218,555	5,324,890	7,631,760	406,892	9,953,308	467,470	17,083,217	49,086,092
Operating Expenses								
Other Services	1,687,058	793,347	1,367,545	95,847	1,281,893	12,284	1,114,083	6,352,057
Supplies & Materials	630,751	277,556	870,472	43,608	301,703	8,809	703,147	2,836,046
Communications	428,803	117,059	852,959	84,356	1,341,530	10,895	620,875	3,456,478
Travel	420,588	47,827	249,704	38,483	55,631	3,081	464,146	1,279,460
Rent	390,772	285,769	621,859	22,574	389,843	33,764	959,616	2,704,197
Utilities	4,648		7,088		24,759	3,248	125,228	164,971
Repair & Maintenance	96,133	39,405	71,143	1,358	116,395	3,219	342,641	670,294
Other Expenses	2,431,945	799,587	989,873	139,999	1,962,544	53,529	2,192,635	8,570,112
Total	6,090,698	2,360,550	5,030,643	426,225	5,474,298	128,829	6,522,371	26,033,614
Equipment & Intangible Assets								
Equipment	26,839	56,561	13,000				28,795	125,195
Total	26,839	56,561	13,000				28,795	125,195
Grants								
From State Sources	17,040						396,184	413,224
From Federal Sources				3,419,841			18,243,108	21,662,949
Total	17,040			3,419,841			18,639,292	22,076,173
Benefits & Claims								
To Individuals	18,798		1,186,327		282,319,334			283,524,459
From State Sources			94,400					94,400
Insurance Payments			139,079					139,079
Total	18,798		1,419,806		282,319,334			283,757,938
Transfers-out								
Fund transfers	117,325		34,580	72,006	1,583,582		90,324	1,897,817
Mandatory Transfers					188,885		171,335	360,220
Total	117,325		34,580	72,006	1,772,467		261,659	2,258,037
Debt Service								
Capital Leases							2,352	2,352
Total							2,352	2,352
Other Post Employment Benefits								
Other Post Employment Benefits		199,917						199,917
Total		199,917						199,917
Total Expenditures & Transfers-Out	\$ 14,489,255	\$ 7,941,918	\$ 14,129,789	\$ 4,324,964	\$ 299,519,407	\$ 596,299	\$ 42,537,686	\$ 383,539,318

EXPENDITURES & TRANSFERS-OUT BY FUND

General Fund		\$	286,749	\$	1,151,014	\$	123,932		\$	775,452	\$	2,337,147				
State Special Revenue Fund	\$	14,477,725		583,554	11,323,330		260,349	\$	1,629,276	\$	596,299	11,301,505	40,172,038			
Federal Special Revenue Fund		6,425		546,196	702,370		3,940,683		13,448,283			30,425,351	49,069,308			
Enterprise Fund					595,106				284,441,848			35,378	285,072,332			
Internal Service Fund		5,105		6,525,419									6,530,524			
Agency Fund					357,969								357,969			
Total Expenditures & Transfers-Out		14,489,255		7,941,918	14,129,789		4,324,964		299,519,407		596,299	42,537,686	383,539,318			
Less: Nonbudgeted Expenditures & Transfers-Out		92,430		214,450	588,872		69,827		538,933			100,920	1,605,432			
Prior Year Expenditures & Transfers-Out Adjustments		165,277		(360)	3,084		1,217		3,071,630		(702)	(18,951)	3,221,195			
Actual Budgeted Expenditures & Transfers-Out		14,231,548		7,727,828	13,537,833		4,253,920		295,908,844		597,001	42,455,717	378,712,691			
Budget Authority		18,677,368		10,102,603	14,120,539		4,825,194		379,572,196		685,428	55,024,217	483,007,545			
Unspent Budget Authority	\$	4,445,820	\$	2,374,775	\$	582,706	\$	571,274	\$	83,663,352	\$	88,427	\$	12,568,500	\$	104,294,854

UNSPENT BUDGET AUTHORITY BY FUND

General Fund		\$	535	\$	1	\$	1		\$	275,001	\$	275,538				
State Special Revenue Fund	\$	4,433,300	1,606,117		285,703		240,189	\$	2,104,034	\$	88,427	1,356,349	10,114,119			
Federal Special Revenue Fund		12,520	406,615		10,187		331,084		5,270,295			10,911,755	16,942,456			
Enterprise Fund					286,815				76,289,023			25,395	76,601,233			
Internal Service Fund			361,508										361,508			
Unspent Budget Authority	\$	4,445,820	\$	2,374,775	\$	582,706	\$	571,274	\$	83,663,352	\$	88,427	\$	12,568,500	\$	104,294,854

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

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Business Standards Division	Commissioner's Office & Centralized Services Division	Employment Relations Division	Office of Community Services	Unemployment Insurance Division	Workers Compensation Court	Workforce Services Division	Total
Personal Services								
Salaries	\$ 5,854,609	\$ 4,025,467	\$ 5,700,791	\$ 318,598	\$ 6,740,311	\$ 363,645	\$ 12,910,674	\$ 35,914,095
Other Compensation	106,850		7,275	825	7,350		4,146	126,446
Employee Benefits	2,098,314	1,175,172	1,906,723	105,297	2,437,725	111,539	4,685,959	12,520,729
Personal Services-Other		46,144						46,144
Total	8,059,773	5,246,783	7,614,789	424,720	9,185,386	475,184	17,600,779	48,607,414
Operating Expenses								
Other Services	1,855,642	860,413	1,633,711	86,992	1,430,117	23,992	1,083,515	6,974,382
Supplies & Materials	470,809	322,611	396,456	36,386	357,874	24,612	1,156,777	2,765,525
Communications	448,959	123,896	749,206	51,853	1,465,769	11,870	647,206	3,498,759
Travel	523,105	55,958	249,044	57,885	85,718	11,633	435,669	1,419,012
Rent	392,422	284,303	622,694	22,373	345,776	32,060	975,113	2,674,741
Utilities	4,400		6,921		21,196	3,166	121,252	156,935
Repair & Maintenance	91,880	93,132	54,358	1,173	39,797	5,742	565,713	851,795
Other Expenses	2,404,277	831,906	1,092,303	82,677	1,319,951	52,403	2,236,575	8,020,092
Total	6,191,494	2,572,219	4,804,693	339,339	5,066,198	165,478	7,221,820	26,361,241
Equipment & Intangible Assets								
Equipment	223,973	30,054					46,670	300,697
Total	223,973	30,054					46,670	300,697
Grants								
From State Sources	15,136						348,874	364,010
From Federal Sources				3,038,388			15,150,729	18,189,117
Total	15,136			3,038,388			15,499,603	18,553,127
Benefits & Claims								
To Individuals	4,484		1,368,901		356,159,935			357,533,320
From State Sources			103,150					103,150
From Other Sources			159,000					159,000
Insurance Payments			143,343					143,343
Total	4,484		1,774,394		356,159,935			357,938,813
Transfers-out								
Fund transfers	8,272		58,004	80,039	188,410		4,039,844	4,374,569
Mandatory Transfers					186,358		171,868	358,226
Total	8,272		58,004	80,039	374,768		4,211,712	4,732,795
Debt Service								
Capital Leases					3,775			3,775
Total					3,775			3,775
Other Post Employment Benefits								
Other Post Employment Benefits		178,587						178,587
Total		178,587						178,587
Total Expenditures & Transfers-Out	\$ 14,503,132	\$ 8,027,643	\$ 14,251,880	\$ 3,882,486	\$ 370,790,062	\$ 640,662	\$ 44,580,584	\$ 456,676,449
EXPENDITURES & TRANSFERS-OUT BY FUND								
General Fund		\$ 260,002	\$ 1,164,667	\$ 118,094		\$ 763,439	\$ 2,306,202	
State Special Revenue Fund	\$ 14,479,911	619,982	11,713,700	301,081	\$ 3,429,691	640,662	11,178,446	42,363,473
Federal Special Revenue Fund	17,758	532,509	712,274	3,463,311	10,996,667		32,601,534	48,324,053
Enterprise Fund			502,239		356,363,704		37,165	356,903,108
Internal Service Fund	5,463	6,615,150						6,620,613
Private Purpose Trust Fund			159,000					159,000
Total Expenditures & Transfers-Out	14,503,132	8,027,643	14,251,880	3,882,486	370,790,062	640,662	44,580,584	456,676,449
Less: Nonbudgeted Expenditures & Transfers-Out	(148,357)	260,629	487,059	9,661	15,358		273,601	897,951
Prior Year Expenditures & Transfers-Out Adjustments	13,493	490	(41,749)	30,027	(110,908)	401	29,082	(79,164)
Actual Budgeted Expenditures & Transfers-Out	14,637,996	7,766,524	13,806,570	3,842,798	370,885,612	640,261	44,277,901	455,857,662
Budget Authority	19,347,509	10,532,686	14,862,508	4,127,946	469,651,055	682,037	62,069,712	581,273,453
Unspent Budget Authority	\$ 4,709,513	\$ 2,766,162	\$ 1,055,938	\$ 285,148	\$ 98,765,443	\$ 41,776	\$ 17,791,811	\$ 125,415,791
UNSPENT BUDGET AUTHORITY BY FUND								
General Fund		\$ 7,766	\$ 888	\$ 309		\$ 276,495	\$ 285,458	
State Special Revenue Fund	\$ 4,702,661	1,038,225	684,752	64,036	\$ 459	41,776	2,774,910	9,306,819
Federal Special Revenue Fund	6,852	1,293,698	31,202	220,803	6,341,617		14,716,938	22,611,110
Enterprise Fund			339,096		92,423,367		23,468	92,785,931
Internal Service Fund		426,473						426,473
Unspent Budget Authority	\$ 4,709,513	\$ 2,766,162	\$ 1,055,938	\$ 285,148	\$ 98,765,443	\$ 41,776	\$ 17,791,811	\$ 125,415,791

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.

# Montana Department of Labor and Industry

## Notes to the Financial Schedules

### For the Two Fiscal Years Ended June 30, 2011

## **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, and Federal Special Revenue) 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 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 was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The 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 various professional and occupational licensing boards, contracts from Public Health and Human Services, Employment Security Account, Subsequent Injury Administration, Building Codes, Weights and Measures, Workers' Compensation Regulation, Uninsured Employers, and Cashed Plan I and II Securities.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include the Workforce Investment Act, Employment Services, and Unemployment Insurance Administrative Funds.

## Proprietary Fund Category

- ♦ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. Department Internal Service Funds include funds to accumulate and distribute costs. These include the Commissioner's Office and Centralized Services Division, Workforce Services Division Legal Services, the Office of Information Technology, Business Standards Division Legal Services, and Business Standards Division Hearings accounts.
- ♦ **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 the Subsequent Injury Fund and the Unemployment Insurance (UI) Fund. The June 30, 2011, UI fund balance was \$100,700,221. The fund balance included \$96,401,155 in cash held by the United States Treasury.

## Fiduciary Fund Category

- ♦ **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 are the Workers' Compensation Plan I and II Securities Funds.

- ♦ **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's agency fund is the Wage Collection Fund.

## **2. General Fund Balance**

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2010 and June 30, 2011.

## **3. Direct Entries to Fund Balance**

Direct entries to fund balances in the General and State Special Revenue funds for both fiscal years include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. Direct entries to fund balances in the General, State Special Revenue, and Federal Special Revenue funds for both fiscal years, the Enterprise Fund for fiscal year 2010-11, and the Internal Service Fund for fiscal year 2009-10 also include correction of errors from a previous period that occurred at least two fiscal years prior and entries to record or adjust fund balance classifications.

## **4. Unemployment Insurance**

As shown in the following table, Unemployment Insurance Benefits and Claims expenses reached \$356,159,935 during fiscal year 2009-10 due to the weak economy. Benefits and Claims expenses decreased in fiscal year 2010-11 as unemployed workers' benefits expired or they returned to work. Unspent Budget Authority of \$53,605,693 and \$67,268,604 in fiscal years 2009-10 and 2010-11, respectively, in the Unemployment Insurance Enterprise Fund came from continuing budget authority for Unemployment Insurance benefits funded by the federal government under the American Recovery and Reinvestment Act.

The federal government funded a portion of the Benefits and Claims expenses incurred through increased weekly benefit amounts, emergency benefits, and extended benefit periods. As shown in the following table, Federal revenue in the department's Enterprise Fund decreased between fiscal years 2009-10 and 2010-11 as the \$25 per week federal additional compensation and extended benefit periods expired. When revenue estimates were established for the 2011 biennium, Federal revenue was

expected to increase between fiscal years 2009-10 and 2010-11. As a result, Federal revenue collected was over the fiscal year 2009-10 estimate and under the fiscal year 2010-11 estimate.

Because more Benefits and Claims expenses were paid than were reimbursed from the federal government or funded through Contributions and Premiums, the assets available for investment in the Unemployment Trust Fund decreased. As shown in the following table, this decrease in trust fund assets, in combination with lower interest rates, resulted in decreases in Investment Earnings between fiscal years 2009-10 and 2010-11. When revenue estimates were established, asset levels and interest rates were expected to be higher than they were. As a result, revenue collections were significantly under estimated for the 2011 biennium.

Section 39-51-1217(1), MCA, requires Contribution and Premium rates be established at the beginning of each calendar year based on the ratio of the trust fund balance as of October 31 prior to the rate year to total wages in covered employment for the 12-month period ending June 30 prior to the computation date. Because of the decreases in the trust fund balance resulting from increased Benefit and Claims expenses, Contribution and Premium rates increased in accordance with the rate schedules in §39-51-1218, MCA, from Schedule I to Schedule V on January 1, 2010, and from Schedule V to Schedule VII on January 1, 2011. This resulted in increased Contributions and Premiums, as shown in the following table. Revenue estimates for Contributions and Premiums were based on the rate schedule projected to be in place for the biennium. Because the first rate schedule increase impacted one quarter of collections during fiscal year 2009-10, collections were less than estimated that fiscal year. Because a second rate increase went into effect in fiscal year 2010-11, collections exceeded estimates that fiscal year.

Account in the Unemployment Insurance Division Program/Enterprise Fund	Fiscal Year 2009-10	Fiscal Year 2010-11	Increase (Decrease)	Percentage Increase (Decrease)
Benefits and Claims Paid to Individuals	\$356,159,935	\$282,319,334	(\$73,840,601)	(20.73%)
Federal Revenue	\$175,976,094	\$124,791,045	(\$51,185,049)	(29.09%)
Investment Earnings	\$ 6,899,175	\$4,401,275	(\$2,497,900)	(36.21%)
Contributions and Premiums	\$90,145,917	\$138,345,114	\$48,199,197	53.47%

DEPARTMENT OF  
LABOR AND INDUSTRY

DEPARTMENT RESPONSE



Governor Brian Schweitzer

October 14, 2011

**Montana**  
**Department of Labor and Industry**  
**Centralized Services Division**

B-1

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OCT 17 2011

LEGISLATIVE AUDIT DIV.

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

**Subject: Financial Compliance Audit #11-15: Department of Labor and Industry**

Dear Ms. Hunthausen:

The Department of Labor and Industry has reviewed the October 2011 Financial Compliance Audit for the two fiscal years ending June 30, 2011. The Department would like to thank your audit staff for their review. As a Department we are always looking for way to improve and appreciate their efforts to help assure we are providing quality services with the best accountability possible. Our responses to the recommendations appear below:

**Recommendation #1**

**We recommend the department follow its established control procedures to ensure:**

- A. Workforce Investment Act subrecipients comply with federal audit requirements**
- B. The department issues a management decision letter within six months of receiving a subrecipient audit report.**

**Response:**

- A. Concur.** Workforce Services has hired a new accounting technician to help with workload which allows the Fiscal Officer to complete the audit within 9 months.
- B. Concur.** Workforce Services Division has implemented a process to track when audit reports are completed and received. This process was initiated in SFY 2011.

**Recommendation #2**

**We recommend the department obtain new electronic identification code information when the personnel entering data for or certifying approval of Workforce Investment Act reports change, to comply with federal requirements.**

**Response:**

**Concur.** The department has implemented a procedure to update electronic code information when there is a change in the personnel who are entering or certifying Workforce Investment Act reports. This procedure was implemented in FY2011.

**Recommendation #3**

**We recommend the department use excess cash in the Unemployment Insurance benefit account, or return it to the state's account in the Unemployment Trust Fund, after the period for which it was drawn expires, in compliance with §39-51-403(4), MCA.**

**Response:**

**Concur.** This issue is resolved. The department has implemented a process by which daily cash draws are immediately reduced to eliminate any excess cash in the benefit account.

**Recommendation #4**

**We recommend the department work with the Department of Administration to develop a process for remitting income tax withheld on unemployment insurance payments in accordance with §39-51-2207(2), MCA.**

**Response:**

**Concur.** The department has consulted with the Department of Administration and the U.S. Department of Labor to determine the best possible process for compliance with federal and state regulations. This will be resolved by March 31, 2012.

**Recommendation #5**

**We recommend the department report demographic information on applicants for an recipients of UI benefits for victims of domestic violence, sexual assault, or stalking, as required by §39-51-2111(4), MCA.**

**Response:**

**Concur.** The department is currently working with legal counsel to determine what type of demographic information can safely be provided while still protecting the identities of the victims involved. The next report due (September 2012) will have demographics to comply with the law.

**Recommendation #6**

**We recommend the department ensure all internal service fund fees and charges are within the limits approved by the Legislature in accordance with §17-7-123(1)(f)(ii), MCA.**



**Response:**

**Concur.** A review will be completed prior to each legislative session to ensure that rates have been submitted for all internal service funds. Review of internal service fund rates has been added to the department's budget submission checklist for upcoming biennia.

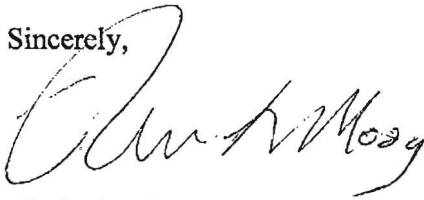
**Recommendation #7**

**We recommend the department improve its control procedures to ensure it accurately reports expenditures of federal financial assistance on its Schedule of Expenditures of Federal Awards and Related note information in accordance with federal regulations.**

**Response:**

**Concur.** The department has revised preparation procedures for the Schedule of Expenditures of Federal Awards to include steps to reconcile any footnotes to the schedule itself. Additional steps have also been added to the review process to ensure that transfer accounts are only recorded once on the Schedule. The department has also instituted a fund review process that will incorporate SEFA reporting and will be reviewed on an annual basis. Updated procedure is in effect for SFY2012.

Sincerely,



Kimberly Moog  
Centralized Services Division Administrator  
Department of Labor and Industry

CC. Keith Kelly, Commissioner  
Encl.