



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Administration

*For the Two Fiscal Years Ended
June 30, 2012*

OCTOBER 2012

LEGISLATIVE AUDIT
DIVISION

12-13

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether 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, 2011, was issued March 29, 2012. The Single Audit Report for the two fiscal years ended June 30, 2013, will be issued by March 31, 2014. Copies of the Single Audit Report can be obtained by contacting:

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October 2012

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Administration for fiscal years 2010-11 and 2011-12. As part of our audit, we analyzed the financial schedules, examined underlying transactions, and tested the department's compliance with selected laws and regulations. As required by §17-8-101(6), MCA, this report includes the results of our analysis regarding fees commensurate with costs and fund equity balances for the department's Internal Service Funds. This report contains eight recommendations related to loss of interest from the state's General Fund, improper abatement of revenue and expenditure activity, compliance with state law and state accounting policy, and internal control deficiencies related to expenditure transactions.

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

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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, State Information Technology Services Division

Melanie Hall, Commissioner, Banking and Financial Institutions Division

Brett Dahl, Administrator, Risk Management and Tort Defense Division

Angela Wong, Director, Montana State Lottery

Paula Stoll, Administrator, State Human Resources Division

Karen Powell, Chair, State Tax Appeal Board

The Public Employees' Retirement Administration, the Teachers' Retirement System, the Office of the State Public Defender, and the Montana State Fund, which are administratively attached to the department, are audited separately and financial information is not included in the department's financial schedules.

For additional information concerning the Department of Administration, contact:

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Department of Administration

For the Two Fiscal Years Ended June 30, 2012

OCTOBER 2012

12-13

REPORT SUMMARY

The Department of Administration (department) is the administering agency (or owner) of the state's General Fund. In combination, state law and state accounting policy permitted the use of earmarked State Special Revenue Fund dollars for purposes other than they were intended, and negative cash balances associated with this activity resulted in a loss of General Fund interest earnings exceeding \$145,000 for the two years under audit. In addition, the department avoided a fees commensurate with costs issue by moving \$1.4 million in revenues from its Rent & Maintenance Internal Service Fund to a State Special Revenue Fund account.

Context

The department employs over 500 people and is responsible for providing the following services crucial 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 and maintenance, construction and remodeling of state buildings, personnel management, purchasing, statewide leasing, and surplus property administration. The department accounts for activity in nearly every fund type applicable to state government. Over half of the department's revenue and expenditure activity is derived from functions accounted for in the department's Internal Service and Enterprise funds.

In fiscal years 2010-11 and 2011-12, the department received revenues from Internal Service Fund operations of approximately \$235.7 million and \$241.1 million, respectively. We reviewed the fund equity balances and fees charged for each Internal Service Fund as required by §17-8-101(6), MCA.

The department's Architecture and Engineering Division (A&E) administers the state's Long

Range Building program. Excluding transfers activity, A&E incurred \$48 million and \$20 million in construction related expenditures in fiscal years 2010-11 and 2011-12, respectively

Annually, the department receives federal monies related to harvest of timber on national forests within the boundaries of the state. These monies are distributed to counties in which the national forest lands are located and are to be used for the benefit of public schools and public roads. In fiscal years 2010-11 and 2011-12, the department received and distributed approximately \$23.3 million and \$20.4 million, respectively, under this program.

Results

Our report contains eight recommendations related to loss of interest from the state's General Fund, improper abatement of revenue and expenditure activity, compliance with state law and state accounting policy, and internal control deficiencies related to expenditure transactions.

Our audit identified lost General Fund interest in certain State Special Revenue Fund (SSRF) accounts where investment

(continued on back)

balances were not liquidated when cash balances were negative. We estimate the loss of interest to the General Fund exceeds \$145,000 in total for the two years under audit.

The department improperly abated \$1.4 million in revenues from the Rent & Maintenance Internal Service Fund and recorded them in a newly created SSRF account.

The department develops accounting policy used by all state agencies. Our audit identified instances where the department is not following the policy it developed.

Our prior audit report for the two fiscal years ended June 30, 2010, contained six recommendations. The department implemented four and partially implemented two recommendations. The recommendations not implemented relate to fees commensurate with costs and accounting for major maintenance projects on the capitol complex, and internal controls over federal Davis Bacon requirements.

Recommendation Concurrence	
Concur	8
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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Chapter I – Introduction

Introduction

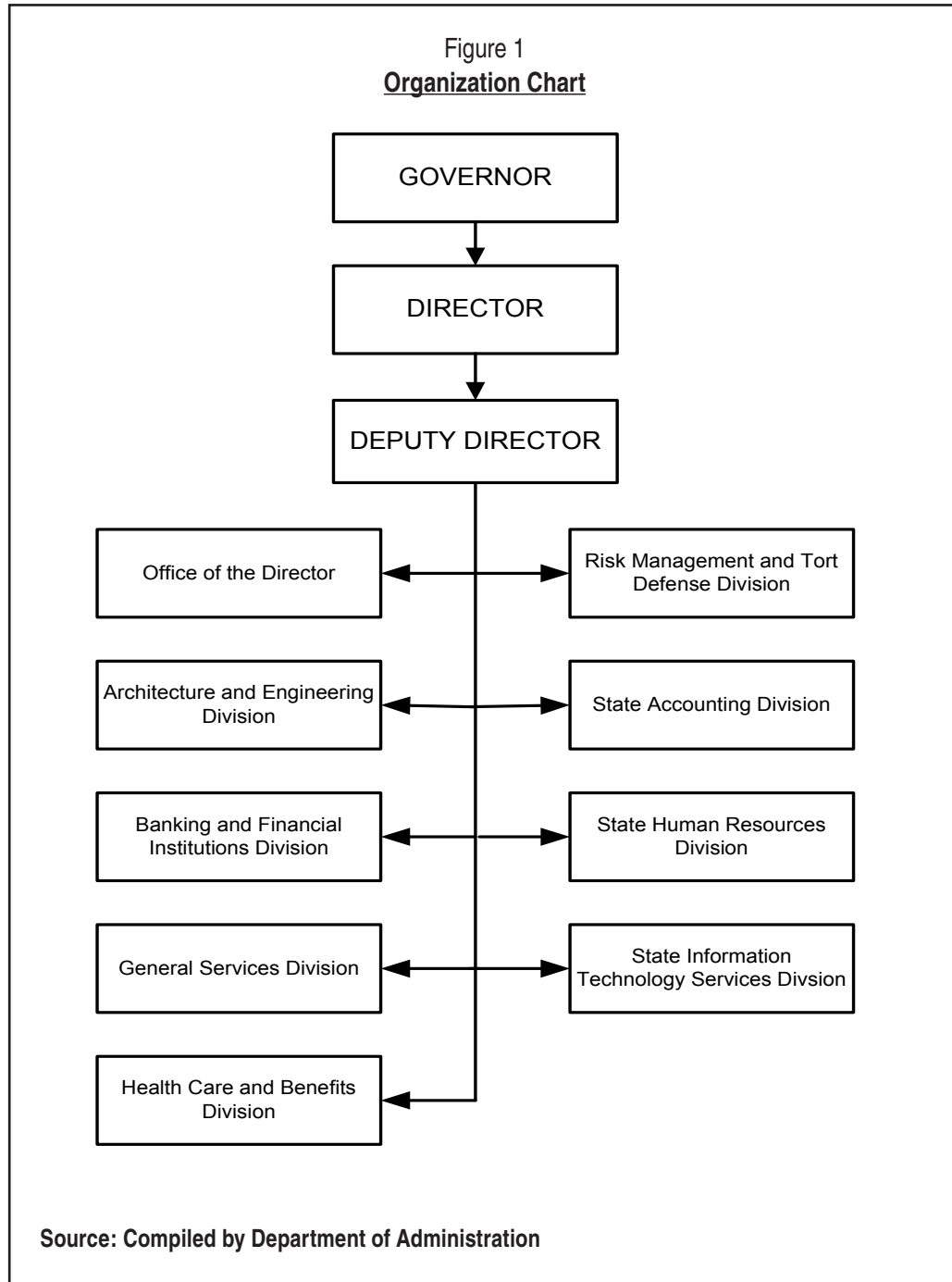
We performed a financial-compliance audit of the Department of Administration (department) for the two fiscal years ended June 30, 2012. The objectives of the audit were to:

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 control 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 each of the two fiscal years ended June 30, 2012.

This report contains eight recommendations to the department. In accordance with §5-13-307(2), MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report.

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, construction and remodeling of state buildings, personnel management, purchasing, statewide leasing, and surplus property administration. In addition to the Director's office program, the department is organized into eight divisions as outlined in Figure 1 on the next page. The Montana State Lottery and State Tax Appeal Board are also administratively attached to the department.



The following paragraphs describe the department's primary functions and list the authorized full-time equivalent (FTE) positions for fiscal year 2011-12.

Office of the Director (20.51 FTE)—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 (47.00 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 treasury function for state agencies and administers the social security program.

Architecture and Engineering Division (17.00 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 (37.00 FTE)—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 (95.10 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 (22.87 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.

State Information Technology Services Division (185.00 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 (31.50 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 performs biennial audits of lottery security (10DP-06). The Lottery Commission is allocated to the department for administrative purposes only. Financial activity of the Montana State Lottery is audited annually by the Legislative Audit Division (10-30B, 12-30).

Risk Management and Tort Defense (17.00 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 (44.50 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 resources module within the Statewide Accounting, Budgeting, and Human Resources System (SABHRS), supplying payroll and other human resource information systems for state government.

State Tax Appeal Board (7.50 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.

Internal Service Funds

In accordance with §17-8-101(6), MCA, we reviewed the fees charged and the fund equity of the department's Internal Service Funds. We considered fees commensurate with costs if working capital did not exceed 60 days of expenditure activity for the fund. For those Internal Service Funds not authorized to maintain reserves, we considered fund balance reasonable if the balance after excluding nonspendable assets was less than 60 days of expenditure activity for the fund or if the balance was negative to the extent of long-term liabilities.

The following table summarizes the department's Internal Service Funds.

Table 1 Internal Service Funds and Descriptions	
SITSD Proprietary - Manages information technology services for state government such as central mainframe computer processing, local and long-distance telephone networking, and electronic government planning and coordination.	
Intergovernmental Training - Provides a variety of training products and facilitation services to state agencies.	
Rent & Maintenance - Provides maintenance, security, and custodial services for buildings in the state Capitol area.	
Print & Mail Services - Provides staff to operate a centralized mailing operation and services for printing and administration of a photocopy pool.	
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.	
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.	
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.	
Group Benefits & Claims - Provides state employees, retirees, and their dependents with adequate medical, dental, prescription drug, life insurance, and other related group benefits.	
HR Info Services - Provides services for the human resources portion of SABHRS and for preparation and distribution of payroll and associated withholding and deductions of state employees.	
Warrant Writing - Provides the warrant writer program to most state agencies for check writing and automatic deposit capabilities.	
SABHRS - Provides services for the financial and budgeting portion of the Statewide Accounting, Budgeting, and Human Resources System.	
Workers' Compensation Management - Provides a way to manage and reduce the state's workers' compensation injuries and premiums.	
Source: Compiled by the Legislative Audit Division	

During the audit, we noted the department's awareness of the requirements related to Internal Service Funds. The department is actively managing its Internal Service Funds in an effort to comply with those requirements. Therefore, we make no recommendation to the department at this time. In fiscal year 2010-11, fees were not commensurate with costs or fund equity was not reasonable in the Rent & Maintenance, Central Stores, SABHRS, and Workers' Compensation Management Internal Service Funds. Additional information regarding Internal Service Funds where fund equity is not reasonable or fees are not commensurate with costs, for fiscal year 2011-12 is provided below:

- ♦ **Rent & Maintenance** – In an effort to reduce excess fund balance from prior years, the department did not bill state agencies for December 2011

and January 2012 rent. As a result, expenditures exceeded revenues by approximately \$3.8 million in fiscal year 2011-12.

- ♦ **Central Stores** – Fees are not commensurate with costs because working capital exceeded the limit by \$289,298.
- ♦ **Agency Insurance** – Section 2-9-202, MCA, permits the department to charge amounts over the actual cost of the deductible insurance cost to accumulate reserve funds. At June 30, 2011, the Agency Insurance reserve funds exceeded \$26 million. In fiscal year 2011-12, the fund experienced unusually high expenditures related to the WR Grace asbestos settlement (\$26.8 million) and hail damage claims (\$4 million), which resulted in expenditures exceeding revenues by \$29.5 million. At June 30, 2012, the Agency Insurance Internal Service Fund utilized its reserve funds and reported negative \$16 million in fund balance. The fund's negative fund balance was approximately \$242,000 in excess of its long-term liabilities, indicating the department may not be able to meet its current obligations for the Agency Insurance Fund.
- ♦ **Warrant Writing** – Ending fund balance is negative \$9,521 in excess of the balance of the fund's long-term liabilities. Prior to fiscal year-end, the department noticed the fund was on track to exceed the allowable working capital limit and responded by not billing in June and also by issuing approximately \$82,000 in refunds for services previously provided. While this is evidence the department is actively managing this Internal Service Fund, the lack of revenue resulted in negative fund balance at fiscal year-end 2011-12, indicating the department may not be able to meet its current obligations for the Warrant Writing Fund.
- ♦ **Workers' Compensation Management** – This Internal Service Fund was new in fiscal year 2009-10. Because in the year of inception the fund's revenues exceeded expenditures by \$48,000, we recommended in the prior audit report that the department adjust rates to ensure compliance with the fees commensurate with costs requirement in state law. In fiscal year 2011-12, the department did not collect fees for two quarters, which resulted in expenditures exceeding revenues by approximately \$108,000. In addition, the June 30, 2012, fund balance is negative approximately \$6,600 in excess of long-term liabilities, indicating the department may not be able to meet its current obligations for the Workers' Compensation Management Fund.

Prior Audit Recommendations

The prior audit report for the two fiscal years ended June 30, 2010, and contained six recommendations to the department. The department implemented four and partially implemented two recommendations. The recommendations not fully implemented relate to fees commensurate with costs (see Workers' Compensation Management on page 6), accounting for major maintenance projects on the capitol complex (discussed on page 11), and internal controls for construction projects funded with federal awards further discussed below.

In our prior audit report, we recommended the department implement procedures, for applicable federally funded construction projects, to ensure certified weekly payrolls are received prior to paying contractors, and to provide grant recipient agencies with certified weekly payrolls to allow analysis for proper wage payment. The department addressed this recommendation for new federal grants awarded after July 1, 2011. However, the department did not modify its procedures for existing contracts that were awarded before July 1, 2011, and still active for fiscal year 2012. Because the new procedures were not applied to awards during fiscal year 2010-11, over \$11 million in contractor payments of federal funds were made without review for Davis Bacon requirements. We make no further recommendation to the department at this time.

Chapter II – Findings and Recommendations

Lost General Fund Interest

The General Fund lost more than \$145,000 in interest earnings due to negative cash balances in various accounts.

Certain State Special Revenue Fund (SSRF) accounts are statutorily allowed to invest monies collected within the account and retain the associated investment earnings. For these accounts, monies are generally invested in the Short-Term Investment Pool (STIP) managed by the Montana Board of Investments (BOI). Monies not invested in STIP are typically held as cash within the state treasury. Treasury cash balances are pooled at the state-wide level and invested by BOI, at the direction of the Department of Administration (department). Per §17-6-202(2), MCA, the General Fund receives investment income on pooled treasury cash, which includes funds related to SSRF accounts not permitted to retain investment earnings.

When an individual account's cash is negative, the funds available for investment on behalf of the General Fund are reduced. Neither state law nor state accounting policy require agencies to liquidate investments when the account's cash is negative during the fiscal year.

During the audit, we identified various SSRF accounts that held STIP investments, therefore accruing interest earnings, while also reporting negative cash balances. Our analysis was conducted for balances as of May 31, 2011, for fiscal year 2010-11, and as of April 30, 2012, for fiscal year 2011-12. We identified 13 SSRF accounts with STIP balances that also had more than \$1 million in negative cash balances as of those dates. For those 13 accounts, we analyzed STIP and cash balances for the entire fiscal year and calculated lost interest using the published Treasurer's Fund rate of return. Based on our review of cash and STIP balances for these 13 accounts throughout the fiscal year, we estimate lost interest to the General Fund to exceed \$85,000 in fiscal year 2010-11, and \$59,000 in fiscal year 2011-12. The results of our audit work are summarized in Table 2.

Table 2
**Cash and STIP Balances for State Special Revenue Fund Accounts
 With Negative Cash in Excess of \$1 Million**

State Special Revenue Fund Account	Fiscal Year 2010-11			Fiscal Year 2011-12		
	Balances at May 31, 2011			Balances at April 30, 2012		
	Cash	STIP	Estimated Lost GF Interest	Cash	STIP	Estimated Lost GF Interest
Department of Natural Resources & Conservation						
Fort Belknap Peoples Creek	\$ (1,003,965)	\$1,003,965	\$280	*	*	
Treasure State Endowment	(3,932,095)	2,859,611	2,885	\$(4,996,724)	\$435,875	\$836
Oil & Gas ERA	(1,005,901)	15,191,463	1,166	(1,723,540)	3,403,726	2,234
Coal Bed Methane	(1,307,134)	10,296,521	1,772	*	*	
GO 2003E DW WRF COI	*	*		(1,346,063)	7,720,222	482
Department of Environmental Quality						
Petroleum Storage Tank Cleanup	(5,683,307)	700,000	1,966	(5,307,365)	\$1,225,000	2,438
Orphan Share Fund	(3,173,719)	11,525,000	5,137	(2,644,973)	8,520,000	3,890
Hard Rock Mining Reclamation	(1,296,867)	7,832,352	1,802	*	*	
Department of Fish, Wildlife & Parks						
Hunting Access	*	*		(4,297,113)	4,957	77
Department of Public Health & Human Services						
Healthy Montana Kids	(7,381,811)	21,380,039	10,635	(5,223,354)	13,311,237	7,495
Tobacco Health and Medicaid Initiative	(34,204,646)	55,043,670	60,347	(31,154,059)	36,398,634	41,932
Total			\$85,990			\$59,384

*Did not meet criteria for review

Source: Compiled by the Legislative Audit Division

Department personnel cited lack of specific criteria in state law that would require liquidation of investment balances at the individual account level when the cash in those accounts becomes negative, unless the situation arises at the end of the fiscal year. At fiscal year-end, state accounting policy requires agencies to liquidate STIP balances in the fund before the department will approve an inter-entity loan.

RECOMMENDATION #1

We recommend the department seek clarification in statute, or address through state accounting policy, to require investments be liquidated in individual accounts when cash in the account is negative.

Proper Revenue and Expenditure Recognition

Revenue and expenditure abatement transactions reduce the specific revenue or expenditure activity in the state's accounting records. State accounting policy defines revenue and expenditure abatements as nonrecurring and nonroutine in nature. In addition, state accounting policy provides for revenue and expenditure abatements only in limited situations, such as reimbursement for overpayment and correction of errors. The following two sections describe how the department can improve compliance with state accounting policy related to revenue and expenditure recognition and abatement.

Improper Revenue Abatement

In fiscal year 2010-11, the department abated approximately \$1.4 million from the Rent & Maintenance Internal Service Fund without authorization and in violation of state accounting policy.

In combination, Chapter 302 of the 2007 Legislative Session laws (House Bill 4) and Chapter 457 of the 2009 Legislative Session (House Bill 5) provided the Long Range Building Program (LRBP) with approximately \$6.5 million in spending authority from Internal Service Funds within the General Services Division, to be used to perform major repairs and maintenance within the state capitol complex. To generate the funds necessary to complete these projects, the Rent & Maintenance Internal Service Fund (ISF) began charging the General Fund rent related to the common areas of the Capitol Complex. Due to the length of time necessary to complete major renovation and constructions projects, not all fees were spent in the same year as they were collected, causing excess working capital and fees not commensurate with costs for the Rent & Maintenance ISF in fiscal year 2009-10. The prior audit report contained a recommendation related to this issue.

Throughout fiscal year 2010-11, the department continued to recover fees in advance of expenditures and record the revenues in the Rent & Maintenance ISF. However, near the end of the fiscal year, the department abated approximately \$1.4 million in Rent & Maintenance ISF revenues associated with these General Fund collections,

recording them instead in a state special revenue account created for that purpose. In doing so, the department avoided a fees commensurate with costs issue. Rent payments made by the General Fund for major maintenance projects on the capitol complex do not fall within any of the permissible abatement situations; therefore, the revenue abatement was recorded contrary to guidance in state accounting policy. As a result, the State Special Revenue Fund and Rent & Maintenance ISF balances are misstated, as summarized in the following table.

Table 3 Summary of Accounting Errors for Fiscal Year 2010-11 Rent & Maintenance		
	State Special Revenue Fund	Internal Service Fund
Rent Revenues	Overstated by \$1.4 Million	Understated by \$1.4 million
Fund Balance	Overstated by \$1.4 million	Understated by \$1.4 million
Source: Compiled by Legislative Audit Division		

Chapter 363 of the 2011 Legislative Session laws (House Bill 2) specify for fiscal years 2011-12 and 2012-13 that \$2.4 million of revenues collected through the Rent & Maintenance ISF fees be deposited into a state special revenue account appropriated for major maintenance projects on the capitol complex. As a result, for fiscal year 2011-12 the department recorded all General Fund rent collections for common spaces in the State Special Revenue Fund rather than in the Rent & Maintenance ISF. Because of the authority provided in Chapter 363, we take no exception to the activity recorded in fiscal year 2011-12.

Department personnel indicated they believe the purpose of the Rent & Maintenance ISF is to accumulate money to cover expenses incurred for the normal upkeep and maintenance of facilities. They do not believe the fund was intended to accumulate money to pay for the costs of major maintenance projects. Because of this, they believe the additional General Fund revenues collected in fiscal years 2009-10 and 2010-11 did not belong in the Rent & Maintenance ISF to begin with. However, the department did not have the authority to record those revenues in the State Special Revenue Fund.

RECOMMENDATION #2

We recommend that the department record all revenue collected for major maintenance projects in the Rent and Maintenance Internal Service Fund, unless otherwise authorized by the legislature.

Risk Management & Tort Defense Division Expenditures

Risk Management & Tort Defense Division's accounting records do not properly reflect revenue and expenditure activity related to provisions for special insurance policies.

Risk Management & Tort Defense Division (RMTD) administers a comprehensive insurance plan on behalf of state government, as authorized by §2-9-201, MCA. RMTD works with agencies during the budgeting process to identify insurance needs for each fiscal year, and purchases various policies to provide coverage for state agencies and the Montana University System. For these standard policies, RMTD bills agencies annually for the insurance coverage received throughout the fiscal year. Periodically a state entity requires additional insurance. While RMTD is authorized to purchase additional policies, we identified issues with how the department records the activity on the state's accounting system, as discussed in further detail below.

When additional insurance coverage is needed, the receiving agency is given the option to either pay the cost in the current year or have the cost calculated into future year's bills. When an agency chooses to pay the cost of the policy in the current year, RMTD abates the expenditure and the receiving entity records the expenditure on the state's accounting records. Agency personnel indicated there were no additional policies for the audit period where agencies chose to have the cost included in billing for future years. However, in fiscal years 2010-11 and 2011-12, RMTD abated \$133,850 and \$170,287 in expenditures, respectively, for costs paid directly by the receiving agency. This accounting treatment applied for the audit period resulted in insurance costs recorded in funds other than RMTD's Internal Service Fund. This is contrary to state accounting policy, which prohibits expenditure abatements from being used for expected reimbursements, instead requiring that "both the expenditure and the reimbursement (as a revenue) should be included in the budget."

Division personnel indicated the accounting treatment is driven by the rates approved in House Bill 2, and they give agencies a choice in the timing of reimbursement because the need for additional insurance coverage was not known at the time the House Bill 2 rates were established. However, the legislative process does not govern accounting treatment. As part of the rate setting process, the department could seek authority to collect the actual cost of special purpose policies purchased on behalf of agencies when the need arises.

RECOMMENDATION #3

We recommend the department:

- A. *Comply with state accounting policy by recording revenues for special purpose insurance policies in its Internal Service Fund in the year in which the policy is provided.*
 - B. *Seek authorization to collect the actual cost of special purpose insurance coverage when the need for additional insurance coverage arises.*
-

911 Program Expenditure Classification

Unclear control processes within State Information Technology Services Division (SITSD) resulted in misclassification of 911 program activities in excess of \$11 million annually.

Title 10 Chapter 4 of the Montana Code Annotated establishes the Emergency Telephone System. Under the provisions of this chapter, telecommunication providers are required to charge customers a \$1 per month fee on each telephone access line. The providers then remit the fees collected to the state on a quarterly basis. The department's 911 program staff, who operate within the SITSD, allocate those funds to county governments and telecommunication providers for the maintenance and upkeep of the Montana's emergency telephone system.

In fiscal years 2010-11 and 2011-12, the department distributed approximately \$11.0 million and \$13.7 million, respectively, to counties and telecommunication providers. We reviewed the department's accounting treatment for these distributions, and determined the activity was not recorded in accordance with state accounting policy. The department recorded the transactions as Local Assistance payments on the state's accounting records. However, state accounting policy defines Local Assistance payments as representing distributions by the state to units of local governments to be used without specific restrictions. Because state law and department guidance stipulate specific use restrictions for these funds at the county level, and telecommunication providers do not qualify as units of local governments, these distributions should not be recorded as Local Assistance payments. Rather, the allocations should be recorded to the Grants category on the state's accounting records, as specified in state accounting policy.

The above accounting treatment resulted in approximately \$11.0 million and approximately \$13.7 million overstated Local Assistance From Other Sources and understated Grants in the SITSD program in fiscal years 2010-11 and 2011-12, respectively.

Program staff cited reliance on other SITSD employees for proper treatment on the state's accounting system as reason for the misclassification. State accounting policy specifies management's responsibility for establishing and maintaining internal control. The misclassification of expenditures indicates inadequate internal control in accounting for the 911 program activity.

RECOMMENDATION #4

We recommend the department enhance internal controls over 911 program activity to ensure distributions to county governments and telecommunication providers are recorded in accordance with state accounting policy.

Shared Accounts

Other agencies have access to modify accounts administered by the department, which increases risk that inappropriate transactions could be recorded on the state's accounting records.

As required under state law, the department established and maintains the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) for use by all state agencies and institutions. The department's State Accounting Division (SAD) also issues state accounting policy regarding basic procedures for recording information in SABHRS which are intended to result in accounting for the state's activities in accordance with generally accepted accounting principles. During the audit we identified instances where the department can improve compliance with its own policy, as discussed below.

Under state accounting policy, a Form 121 is required to establish, modify, or inactivate a SABHRS account. The Form 121 documents the account's administering agency (the account owner), other state agencies authorized to access the account, and whether each agency's activity is considered budgeted or nonbudgeted. When a Form 121 is submitted, one SAD employee reviews and approves the request and a different staff member makes the changes in SABHRS. SAD's procedures do not include review of

the SABHRS changes. Instead, SAD relies on the state agencies, including a different office within the department, to monitor access to accounts each agency administers. However, agencies do not have the ability to verify all changes were properly made.

During the audit, we reviewed the SABHRS access for each of the 43 accounts administered by the department that are shared with other state agencies. We identified five shared accounts where SABHRS access did not agree with documentation on the Form 121 on file with SAD. While non-SAD department staff indicate they review account access annually, no documentation of the review is maintained. As part of their review, the department did not identify and correct access issues noted by our audit. When inappropriate access exists, there is increased risk that incorrect information could be entered on SABHRS that could have a significant effect on the account. In addition to enhancing internal review procedures, the department should consider providing additional guidance in state accounting policy regarding the method and frequency of review at the state agency level, and develop a means for agencies to review budget indicators for said access.

RECOMMENDATION #5

We recommend the department:

- A. *Enhance procedures to ensure appropriate access exists for SABHRS accounts for which it is the administrator.*
 - B. *Provide guidance to state agencies regarding review of Form 121 changes.*
-

Compliance

The following three sections describe how the department can improve compliance with certain state laws, contract provisions, or federal regulations.

Timely Deposits

Architecture and Engineering Division (A&E) did not ensure deposits were made in accordance with state law.

Section 17-6-105(6), MCA, establishes criteria requiring timely deposit of state revenue in the state treasury. Under this law, a state agency must deposit each day when the accumulated currency exceeds \$200 or whenever the total amount collected exceeds \$750. The law further provides all money must be deposited at least weekly. During

the audit, we noted checks received by A&E were not deposited within the timelines established in law. Our review identified thirteen deposits ranging from \$800 to \$52,000 that were deposited to the treasury between two days and approximately one month late. The thirteen deposits totalled over \$129,000.

RECOMMENDATION #6

We recommend the department comply with deposit requirements specified in state law.

Taylor Grazing Revenues

The department recorded over \$238,000 in revenues in the General Fund instead of in the Federal Special Revenue Fund, as required by law.

Each year, the department receives 2.5 percent of proceeds from grazing permits issued under the federal Taylor Grazing Act. Section 17-3-221, MCA, requires these funds be deposited in the Federal Special Revenue Fund.

In each year of our audit period, the department recorded this revenue fifty percent to the state's General Fund and fifty percent to the Taylor Grazing Federal Special Revenue Fund account. Department staff indicated they overlooked the deposit requirements, focusing instead on the use of the funds as outlined in §17-3-222, MCA, which indicates the funds be allocated fifty percent to the state's General Fund, and fifty percent to the counties. As a result, revenues are overstated and transfers-in are understated in the General Fund and revenues and transfers-out are understated in the Federal Special Revenue Fund account by \$118,311 and \$120,356 in fiscal years 2010-11 and 2011-12, respectively.

RECOMMENDATION #7

We recommend the department comply with state law by depositing revenue received under the Taylor Grazing Act to the credit of the Federal Special Revenue Fund.

Violation of Temporary Worker Term Contract Provisions

The Health Care and Benefits Division violated term contract provisions when services of a temporary worker were maintained beyond time allowed.

The department's State Procurement Bureau negotiates contracts state agencies may use to procure goods and services. These contracts are commonly referred to as term contracts. The department's web site defines term contracts as a source supply established for a specified period of time at a predetermined unit price. Term contracts are available for a variety of goods and services, including the services of temporary workers.

During the audit period, the department's Health Care and Benefits Division (HCBD) retained the services of a temporary worker through a term contract with a personnel firm. The term contract specifies services may be provided for a maximum of three months or 480 hours. The term contract also specifies state agencies should utilize the modified employee process for temporary employment requiring longer terms. The modified employee process includes approval by the governor's office.

HCBD's temporary worker began providing services in December 2010, when certain functions previously provided by an outside vendor were brought in-house. The temporary worker provided services under the term contract for the remainder of fiscal year 2010-11 and for most of fiscal year 2011-12. Based on our review of department records, the temporary worker provided more than 600 hours of service over a 17-month period of time through April 2012. As of fiscal year-end 2011-12, the working arrangements for the temporary worker had not changed.

HCBD personnel indicated that at the time services were originally procured and throughout the remainder of the audit period, it was unclear how long they would need the additional help. Due to this uncertainty, HCBD did not hire someone in a modified employee role as outlined in state policy. By retaining these services without seeking to hire someone in a modified employee role, HCBD avoided governor's office evaluation procedures required for continued employment. After we brought the issue to the HCBD's attention, they began the process of hiring the temporary worker as an employee. Subsequently, the employee has been hired.

RECOMMENDATION #8

We recommend the department comply with term contract provisions for temporary employees.

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 Administration for each of the fiscal years ended June 30, 2012, and 2011. 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 Administration for each of the fiscal years ended June 30, 2012, and 2011, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

September 27, 2012

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund	Pension and Other Employees Benefits Trust Funds	Unexpended Plant Fund	Renewal & Replacement Fund
FUND BALANCE: July 1, 2011	\$ 425,581,061	\$ 21,880,380	\$ (122,613)	\$ 417,217	\$ 52,078,307	\$ 3,317,014	\$ 86,546,842	\$ 0	\$ 1,277,102	\$ 4,048,856	\$ (121,218)	\$ (537,414)
PROPERTY HELD IN TRUST: July 1, 2011								\$ 7,129,675				
ADDITIONS												
Budgeted Revenues & Transfers-In	34,699,580	11,251,603	21,691,566		9,708,321	61,089,566	239,728,661					
Nonbudgeted Revenues & Transfers-In	1,739,253	1,571,307	49	25,548,241	319,322	3,514	623,742		2,877,242	2,591,812		
Prior Year Revenues & Transfers-In Adjustments	(19,561)	131,581	16,531		(246,798)	50	787,819			29,447		
Direct Entries to Fund Balance	135,651,613	27,209,460	9,845,846		4,243,723	80,408	(591,878)				732,428	5,335,018
Additions to Property Held in Trust								855,773,949				
Total Additions	172,070,885	40,163,951	31,553,992	25,548,241	14,024,568	61,173,538	240,548,346	855,773,949	2,877,242	2,621,259	732,428	5,335,018
REDUCTIONS												
Budgeted Expenditures & Transfers-Out	44,203,593	38,188,845	31,369,666		21,073,159	47,573,744	266,308,198				723,086	6,244,862
Nonbudgeted Expenditures & Transfers-Out	15,315,806	506,144	(11)	25,497,866	3,685,540	13,764,643	1,401,725		4,069,680	1,714,370		
Prior Year Expenditures & Transfers-Out Adjustments	(19,236)	(147,199)			(250,000)	20,108	1,635,371					
Reductions in Property Held in Trust								858,357,837				
Total Reductions	59,500,163	38,547,790	31,369,655	25,497,866	24,508,699	61,358,495	269,345,294	858,357,837	4,069,680	1,714,370	723,086	6,244,862
FUND BALANCE: June 30, 2012	\$ 538,151,783	\$ 23,496,541	\$ 61,724	\$ 467,592	\$ 41,594,176	\$ 3,132,057	\$ 57,749,894	\$ 0	\$ 84,664	\$ 4,955,745	\$ (111,876)	\$ (1,447,258)
PROPERTY HELD IN TRUST: June 30, 2012								\$ 4,545,787				

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, 2011

	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 and Other Employee Benefits Trust Funds	Unexpended Plant Fund	Renewal & Replacement Fund	Agency Fund
FUND BALANCE: July 1, 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: July 1, 2010												\$ 15,307,978
ADDITIONS												
Budgeted Revenues & Transfers-In	44,805,931	11,765,712	40,422,472		17,792,040	56,546,201	250,583,244					
Nonbudgeted Revenues & Transfers-In	1,124,563	2,299,980	79	18,449,941	17,939,231	4,168	(364,650)	1,455,766	2,517,605			
Prior Year Revenues & Transfers-In Adjustments	6,251	(2,009)	(643,849)	21,283	13,075	(75)	(284,056)					
Direct Entries to Fund Balance	106,994,717	28,383,814	(1,935,635)		4,428,637	1,181,839	108,780			2,245,240	2,011,306	
Additions to Property Held in Trust												855,655,170
Total Additions	152,931,462	42,447,497	37,843,067	18,471,224	40,172,983	57,732,133	250,043,318	1,455,766	2,517,605	2,245,240	2,011,306	855,655,170
REDUCTIONS												
Budgeted Expenditures & Transfers-Out	47,584,742	39,028,912	37,061,439		50,862,132	44,165,893	226,412,174			1,839,537	2,182,326	
Nonbudgeted Expenditures & Transfers-Out	46,600,570	588,630		18,561,069	20,421,116	11,728,087	5,828,070	914,636	1,410,369			
Prior Year Expenditures & Transfers-Out Adjustments	7,206	(214,896)				7,172	(1,090,041)	71,281				
Reductions in Property Held in Trust												863,833,473
Total Reductions	94,192,518	39,402,645	37,061,439	18,561,069	71,283,248	55,901,152	231,150,203	985,917	1,410,369	1,839,537	2,182,326	863,833,473
FUND BALANCE: June 30, 2011	\$ 425,581,061	\$ 21,880,380	\$ (122,613)	\$ 417,217	\$ 52,078,307	\$ 3,317,014	\$ 86,546,842	\$ 1,277,102	\$ 4,048,856	\$ (121,218)	\$ (537,414)	\$ 0
PROPERTY HELD IN TRUST: June 30, 2011												\$ 7,129,675

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, 2012

	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 and Other Employee Benefit Trust Funds	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS										
Licenses and Permits		\$ 950,006				\$ 8,455				\$ 958,461
Charges for Services	\$ 9,413,215	5,030,232			\$ 250,221	8,061,859	\$ 227,368,426			250,123,953
Investment Earnings	4,247,642	26,123	\$ 605	\$ 2,467	53,592	12,973	1,177,434		\$ 68,267	5,589,103
Fines and Forfeits	4,374,775					15,374	30,765			4,420,914
Monetary Settlements					30,000		1,090			31,090
Capital Contributions						390,777	872,349			1,263,126
Sale of Documents, Merchandise and Property		153,820				52,601,835	5,448,247			58,203,902
Rentals, Leases and Royalties	194									194
Contributions and Premiums									2,552,992	2,552,992
Grants, Contracts, and Donations		1,234,418					19,333	\$ 2,877,242		4,130,993
Transfers-in	17,711,250	1,566,700	61,851	19,529,677	9,447,032		3,600,129			51,916,639
Bond Proceeds				261,097						261,097
Capital Asset Sale Proceeds	44,482						269			44,751
Proceeds of Refunding Bonds				5,755,000						5,755,000
Miscellaneous	67,278	3,993,192				1,857	1,216,435			5,278,762
Federal	560,436		21,645,690				1,405,745			23,611,871
Total Revenues & Transfers-In	36,419,272	12,954,491	21,708,146	25,548,241	9,780,845	61,093,130	241,140,222	2,877,242	2,621,259	414,142,848
Less: Nonbudgeted Revenues & Transfers-In	1,739,253	1,571,307	49	25,548,241	319,322	3,514	623,742	2,877,242	2,591,812	35,274,482
Prior Year Revenues & Transfers-In Adjustments	(19,561)	131,581	16,531		(246,798)	50	787,819		29,447	699,068
Actual Budgeted Revenues & Transfers-In	34,699,580	11,251,603	21,691,566	0	9,708,321	61,089,566	239,728,661	0	0	378,169,295
Estimated Revenues & Transfers-In	45,801,835	9,116,804	27,075,744		56,917,154	58,553,390	258,863,004			456,327,932
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (11,102,255)	\$ 2,134,799	\$ (5,384,178)	\$ 0	\$ (47,208,833)	\$ 2,536,176	\$ (19,134,343)	\$ 0	\$ 0	\$ (78,158,634)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS										
Licenses and Permits		\$ 428,406	\$			\$ (1,595)				\$ 426,811
Taxes	\$ (10,890)									(10,890)
Charges for Services	140,335	329,511			(27,919)	(1,385,449)	\$ (21,360,653)			(22,304,175)
Investment Earnings	(2,665,187)	(13,522)	56		(130,730)	(14,873)	(291,090)			(3,115,346)
Fines and Forfeits	(341,039)					14,374				(326,665)
Monetary Settlements					(45,530)		(8,910)			(54,440)
Capital Contributions						(74,223)				(74,223)
Sale of Documents, Merchandise and Property		(21,180)				4,001,835	(248,391)			3,732,264
Rentals, Leases and Royalties	171									171
Grants, Contracts, and Donations		304,335								(304,335)
Transfers-in	(5,632,476)	(1,879,079)	(4,149)		\$ (47,004,654)		2,877,719			(51,642,639)
Capital Asset Sale Proceeds	12,481									12,481
Miscellaneous	(2,802,466)	2,986,329				(3,893)	(8,763)			171,207
Federal	196,816	(1)	(5,380,085)				(94,255)			(5,277,525)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (11,102,255)	\$ 2,134,799	\$ (5,384,178)	\$ 0	\$ (47,208,833)	\$ 2,536,176	\$ (19,134,343)	\$ 0	\$ 0	\$ (78,158,634)

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, 2011

	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 and Other Employee Benefit Trust Funds	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS										
Licenses and Permits		\$ 658,898				\$ 6,950				\$ 665,848
Taxes	\$ 5,472	25	\$ 17			745	\$ 913			7,172
Charges for Services	9,625,401	5,404,647			\$ 61,995	8,588,957	235,733,093			259,414,093
Investment Earnings	4,104,986	18,728	614	\$ 2,541	127,206	11,122	876,949		\$ 331,702	5,473,848
Fines and Forfeits	4,424,150						84,889			4,509,039
Monetary Settlements							46,108			46,108
Capital Contributions						1,906,468				1,906,468
Sale of Documents, Merchandise and Property		149,355				46,035,297	4,740,007			50,924,659
Rentals, Leases and Royalties	339									339
Contributions and Premiums									2,185,903	2,185,903
Grants, Contracts, and Donations	1,100	577,668					13,551	\$ 1,455,766		2,048,085
Transfers-in	27,484,910	2,577,793	246,321	18,468,683	\$ 35,005,066		4,236,093			88,018,866
Bond Proceeds					550,000					550,000
Capital Asset Sale Proceeds	63,736						4,296			68,032
Miscellaneous	108,339	4,676,569			79	755	1,220,173			6,005,915
Federal	118,312		39,531,750				2,978,466			42,628,528
Total Revenues & Transfers-In	45,936,745	14,063,683	39,778,702	18,471,224	35,744,346	56,550,294	249,934,538	1,455,766	2,517,605	464,452,903
Less: Nonbudgeted Revenues & Transfers-In	1,124,563	2,299,980	79	18,449,941	17,939,231	4,168	(364,650)	1,455,766	2,517,605	43,426,683
Prior Year Revenues & Transfers-In Adjustments	6,251	(2,009)	(643,849)	21,283	13,075	(75)	(284,056)			(889,380)
Actual Budgeted Revenues & Transfers-In	44,805,931	11,765,712	40,422,472	0	17,792,040	56,546,201	250,583,244	0	0	421,915,600
Estimated Revenues & Transfers-In	45,965,706	11,818,584	50,234,883		69,553,136	55,313,525	257,728,436			490,614,270
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (1,159,775)	\$ (52,872)	\$ (9,812,411)	\$ 0	\$ (51,761,096)	\$ 1,232,676	\$ (7,145,192)	\$ 0	\$ 0	\$ (68,698,670)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS										
Licenses and Permits		\$ 299,348				\$ 1,950				\$ 301,298
Taxes	\$ (10,890)									(10,890)
Charges for Services	(1,016,004)	(455,656)			\$ (376,005)	(409,493)	\$ (11,561,310)			(13,818,468)
Investment Earnings	(13,448,235)	(129,726)	\$ (1,465)		(69,203)	(156,546)	(606,202)			(14,411,377)
Fines and Forfeits	309,203									309,203
Monetary Settlements	(50,050)									(50,050)
Capital Contributions						(238,532)				(238,532)
Sale of Documents, Merchandise and Property		(50,645)				2,035,297	(259,993)			1,724,659
Rentals, Leases and Royalties	239									239
Grants, Contracts, and Donations		(156,429)								(156,429)
Transfers-in	15,094,689	(1,973,568)	(2)		\$ (51,315,888)		3,852,208			(34,342,561)
Capital Asset Sale Proceeds	31,735									31,735
Miscellaneous	(1,818,949)	2,413,805					402,800			997,656
Federal	(251,513)	(1)	(9,810,944)				1,027,305			(9,035,153)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (1,159,775)	\$ (52,872)	\$ (9,812,411)	\$ 0	\$ (51,761,096)	\$ 1,232,676	\$ (7,145,192)	\$ 0	\$ 0	\$ (68,698,670)

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, 2012

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Architecture & Engineering Division	Banking & Financial Division	Corrections	Departments & Agencies	Director's Office	DPHHS	General Services Division	Health Care & Benefits Division	Information Technology Service Division	Montana State Lottery	Risk Management & Tort Defense	State Accounting Division	State Human Resources Division	State Tax Appeal Board	University System	Total
Personal Services																
Salaries	\$ 998,964	\$ 1,899,138			\$ 922,964		\$ 3,180,696	\$ 1,217,551	\$ 11,952,174	\$ 1,321,092	\$ 685,565	\$ 1,952,919	\$ 2,235,479	\$ 294,521		\$ 26,661,063
Hourly Wages							10,470									10,470
Other Compensation		250					830			1,050				13,680		15,810
Employee Benefits	298,882	563,907			295,873		1,273,473	391,855	3,523,010	475,876	195,517	637,335	699,231	89,147		8,444,106
Personal Services-Other					19,753		(23,199)	43,748	11,339	11,722	23,457	(3,822)	4,295			87,293
Total	<u>1,297,846</u>	<u>2,463,295</u>			<u>1,238,590</u>		<u>4,442,270</u>	<u>1,653,154</u>	<u>15,486,523</u>	<u>1,809,740</u>	<u>904,539</u>	<u>2,586,432</u>	<u>2,939,005</u>	<u>397,348</u>		<u>35,218,742</u>
Operating Expenses																
Other Services	262,326	399,409			112,913		3,461,319	5,789,017	3,127,930	6,550,685	5,703,431	366,698	9,575,843	17,038		26,748,349
Supplies & Materials	26,036	46,134			41,025		417,550	77,092	3,079,025	236,450	161,591	88,064	159,200	15,338		4,347,505
Communications	(9,440)	37,881			18,172		4,208,686	75,909	7,318,307	741,271	17,600	349,169	51,006	7,086		12,815,647
Travel	41,484	287,656			6,031		9,998	20,622	126,499	41,806	22,939	24,851	38,375	9,560		629,821
Rent	45,370	147,618			28,040		1,516,499	119,144	9,567,227	144,321	58,380	125,274	112,685	16,140		11,880,698
Utilities							2,054,859		63,168	17,455	5,727					2,141,209
Repair & Maintenance	4,395	752			18,608		1,930,258	439	1,875,744	29,215	4,299	1,589,851	561,811	950		6,016,322
Other Expenses	167,831	143,699	\$ 367,118		54,036	\$ 55,789	1,708,189	1,095,532	3,191,435	29,352,506	285,949	2,535,011	290,433	18,339	\$ 3,147	39,269,014
Goods Purchased For Resale							7,354,216			988,559						8,342,775
Total	<u>538,002</u>	<u>1,063,149</u>	<u>367,118</u>		<u>278,825</u>	<u>55,789</u>	<u>22,661,574</u>	<u>7,177,755</u>	<u>28,349,335</u>	<u>38,102,288</u>	<u>6,259,916</u>	<u>5,078,918</u>	<u>2,171,093</u>	<u>84,451</u>	<u>3,147</u>	<u>112,191,340</u>
Equipment & Intangible Assets																
Equipment							(3,044)		(5,289,689)						61,844	(5,230,889)
Total							<u>(3,044)</u>		<u>(5,289,689)</u>						<u>61,844</u>	<u>(5,230,889)</u>
Capital Outlay																
Buildings			3,527,178	\$ 5,531,580		5,354,575	110,219		132,010						18,613,276	33,268,838
Other Improvements							1,335,577									1,335,577
Total			<u>3,527,178</u>	<u>5,531,580</u>		<u>5,354,575</u>	<u>1,445,796</u>		<u>132,010</u>						<u>18,613,276</u>	<u>34,604,415</u>
Local Assistance																
From State Sources					17,776,456				4,129,651					15,765		21,921,872
From Federal Sources					31,612,568											31,612,568
From Other Sources									13,665,115							13,665,115
Total					<u>49,389,024</u>				<u>17,794,766</u>					<u>15,765</u>		<u>67,199,555</u>
Grants																
From State Sources									(5,167)							(5,167)
From Federal Sources									203,712							203,712
Total									<u>198,545</u>							<u>198,545</u>
Benefits & Claims																
From State Sources								150,292,391								150,292,391
Insurance Payments								(2,500,000)			37,565,841					35,065,841
Other Financing Uses/Deduction					5,913,154											5,913,154
Total					<u>5,913,154</u>			<u>147,792,391</u>			<u>37,565,841</u>					<u>191,271,386</u>
Transfers-out																
Fund Transfers	1,310,000		1,628,583	3,799,882	21,747,241	2,687,534	738,520	552	928,509	13,060,671	3,493,765	4,069,678	73,669		2,785,308	56,323,912
Intra-Entity Expense					10,041,517						124,999					10,166,516
Total	<u>1,310,000</u>		<u>1,628,583</u>	<u>3,799,882</u>	<u>31,788,758</u>	<u>2,687,534</u>	<u>738,520</u>	<u>552</u>	<u>928,509</u>	<u>13,060,671</u>	<u>3,618,764</u>	<u>4,069,678</u>	<u>73,669</u>		<u>2,785,308</u>	<u>66,490,428</u>
Debt Service																
Bonds					19,419,991											19,419,991
Loans							49,299									49,299
Capital Leases							110,417			17,809		1,728				129,954
Installment Purchases							176,275									176,275
Total					<u>19,419,991</u>		<u>335,991</u>			<u>17,809</u>		<u>1,728</u>				<u>19,775,519</u>
Other Post Employment Benefits																
Other Post Employment Benefits					48,343		222,073	69,797	536,252	89,199	46,624	73,356	75,275			1,160,919
Total					<u>48,343</u>		<u>222,073</u>	<u>69,797</u>	<u>536,252</u>	<u>89,199</u>	<u>46,624</u>	<u>73,356</u>	<u>75,275</u>			<u>1,160,919</u>
Total Expenditures & Transfers-Out	\$ <u>3,145,848</u>	\$ <u>3,526,444</u>	\$ <u>5,522,879</u>	\$ <u>9,331,462</u>	\$ <u>108,076,685</u>	\$ <u>8,097,898</u>	\$ <u>29,843,180</u>	\$ <u>156,693,649</u>	\$ <u>58,136,251</u>	\$ <u>53,079,687</u>	\$ <u>48,395,684</u>	\$ <u>11,810,112</u>	\$ <u>5,259,042</u>	\$ <u>497,564</u>	\$ <u>21,463,575</u>	\$ <u>522,879,960</u>
EXPENDITURES & TRANSFERS-OUT BY FUND																
General Fund				\$ 62,677	\$ 49,161,185	\$ 2,225,612	\$ 2,238,318		\$ 404,592			\$ 3,341,158	\$ 1,569,057	\$ 497,564		\$ 59,500,163
State Special Revenue Fund	\$ 1,835,848	\$ 3,526,444	\$ 75,528	2,352,885	10,990,741		510,051		14,782,896	\$ 128,672	\$ 3,493,765		49,607		\$ 432,772	38,547,790
Federal Special Revenue Fund			1,486,939	1,323,352	20,623,558		1,441,510		1,952,755			1,065			4,540,476	31,369,655
Debt Service Fund					25,497,866											25,497,866
Capital Projects Fund	1,310,000		3,543,559	5,592,548	388,526	4,022,824			132,010						9,519,232	24,508,699
Enterprise Fund			111,000				619,609	\$ 7,280,158		52,951,015		396,713				61,358,495
Internal Service Fund			305,653		1,414,809	39,371	26,475,202	147,699,121	40,863,998		44,901,919	4,001,496	3,640,378		3,147	269,345,294
Private Purpose Trust Fund												4,069,680				4,069,680
Pension and Other Employee Benefit Trust Funds								1,714,370								1,714,370
Unexpended Plant Fund															723,086	723,086
Renewal & Replacement Fund															6,244,862	6,244,862
Total Expenditures & Transfers-Out	<u>3,145,848</u>	<u>3,526,444</u>	<u>5,522,879</u>	<u>9,331,462</u>	<u>108,076,685</u>	<u>8,097,898</u>	<u>29,843,180</u>	<u>156,693,649</u>	<u>58,136,251</u>	<u>53,079,687</u>	<u>48,395,684</u>	<u>11,810,112</u>	<u>5,259,042</u>	<u>497,564</u>	<u>21,463,575</u>	<u>522,879,960</u>
Less: Nonbudgeted Expenditures & Transfers-Out	1,559,492	(1,105)		2,125,540	40,884,671		966,085	(673,585)	2,342,218	13,516,583	1,276,376	3,650,767	308,946	(224)		65,955,764
Prior Year Expenditures & Transfers-Out Adjustments	(292,784)	198		(56,942)	(18)	(676)	1,084,415	61,748	406,874	(4)	36,704	189	686	(1,345)		1,239,045
Actual Budgeted Expenditures & Transfers-Out	<u>1,879,140</u>	<u>3,527,351</u>	<u>5,522,879</u>	<u>7,262,864</u>	<u>67,192,032</u>	<u>8,098,574</u>	<u>27,792,680</u>	<u>157,305,486</u>	<u>55,387,159</u>	<u>39,563,108</u>	<u>47,082,604</u>	<u>8,159,156</u>	<u>4,949,410</u>	<u>499,133</u>	<u>21,463,575</u>	<u>455,685,151</u>
Budget Authority	1,947,742	3,816,074	13,136,669	123,185,356	75,653,197	30,642,052	30,420,083	166,895,986	119,528,092	41,083,100	47,914,986	8,646,450	5,506,180	569,934	188,227,283	857,173,184
Unspent Budget Authority	\$ <u>68,602</u>	\$ <u>288,723</u>	\$ <u>7,613,790</u>	\$ <u>115,922,492</u>	\$ <u>8,461,165</u>	\$ <u>22,543,478</u>	\$ <u>2,627,403</u>	\$ <u>9,590,500</u>	\$ <u>64,140,933</u>	\$ <u>1,519,992</u>	\$ <u>832,382</u>	\$ <u>487,294</u>	\$ <u>556,770</u>	\$ <u>70,801</u>	\$ <u>166,763,708</u>	\$ <u>401,488,033</u>
UNSPENT BUDGET AUTHORITY BY FUND																
General Fund				\$ 223,432	\$ 4,012,947	\$ 69,364			\$ 14,967			\$ 288,279	\$ 255,293	\$ 70,801		\$ 4,935,083
State Special Revenue Fund	\$ 68,602	\$ 288,723	\$ 178,907	46,901,365	214,098	\$ 3,065,774	3,833		18,485,799	\$ 11,328	\$ 222,281				\$ 680,737	70,121,447
Federal Special Revenue Fund			1,000,000	8,199,860	4,152,946	\$ 3,333,671			40,025,768			8,690			2,000,000	58,720,935
Capital Projects Fund			5,452,883	60,251,891	56	16,143,606			4,057,091						11,490,316	97,395,843
Enterprise Fund			289,000	90,571			17,533	\$ 1,310,107		1,508,664		530				3,216,405
Internal Service Fund			693,000	255,373	81,118	427	2,536,673	8,280,393	1,557,308		610,101	189,795	301,477		63,166	14,568,831
Unexpended Plant Fund															132,254,385	132,254,385
Renewal & Replacement Fund															20,275,104	20,275,104
Unspent Budget Authority	\$ <u>68,602</u>	\$ <u>288,723</u>	\$ <u>7,613,790</u>	\$ <u>115,922,492</u>	\$ <u>8,461,165</u>	\$ <u>22,543,478</u>	\$ <u>2,627,403</u>	\$ <u>9,590,500</u>	\$ <u>64,140,933</u>	\$ <u>1,519,992</u>	\$ <u>832,382</u>	\$ <u>487,294</u>	\$ <u>556,770</u>	\$ <u>70,801</u>	\$ <u>166,763,708</u>	\$ <u>401,488,033</u>

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

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Architecture & Engineering Division	Banking & Financial Division	Corrections	Departments & Agencies	Director's Office	DPHHS	General Services Division	Health Care & Benefits Division	Information Technical Services Division	Montana State Lottery	Risk Management & Tort Defense	State Accounting Division	State Human Resources Division	State Tax Appeal Board	University System	Total
Personal Services																
Salaries	\$ 1,016,396	\$ 1,942,058			\$ 859,716		\$ 3,171,606	\$ 953,877	\$ 12,543,858	\$ 1,370,886	\$ 837,432	\$ 1,678,452	\$ 2,034,143	\$ 296,073		\$ 26,704,497
Hourly Wages							1,824									1,824
Other Compensation										1,050				20,745		21,795
Employee Benefits	302,492	552,679			274,101		1,284,060	304,238	3,619,441	490,335	258,735	537,326	645,787	87,629		8,356,823
Personal Services-Other					(5,008)		5,674	18,178	(118,635)	(27,664)	6,852	10,421	22,509			(87,673)
Total	1,318,888	2,494,737			1,128,809		4,463,164	1,276,293	16,044,864	1,834,607	1,103,019	2,226,199	2,702,439	404,447		34,997,266
Operating Expenses																
Other Services	30,002	92,249			114,276		3,142,803	5,898,267	2,443,267	5,883,668	4,673,383	1,767,723	1,340,957	34,442		25,421,037
Supplies & Materials	22,742	34,285			23,181		419,546	51,342	1,493,235	389,884	31,708	117,987	140,994	10,117		2,735,021
Communications	71,675	46,192			25,496		4,382,876	75,404	6,312,681	769,872	22,740	415,236	69,978	9,372		12,201,522
Travel	43,269	250,558			3,313		6,455	10,390	61,363	39,928	19,668	18,328	35,835	8,478		497,585
Rent	56,832	144,411			35,040		1,599,267	137,968	13,412,136	136,959	55,575	142,527	137,808	20,244		15,878,767
Utilities							2,674,686		64,034	17,997	6,861					2,763,578
Repair & Maintenance	3,029	9,229			2,301		1,767,453	13	1,879,972	18,238	2,542	762,947	349,352	2,077		4,797,153
Other Expenses	161,191	126,444	\$ 3,829	\$ 2,401,948	268,635	\$ 618	1,982,033	1,033,175	2,945,596	25,597,889	429,250	2,638,056	373,836	11,675	\$ 54,298	38,028,473
Goods Purchased For Resale							7,942,921			904,401			1,929			8,849,251
Total	388,740	703,368	3,829	2,401,948	472,242	618	23,918,040	7,206,559	28,612,284	33,758,836	5,241,727	5,862,804	2,450,689	96,405	54,298	111,172,387
Equipment & Intangible Assets																
Equipment			(3,829)	(2,400,097)		(618)	(204,514)		2,690,549						(31,487)	50,004
Capital leases - equipment							209,884									209,884
Intangible Assets												110,266				110,266
Total			(3,829)	(2,400,097)		(618)	5,370		2,690,549			110,266			(31,487)	370,154
Capital Outlay																
Buildings			5,658,239	14,870,100		9,613,855	206,942		2,604,135						31,439,535	64,392,806
Other Improvements							(206,942)									(206,942)
Total			5,658,239	14,870,100		9,613,855	0		2,604,135						31,439,535	64,185,864
Local Assistance																
From State Sources					18,358,171									19,240		18,377,411
From Federal Sources					34,954,576											34,954,576
From Other Sources									11,008,373							11,008,373
Total					53,312,747				11,008,373					19,240		64,340,360
Grants																
From State Sources									272,675							272,675
From Federal Sources							235,973		86,170							322,143
Total							235,973		358,845							594,818
Benefits & Claims																
From State Sources								140,549,317								140,549,317
Insurance Payments								1,390,000			5,022,699					6,412,699
Total								141,939,317			5,022,699					146,962,016
Transfers-out																
Fund Transfers	2,340,000		1,638,642	17,763,896	61,785,896	1,569,347	376,184	103,869	5,179,725	10,611,183	4,236,096	985,916			4,712,768	111,303,522
Intra-Entity Expense					50,000											50,000
Total	2,340,000		1,638,642	17,763,896	61,835,896	1,569,347	376,184	103,869	5,179,725	10,611,183	4,236,096	985,916			4,712,768	111,353,522
Debt Service																
Bonds					18,216,675											18,216,675
Loans								470,312								470,312
Capital Leases							48,075		16,383	21,987		(82)				38,288
Installment Purchases																48,075
Total					18,216,675		48,075	470,312	16,383	21,987		(82)				18,773,350
Other Post Employment Benefits																
Other Post Employment Benefits					45,623		236,033	57,803	562,025	98,994	47,388	80,695	92,126			1,220,687
Total					45,623		236,033	57,803	562,025	98,994	47,388	80,695	92,126			1,220,687
Total Expenditures & Transfers-Out	\$ 4,047,628	\$ 3,198,105	\$ 7,296,881	\$ 32,635,847	\$ 135,011,992	\$ 11,183,202	\$ 29,282,839	\$ 151,054,153	\$ 67,076,983	\$ 46,325,607	\$ 15,761,195	\$ 9,155,532	\$ 5,245,254	\$ 520,092	\$ 36,175,114	\$ 553,970,424
EXPENDITURES & TRANSFERS-OUT BY FUND																
General Fund			\$ 78,000	\$ 99,466	\$ 80,207,821	\$ 1,995,500	\$ 2,081,225	\$ 470,312	\$ 3,663,212			\$ 3,391,062	\$ 1,685,828	\$ 520,092		\$ 94,192,518
State Special Revenue Fund	\$ 1,707,628	\$ 3,198,105	106,675	3,876,472	11,480,832	464,607	431,816	103,869	12,514,925	\$ 125,167	\$ 4,236,095	29,555			\$ 1,126,900	39,402,646
Federal Special Revenue Fund			1,446,296	3,405,359	23,477,974	1,634,982	235,973		1,836,399			2,156			5,022,300	37,061,439
Debt Service Fund					18,561,069											18,561,069
Capital Projects Fund	2,340,000		5,662,081	22,852,602	41,567	7,071,077			7,366,168						25,949,753	71,283,248
Enterprise Fund				989,196			948,918	7,361,300		46,200,440		401,298				55,901,152
Internal Service Fund			3,829	1,412,752	1,242,729	17,036	25,584,907	141,708,303	41,696,279		11,525,100	4,375,099	3,529,871		54,298	231,150,203
Private Purpose Trust Fund												985,917				985,917
Pension and Other Employee Benefit Trust Funds								1,410,369								1,410,369
Unexpended Pland Fund															1,839,537	1,839,537
Renewal & Replacement Fund															2,182,326	2,182,326
Total Expenditures & Transfers-Out	4,047,628	3,198,105	7,296,881	32,635,847	135,011,992	11,183,202	29,282,839	151,054,153	67,076,983	46,325,607	15,761,195	9,155,532	5,245,254	520,092	36,175,114	553,970,424
Less: Nonbudgeted Expenditures & Transfers-Out	2,339,870	(299)		13,319,083	65,228,626		1,130,341	2,996,739	8,123,782	11,139,212	1,293,538	697,766	(216,054)	(57)		106,052,547
Prior Year Expenditures & Transfers-Out Adjustments	(64,193)	437			5,898		(57,407)	(200,657)	(991,162)	1	10,764	76,969	(9)	80		(1,219,279)
Actual Budgeted Expenditures & Transfers-Out	1,771,951	3,197,967	7,296,881	19,316,764	69,777,468	11,183,202	28,209,905	148,258,071	59,944,363	35,186,394	14,456,893	8,380,797	5,461,317	520,069	36,175,114	449,137,156
Budget Authority	1,994,492	4,150,199	17,670,940	134,435,378	73,729,271	33,738,161	29,654,916	152,805,043	138,983,488	37,807,929	20,114,085	9,647,440	5,683,407	522,061	208,507,490	869,444,300
Unspent Budget Authority	\$ 222,541	\$ 952,232	\$ 10,374,059	\$ 115,118,614	\$ 3,951,803	\$ 22,554,959	\$ 1,445,011	\$ 4,546,972	\$ 79,039,125	\$ 2,621,535	\$ 5,657,192	\$ 1,266,643	\$ 222,090	\$ 1,992	\$ 172,332,376	\$ 420,307,144
UNSPENT BUDGET AUTHORITY BY FUND																
General Fund				\$ 61,041	\$ 1,228,042		\$ 187,563	\$ 455	\$ 63,383			\$ 208,071	\$ 106,486	\$ 1,992		\$ 1,857,033
State Special Revenue Fund	\$ 222,541	\$ 952,232	129,434	43,735,989	2,135	\$ 2,684,356	20,388	47,342	19,870,478	\$ 174,833	\$ 95,057				\$ 613,508	68,548,293
Federal Special Revenue Fund			1,158,185	10,565,249	2,365,136	2,812,668	87		48,272,957			25,740			2,453,098	67,653,120
Capital Projects Fund			8,293,440	60,660,391	347,745	17,057,935			9,939,100						19,677,642	115,976,253
Enterprise Fund			100,000	90,571			31,526	231,768		2,446,702		7,717				2,908,284
Internal Service Fund			693,000	5,373	8,745		1,205,447	4,267,407	893,207		5,562,135	1,025,115	115,604		66,313	13,842,346
Unexpended Plant Fund															127,169,871	127,169,871
Renewal & Replacement Fund															22,351,944	22,351,944
Unspent Budget Authority	\$ 222,541	\$ 952,232	\$ 10,374,059	\$ 115,118,614	\$ 3,951,803	\$ 22,554,959	\$ 1,445,011	\$ 4,546,972	\$ 79,039,125	\$ 2,621,535	\$ 5,657,192	\$ 1,266,643	\$ 222,090	\$ 1,992	\$ 172,332,376	\$ 420,307,144

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

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2012

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, Debt Service, and Permanent). 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 was adopted by 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 two separate business units, Department of Administration and Long-Range Building, identified on the state's accounting system.

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 Architecture and Engineering Construction, Banking and Financial Institutions Division, 911 Telecommunications Program, and Mineral Impact.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include Homeland Security Grant, State Broadband and Data Development, Federal Forest Reserve, General American Recovery and Reinvestment Act (ARRA) Stabilization, Public Safety Communication funds, Geographic Information Systems federal funding, and the federal portion of 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 thirteen Internal Service Funds, the three largest of which are Information Technology Services Division, Group Benefits, and Agency Insurance.
- ♦ **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 property.

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 the 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 – to account for transactions related to construction of university 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, 2011, and June 30, 2012. As stated in note 3, the department is the administrator to 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, Special Revenue, Federal Special Revenue, Capital Projects, Internal Service, Enterprise, 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 \$106,994,717 in fiscal year 2010-2011 and \$135,651,613 in fiscal year 2011-12 reflects the department closing cash balances of other agencies sharing the General Fund. The General Fund balances shown on the Schedule of Changes in Fund Balances & Property Held in Trust is not the total fund balance of the state's General Fund.

4. Related-Party Transactions

Current and past staff members in the Department of Administration, Health Care and Benefits Division, have served on Board of Directors 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 \$0.70 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 this organization.

5. Unspent Budget Authority

On the Schedule of Total Expenditures & Transfers out for fiscal year 2010-11, the columns titled Departments & Agencies, Corrections, DPHHS, Information Technology Services Division, and University System 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 unspent budget authority amounts on the schedule. The unspent budget amounts represent estimated costs to complete the active projects.

6. Transfer Activity

The department is responsible for transferring funds for debt service payments, disbursement of American Recovery and Reinvestment funds, State Fund Old Fund benefit payments, and various other transfers required in state law or through the passage of legislation. Detail on department's significant transfer activity for fiscal years 2010-2011 and 2011-2012 is detailed in the list below.

- ♦ The department is responsible for making debt service payments on behalf of most state agencies for bonds issued by the state. Debt service payments are made twice per year on outstanding bonds. Prior to making the bond payments, the department transferred approximately \$14 million in fiscal year 2010-11 and \$15.8 million in fiscal year 2011-12 from the General Fund to the Debt Service Fund. The department made bond payments totaling \$18,216,675 in fiscal year 2010-2011 and \$19,256,970 in fiscal year 2011-2012.

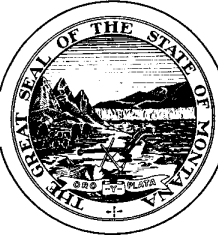
- ◆ House Bill 645 of the 2009 Legislative Session implemented the American Recovery and Reinvestment Act of 2009. The department is responsible for transferring money from the General Fund to various agencies for House Bill 645 funding. In fiscal year 2010-2011, the House Bill 645 transfers totaled \$38,209,031. There are no House Bill 645 transfers in fiscal year 2011-2012.
- ◆ State law requires transfers from the General Fund to the Montana State Fund's Old Fund in the event that the Old Fund assets are not sufficient to cover benefits being claimed for injuries sustained prior to July 1, 1990. In fiscal year 2011, the Old Fund assets were completely liquidated. General Fund transfers to the Old Fund were \$50,000 in fiscal year 2010-2011 and \$10,041,517 in fiscal year 2011-2012.
- ◆ The department administers the Long Range Building and Long Range Information Technology programs. During the 2011 Legislative Session, several major construction and information technology projects were cancelled. House Bills 5 and 10 of the 2011 Legislative Session mandated that the department transfer \$11,185,622 from the Long Range Building Program and \$4,762,033 from the Long Range Information Technology Program, respectively, to the state's General Fund for these cancelled projects.
- ◆ Major capital projects are funded with continuing appropriation authority. Revenue estimates for these projects are established for the total project cost even though the projects may take more than one year to complete. Funds are transferred into the Capital Projects Fund only as necessary to pay the costs of the projects that are payable in each particular year, resulting in the \$51 million and \$56.9 million differences between budgeted and actual transfers-in for the Capital Projects Fund in fiscal years 2010-11 and 2011-12, respectively.

DEPARTMENT OF
ADMINISTRATION

DEPARTMENT RESPONSE

DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE

B-1



BRIAN SCHWEITZER, GOVERNOR

JANET R. KELLY, DIRECTOR

STATE OF MONTANA

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October 4, 2012

RECEIVED

OCT 05 2012

LEGISLATIVE AUDIT DIV.

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

RE: Financial Compliance Audit #12-13: Department of Administration for
the Two Fiscal Years Ended June 30, 2012

Dear Ms. Hunthausen:

The Department of Administration has reviewed the October 2012 Financial Compliance Audit for the two fiscal years ending June 30, 2012. Our responses to the recommendations appear below.

Recommendation #1

We recommend the department seek clarification in statute, or address through state accounting policy, to require investments be liquidated in individual accounts when cash in the account is negative.

Response:

Concur. The department will issue policy requiring agencies to manage the accounts with authority to invest monies, to maintain a positive cash balance.

Recommendation #2

We recommend that the department record all revenue collected for major maintenance projects in the Rent and Maintenance Internal Service Fund, unless otherwise authorized by the legislature.

Response:

Concur. As we did for the 2011 legislative session, the department will request legislative authority to deposit revenues collected for major maintenance projects into a state special revenue account.

Recommendation #3

We recommend the department:

A. Comply with state accounting policy by recording revenues for special purpose insurance policies in its Internal Service Fund in the year in which the policy is provided.

B. Seek authorization to collect the actual cost of special purpose insurance coverage when the need for additional insurance coverage arises.

Response:

Concur. The department will:

A. Record the revenue for special purpose insurance policies in the year the policy is provided.

B. Seek authority in HB 2 to collect the actual cost of special purpose insurance.

Recommendation #4

We recommend the department enhance internal controls over 911 program activity to ensure distributions to county governments and telecommunication providers are recorded in accordance with state accounting policy.

Response:

Concur. The department has completed its corrective action plan for this recommendation. Specifically, the department:

1. Submitted the appropriate budgeting and accounting documents to change the expense code from *Local Assistance* to *Grants* for the remainder of FY 2013.

2. Will present a decision package budget request to make this coding change for the 2014/2015 biennium.

Recommendation #5

We recommend the department:

- A. Enhance procedures to ensure appropriate access exists for SABHRS accounts for which it is the administrator.
- B. Provide guidance to state agencies regarding review of Form 121 changes.

Response:

Concur. The department will:

- A. Review and update SABHRS monitoring tools to ensure their adequacy.
- B. Provide additional training to state agencies and clarify related policy.

Recommendation #6

We recommend the department comply with deposit requirements specified in state law.

Response:

Concur. The department will:

1. Create and maintain deposit logs to track deposits from time of receipt to time of deposit into the state Treasury.
2. Educate all employees, including support staff, on deposit requirements.

Recommendation #7

We recommend the department comply with state law by depositing revenue received under the Taylor Grazing Act to the credit of the Federal Special Revenue Fund.

Response:

Concur. The department will comply with state law by depositing Taylor Grazing Act revenue into the Federal Special Revenue Fund before transferring the General Fund's share into the General Fund.

Recommendation #8

We recommend the department comply with term contract provisions for temporary employees.

Response:


Concur. The department has complied with temporary employees' term contract provisions.

I would like to draw the committee's attention to the sections in Chapter One that discuss Internal Service Funds and Prior Audit Recommendations. These sections do not contain any recommendations and the report notes that "The department is actively managing its Internal Service Funds"; however, I believe the narrative is misleading and/or confusing to the reader.

Since my staff and I have been unsuccessful in addressing these issues with your staff, I felt it important for the committee to understand our belief that the narrative misrepresents our department's efforts to manage its funds in a cost-effective manner and respond to audit recommendations.

I want to recognize and thank you and your staff for your work 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, Director
Department of Administration

Enclosure

Preliminary Response
Department of Administration
Corrective Action Plan (CAP): Audit Report #12-13
Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 2012
October 4, 2012

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	Recommendation #1 We recommend the department seek clarification in statute, or address through state accounting policy, to require investments be liquidated in individual accounts when cash in the account is negative.	No	N/A	Concur	The department will issue policy requiring agencies to manage the accounts with authority to invest monies, to maintain a positive cash balance.	Paul Christofferson	6/30/13
61010	Recommendation #2 We recommend that the department record all revenue collected for major maintenance projects in the Rent and Maintenance Internal Service Fund, unless otherwise authorized by the legislature.	No	N/A	Concur	The department will request legislative authority to deposit revenues collected for major maintenance projects into a state special revenue account.	Marvin Eicholtz	Completed
61010	Recommendation #3 We recommend the department: A. Comply with state accounting policy by recording revenues for special purpose insurance policies in its Internal Service Fund in the year in which the policy is provided. B. Seek authorization to collect the actual cost of special purpose insurance coverage when the need for additional insurance coverage arises.	No	N/A	Concur	The department will: A. Record the revenue for special purpose insurance policies in the year the policy is provided. B. Seek authority in HB 2 to collect the actual cost of special purpose insurance.	Brett Dahl	4/30/2013

Preliminary Response
Department of Administration
Corrective Action Plan (CAP): Audit Report #12-13
Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 2012
October 4, 2012

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	Recommendation #4 We recommend the department enhance internal controls over 911 program activity to ensure distributions to county governments and telecommunication providers are recorded in accordance with state accounting policy.	No	N/A	Concur	The department has completed its corrective action plan for this recommendation. Specifically, the department: 1. Submitted the appropriate budgeting and accounting documents to change the expense code from <i>Local Assistance</i> to <i>Grants</i> for the remainder of FY 2013. 2. Will present a decision package budget request to make this coding change for the 2014/2015 biennium.	Doug Volesky	Completed 9/21/12
	Recommendation #5 We recommend the department: A. Enhance procedures to ensure appropriate access exists for SABHRS accounts for which it is the administrator. B. Provide guidance to state agencies regarding review of Form 121 changes.	No	N/A	Concur	The department will: A. Review and update SABHRS monitoring tools to ensure their adequacy. B. Provide additional training to state agencies and clarify related policy.	Paul Christofferson	6/30/2013

Preliminary Response
Department of Administration
Corrective Action Plan (CAP): Audit Report #12-13
Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 2012
October 4, 2012

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	Recommendation #6 We recommend the department comply with deposit requirements specified in state law.	No	N/A	Concur	The department will: 1. Create and maintain deposit logs to track deposits from time of receipt to time of deposit into the state Treasury. 2. Educate all employees, including support staff, on deposit requirements.	Janelle McBreen	Completed 8/15/2012
61010	Recommendation #7 We recommend the department comply with state law by depositing revenue received under the Taylor Grazing Act to the credit of the Federal Special Revenue Fund.	No	N/A	Concur	The department will comply with state law by depositing Taylor Grazing Act revenue into the Federal Special Revenue Fund before transferring the General Fund's share into the General Fund.	Patricia McNamee	12/30/2012
61010	Recommendation #8 We recommend the department comply with term contract provisions for temporary employees.	No	N/A	Concur	The department has complied with temporary employees' term contract provisions.	Russ Hill	Completed 7/30/2012