



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

ALL AUDITS

# *Legislative Resource Book on Audit Issues*

*Summaries of Issues Identified  
and Disclosed in All Audits Issued  
Between January 1, 2011 and  
January 1, 2013*

JANUARY 2013

LEGISLATIVE AUDIT  
DIVISION

2011-2013

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The Legislative Audit Committee is a bicameral and bipartisan standing committee of the Montana Legislature. It consists of six members of the Senate and six members of the House of Representatives. The Audit Committee appoints, consults with, and advises the Legislative Auditor. The Audit Committee reviews the audit reports submitted by the Legislative Auditor, releases the audit reports to the public, and serves as the conduit between the Legislative Auditor and the Legislature. A member of the committee shall serve until the member's term as a legislator ends or until a successor is appointed, whichever occurs first.

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# LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors  
Cindy Jorgenson  
Angus Maciver

January 2013

The 63<sup>rd</sup> Montana State Legislature:

Welcome members of the 63<sup>rd</sup> Montana State Legislature.

This document is a biennial compilation of audit report summaries, for audits issued since the 62<sup>nd</sup> legislative session and is divided into sections comprised of like-function agencies, similar to the legislative subcommittee structure.

As legislators and administrators try increasingly to allocate public resources effectively and make government work more efficiently, the need for independent, objective, fact-based evaluations of the stewardship, performance, and cost of government policies, programs, and operations is essential.

It is the responsibility of the Legislative Audit Division to conduct financial and compliance, performance, and information systems audits of state agencies or their programs, including the university system.

The highly qualified staff of the Legislative Audit Division provide vital information to stakeholders and the public through its audit reports. It is the mission of the office to conduct independent audits, and provide factual and objective information to the legislative and executive managers of the public trust, while providing useful recommendations that help legislators and others make informed decisions.

We hope this document provides useful resourceful information. Please feel free to contact us any time we can be of assistance, during session or during the interim.

Respectfully submitted,

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# LEGISLATIVE AUDIT DIVISION

iii

Tori Hunthausen, Legislative Auditor  
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Cindy Jorgenson  
Angus Maciver

The Legislative Audit Division is one of the three permanently staffed divisions of the Legislative Branch of Montana. Article V, Section 10(4) of the Montana Constitution mandates a legislative post-audit function. The Legislative Audit Act, contained in Title 5, chapter 13, MCA, establishes the Legislative Audit Committee of the Montana Legislature and the Legislative Audit Division.

The Legislative Audit Committee is a bicameral and bipartisan standing committee of the Montana Legislature. It consists of six members of the Senate and six members of the House of Representatives. The Audit Committee appoints, consults with, and advises the Legislative Auditor. The Audit Committee reviews the audit reports submitted by the Legislative Auditor, releases the audit reports to the public, and serves as the conduit between the Legislative Auditor and the Legislature.

As legislators and administrators try increasingly to allocate public resources effectively and make government work more efficiently, the need for independent, objective, fact-based evaluations of the stewardship, performance, and cost of government policies, programs, and operations is essential. The Legislative Auditor and staff have the statutory authority to examine, at any time, all the books, accounts, and records, confidential or otherwise, of a state agency. It is the responsibility of the Legislative Audit Division to conduct financial and compliance, performance, and information system audits of state agencies or their programs, including the university system, in accordance with Governmental Auditing Standards.

Any member of the Legislature may request an audit by the Legislative Auditor of activity of state government. In addition, the Legislative Auditor and staff shall assist any member of the Legislature, its committees, and its members by gathering and analyzing information when requested.

The Legislative Audit Division is comprised of administrative staff and three operational components:

- ◆ Financial and Compliance Audits
- ◆ Information Systems Audits
- ◆ Performance Audits

## **Financial and Compliance Audits**

Financial and Compliance audits determine if an agency's financial operations are properly conducted; if the agency has complied with applicable laws and regulations; and if the financial reports are presented fairly. Financial and compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The primary objectives of financial-compliance audits are to ascertain that agencies:

- 1) Make expenditures only in furtherance of authorized activities and in accordance with the requirements of applicable laws and regulations.
- 2) Collect and account properly for all revenues and receipts arising from their activities.
- 3) Maintain adequate safeguards and accountability for assets in their custody.
- 4) Submit reports and financial statements to the Governor, the Legislature, and central control agencies which disclose fully the nature and scope of the activities conducted, and provide a proper basis for evaluating the agencies' operations.

## **Information Systems Audits**

Information Systems audits are designed to assess controls in an information system (IS) environment. With the increase in computerization of state government, IS controls provide assurance over the accuracy, reliability, and integrity of the information processed. From the audit work a determination is made as to whether controls exist and are operating as designed. Controls are examined to determine whether assets are adequately safeguarded and to determine the reliability of computer-generated information and reports.

Information Systems audits include an annual audit of the state's information processing facility and Statewide Accounting, Budgeting and Human Resource System (SABHRS). Information Systems audit staff also audit state departments' data processing functions and participate in planning and conducting work on various financial-compliance and performance audits. Members of the IS audit staff hold degrees in disciplines including business, accounting, education, computer science, mathematics, political science, and public administration.

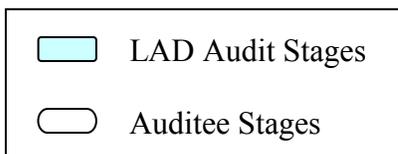
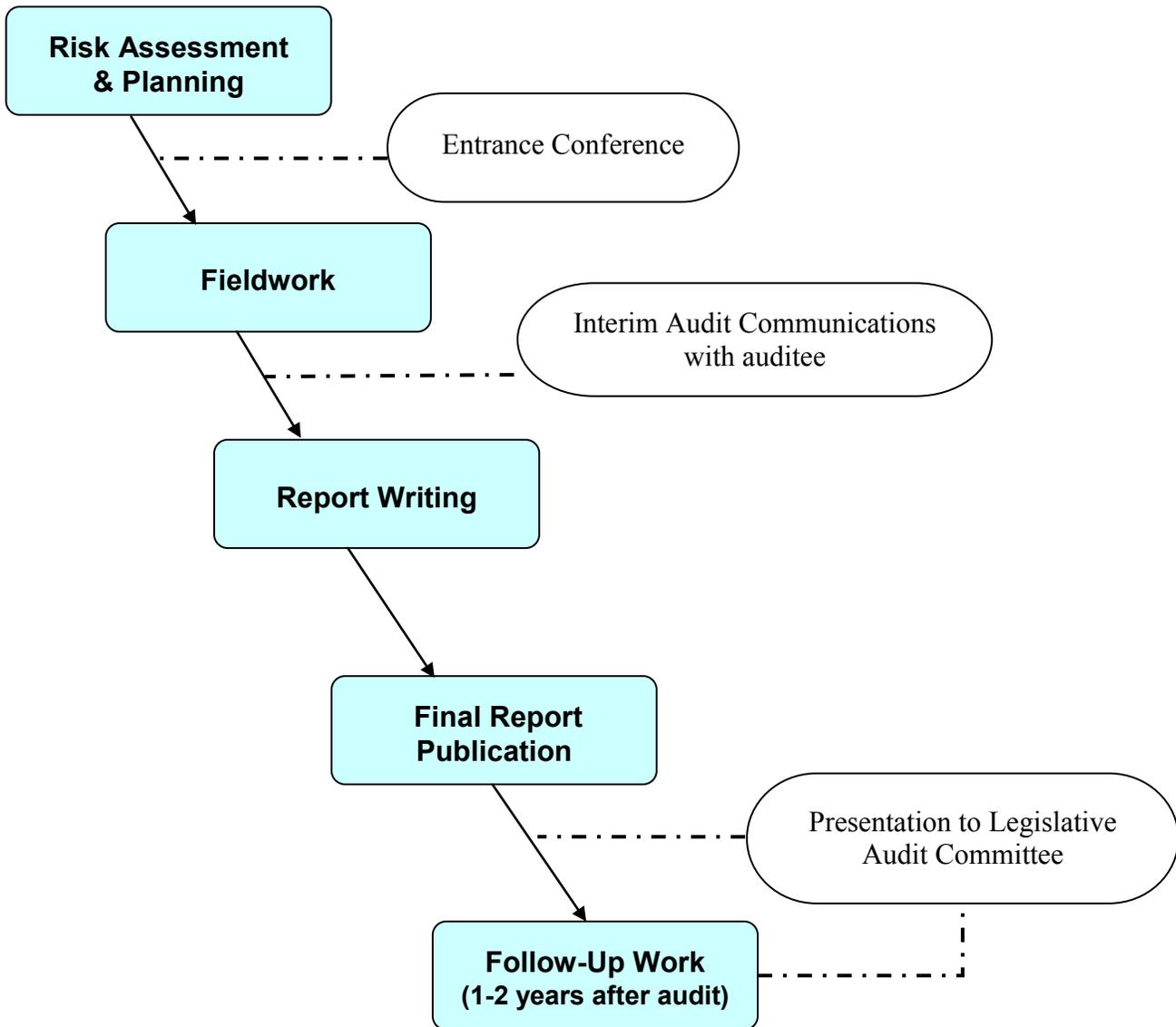
## **Performance Audits**

Performance audits assess the effectiveness and efficiency of the operations of state government. In order to fulfill this purpose the members of the performance audit staff hold degrees in disciplines appropriate to the audit process. Areas of expertise include business and public administration, journalism, accounting, economics, sociology, finance, political science, English, anthropology, international relations/security, and chemistry.

The performance audit process starts with a review of statutory directives and program goals and objectives. Audit criteria are established and the program is evaluated in relation to whether statutory directives are met and associated goals achieved. The program is also evaluated to determine if directives and goals can be achieved with greater efficiency and economy while being properly controlled and managed.

# Audit Process

Audits are conducted in accordance with generally accepted government auditing standards set forth by the United States Government Accountability Office (GAO). Audits progress through the following distinct stages:



## Agency Groupings

### GENERAL GOVERNMENT

Legislative Branch  
Consumer Counsel  
Governor's Office  
Secretary of State  
Commissioner of Political Practices  
State Auditor  
Revenue  
Administration  
Commerce  
Labor & Industry  
Military Affairs

### HEALTH AND HUMAN SERVICES

Public Health and Human Services

### NATURAL RESOURCES AND TRANSPORTATION

Fish, Wildlife and Parks  
Environmental Quality  
Livestock  
Natural Resources and Conservation  
Agriculture  
Transportation

### CORRECTIONS AND PUBLIC SAFETY

Judiciary  
Crime Control Division  
Justice  
Public Service Regulation  
Office of Public Defender  
Corrections

### EDUCATION

Office of the Commissioner of Higher  
Education/Board of Regents  
Office of Public Instruction  
Board of Public Education  
School for the Deaf and Blind  
Montana Arts Council  
State Library Commission  
Montana Historical Society  
University Units and College of Technology  
Community Colleges  
Agricultural Experiment Station  
Extension Service  
Forestry and Conservation Experiment Station  
Bureau of Mines & Geology  
Fire Services Training School

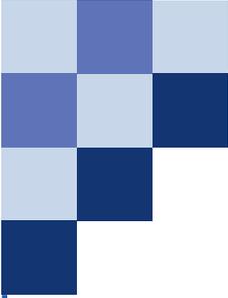
# Chapter I – General Government

## **Disclosure Issues**

In addition to the recommendations included in audit reports for state agencies, audit reports may also include disclosure issues. Disclosure issues are items of which the Legislative Auditor believes the legislature should, but may not be, aware. They include situations where the law may not directly address the issue, where spending by state agencies might be inconsistent with what appears to be the intent of the legislature or where amounts on the state's accounting records might not be accurate. The disclosure issues listed below are included in reports for the agencies addressed in this section.

### **Board of Investments #10-04B**

### **Office of the Secretary of State #12-19**



## FEDERAL SINGLE AUDIT

# Montana Single Audit Report

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

MARCH 2012

10-02

REPORT SUMMARY

The state of Montana spent approximately \$2.9 billion in federal funds in fiscal year 2009-10 and \$3.1 billion in fiscal year 2010-11. Both years combined, this is an increase from the prior Single Audit biennium of approximately \$1.7 billion. This increase is largely due to the American Recovery and Reinvestment Act (ARRA) funds for programs such as Medicaid, Unemployment Insurance, Stabilization, Highway Construction and the Supplemental Nutrition Assistance Program.

### Context

The Montana Single Audit report is compiled from the Montana Statewide Audit (10-01 and 11-01A) reports and the audits performed at each state agency. The Montana Statewide Audit report is included in the Single Audit report without modification. Results from each state agency are included as recommendations in the Single Audit report as required by federal regulations.

The federal government provides extensive requirements for recipients of federal grants. The audit of each state agency includes determining compliance with these requirements when the federal grant is determined to be a major federal program under federal audit guidelines. Programs with expenditures totaling at least \$19,892,405 during the audit period were identified as major federal programs residing at 10 different state agencies. The state of Montana had 32 major federal programs during the audit period.

### Results

Audits at state agencies resulted in 21 recommendations related to major programs or otherwise required to be reported by federal audit guidelines. Of these recommendations, nine reported questioned costs totaling over \$4.6 million.

Federal audit regulations specifically require the Single Audit to report on whether each major federal program complied with federal requirements applicable to the major programs as well as the internal controls over those major programs. The auditor's report identifies seven major programs that did not comply with all the federal requirements applicable to those programs.

Federal audit requirements also define varying degrees of deficiencies in internal controls. These include a control deficiency, a significant deficiency, and a material weakness, in order from least to most serious. The audit reported 11 significant deficiencies and one material weakness.

Recommendation Concurrence	
Concur	*
Partially Concur	*
Do Not Concur	*
<b>Source: Agency audit response included in final report.</b>	

\*This report is a compilation of audit findings reported in previously issued state agency audit reports. The status of concurrence with the recommendations contained in the Single Audit report can be found in the agency audit reports where the finding originated.

For a complete copy of the report (10-02) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
 Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE  
 Call toll-free 1-800-222-4446, or e-mail [lad@mt.gov](mailto:lad@mt.gov).



# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL AUDIT

### State of Montana

For the Fiscal Year Ended June 30, 2010

JANUARY 2011

10-01

REPORT SUMMARY

The basic financial statements provide legislators and taxpayers with a summary of the state's financial health. All operations and activities of the state are summarized in these statements. The Schedule of Expenditures of Federal Awards summarizes the state's use of federal funds.

#### Context

The state of Montana made changes to the basic financial statements in fiscal year 2009-10. Governmental fund balances are now presented in a manner that more clearly identifies the extent to which Montana is bound to honor constraints on available funds. A governmental fund balance labeled as nonspendable, restricted, committed or assigned indicates a type of constraint exists, limiting the legislature's ability to use those funds for general operations. Unassigned fund balance is free of constraints. At June 30, 2010, the General Fund unassigned fund balance was \$239,047,000. In addition, governmental fund expenditures are now aggregated into categories similar to those used for the state's adopted budget.

The Management's Discussion and Analysis provides the user of the basic financial statements with an analysis of the state's financial position at June 30, 2010, and summarizes changes that have occurred since June 30, 2009.

The Schedule of Expenditures of Federal Awards reports total federal assistance in fiscal year 2009-10 in excess of \$2.9 billion.

#### Results

In fiscal year 2009-10, the retirement systems' audits disclosed material noncompliance with the Montana Constitution and state law requiring those systems to be adequately funded for future periods. As of July 1, 2010, four retirement systems were not adequately funded. Additional information is available in the recent audits of the Public Employees' Retirement Board (10-08A) and the Teachers' Retirement System (10-09A).

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

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

**FINANCIAL AUDIT**  
**State of Montana**  
**For the Fiscal Year Ended June 30, 2011**

MARCH 2012

11-01A

REPORT SUMMARY

The Montana Legislature uses the State’s Basic Financial Statements to gain perspective of the State’s financial position to help guide its course of actions. At the end of fiscal year 2011, Montana had approximately \$341.8 million of unassigned fund balance in the General Fund.

**Context**

The Basic Financial Statements include all of the state’s financial activity for the fiscal year. The General Fund and Federal Special Revenue Fund make up over 75 percent of the state’s governmental revenue and expenditure activity. Health and Social Services and Education and Cultural activities make up 63 percent of the state’s governmental expenditures.

An in-depth analysis of the state’s financial position as of June 30, 2011, can be reviewed in the Management’s Discussion and Analysis section of the report. Additional information is also provided in the Notes to the Financial Statements.

In fiscal year 2010-11, the General Fund became responsible for paying the Montana State Fund (MSF) workers’ compensation claims that were incurred before July 1, 1990, (old fund claims) when the Old Fund resources were exhausted. During the fiscal year, approximately \$50,000 was transferred out of the general fund to MSF to pay claims. The remaining claims outstanding total around \$64 million and are an obligation of the General Fund. The accompanying financial statements do not present the claims liability according to Generally Accepted Accounting Principles.

**Results**

In fiscal year 2010-11, the retirement systems’ audits disclosed material noncompliance with the Montana Constitution and state law requiring the systems to be actuarially sound. As of July 1, 2011, the Public Employees’ Retirement System-Defined Benefit Retirement Plan, Sheriffs’, Game Wardens’ and Peace Officers’, Highway Patrol Officers’, and the Teachers’ Retirement Systems were not adequately funded.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (11-01A#) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
 Report Fraud, Waste, and Abuse to the Legislative Auditor’s FRAUD HOTLINE  
 Call toll-free 1-800-222-4446, or e-mail [lad@mt.gov](mailto:lad@mt.gov).

## 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

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
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (12-13) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE  
Call toll-free 1-800-222-4446, or e-mail [ladhotline@mt.gov](mailto:ladhotline@mt.gov).

# INFORMATION SYSTEMS AUDIT

## Photocopier Data Security

### Department of Administration

MAY 2012

12DP-01

REPORT SUMMARY

Photocopiers can have hard drives just like computers, and thus may store sensitive and confidential data internally. If not properly controlled, there is potential for unauthorized access to this data. Although, we did not identify any data security breaches, there is a lack of awareness of data security controls.

### Context

Photocopiers are standard equipment in many state offices. Copiers in today's office can be multi-function devices that not only copy, but also print, scan, fax, and email all types of office information, including sensitive and confidential data. Since the early 2000's, most digital copiers have a hard drive, just like a computer. For a copier with a hard drive, data is stored internally. If this data is not removed from the hard drive or the hard drive destroyed when a copier is removed from service, sensitive data may be released to unauthorized individuals. For example, a news story released in 2010 identified federal surplus copiers with sensitive data still stored on hard drives. State IT policy requires all electronic data storage devices to have all data removed so it cannot be recovered (sanitized) or physically destroyed prior to disposal. State IT policy further requires agencies to maintain documentation of the disposal of these devices.

### Results

We reviewed settings on 31 copiers to identify where the data is stored and what data protections were in place. Of those, seven copiers stored data on internal hard drives. Three of these require a username and password for data access, while data on the

other four copiers is accessible by anyone on the same network.

While reviewing Department of Administration contracts for completeness we identified areas for strengthening contract language. For 15 agency locations outside of Helena, individuals responsible for copiers at 8 were not aware of any policy regarding copier hard drive disposal and 5 believed copier vendors, not agencies, are responsible for hard drive disposal. Furthermore, of nine reviewed agencies, three do not track sanitized/disposed hard drives.

Overall, we did not identify any copier data security breaches but noted controls could be strengthened. We noted some agency personnel are not aware of, or following, state IT policy. Using existing IT groups would facilitate awareness of photocopier data security policy and controls.

Recommendation Concurrence	
Concur	2
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (12DP-01) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at

<http://leg.mt.gov/audit>

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INFORMATION SYSTEMS

SABHRS: Procurement Card Processing and Select Access Controls

Department of Administration

MARCH 2011

11DP-04

REPORT SUMMARY

All state financial transactions are ultimately administered through SABHRS including payments to contractors, employee payroll, collection of tax revenues, and payment of State expenses. All users have varying levels of access to the system, so the department should ensure all access is controlled and monitored accordingly.

**Context**

The Statewide Accounting, Budgeting, and Human Resources System (SABHRS) is a statewide computer application implemented by the State of Montana to assist state agencies in reporting the disposition, use, and receipt of public resources (§17-1-102 (2), MCA). SABHRS also assists in the administration of human resource information, including the generation of a biweekly payroll. SABHRS is used to record and monitor the movement of all state resources.

On an annual basis, an Information Systems audit is conducted of controls over SABHRS. Because we review SABHRS annually, this audit was limited to specific access and procurement card processing controls.

**Results**

Overall SABHRS has controls in place in the specific areas we tested. However, we identified areas where controls over system access can be strengthened.

Human Resources Information Services Bureau (HRIS) programmers assist with the development of new processes and reports, implement vendor developed upgrades, and correct errors in programming code or data. We determined HRIS programmers have extensive access to the production environment. However, we noted this access has only been used once or twice a year in the past. Programmers with access to modify the production environment could make unapproved changes to data.

We also identified the use of three generic accounts in SABHRS. Each of these superuser accounts are required by the system to manage processes. However, we determined they can be accessed by department database administrators. The access allowed through these roles does not correspond to their job duties. Additionally, these accounts are accessed through the use of a single login and shared password. The use of generic accounts with a single, shared login decreases accountability. Without monitoring and access control, the potential exists an unauthorized change can be made to SABHRS without being able to identify the specific user.

In order to use SABHRS, individuals must be granted access. Agency security officers use SABHRS security manuals to manage access. Due to the complexity of access roles, there is potential for creating incompatible access. As such, it is important to ensure all documentation provides a clear understanding of the access control environment.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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

## INFORMATION SYSTEMS AUDIT

# Strengthening Processes Related to IT Governance

### Department of Administration

JUNE 2012

11DP-13

REPORT SUMMARY

The Montana Information Technology Act (MITA) provides the framework for IT governance. This law created the State Chief Information Officer position, which has the main responsibility for oversight of IT. For the 2011 biennium, agencies anticipated spending over \$259 million for IT projects. The need for effective governance for IT resources continues as more state resources are devoted to this area.

### Context

The Montana Information Technology Act, Title 2, chapter 17, part 5, MCA, was implemented in 2001 to facilitate effective deployment of IT resources and clarify governance responsibilities. IT governance was assigned to the Department of Administration (DOA), which appointed a State Chief Information Officer (CIO) to implement MITA requirements.

The IT planning cycle is an ongoing process that incorporates development of plans and reporting on plan progress, both at the agency level and statewide. MITA includes provisions which require specific documents, the elements which should be included within those documents, and timeframes for completing the process. The four main documents are: 1) the State Strategic Plan, 2) agency IT plans, 3) agency biennial reports, and 4) the State Biennial Report. IT planning cycle documentation provides the basis for ongoing review of IT activities.

### Results

MITA provides an effective governance structure for Montana. There are established processes and controls for key steps within

IT management. Roles and responsibilities have been defined and implemented. One area we reviewed involved advisory groups. These groups are an effective tool for improving IT governance through increased communication and collaboration.

While MITA defines the planning and reporting processes, we noted variations with the information reported in IT plans and reports. This results in a lack of continuity. Lack of continuity prevents the development of trends which is integral to monitoring the effectiveness of the development of IT resources. The department should strengthen its oversight to ensure planning and reporting is complete and consistent from year to year.

Monitoring the development of IT projects is an important aspect of governance. Development of an IT project starts with identification of a need, then progresses through several stages including definition, cost estimation, funding and appropriation, development, and finally implementation.

Based on our audit work, there are numerous IT projects not reported because they fall under a certain dollar amount. As a result, the current process does not provide the department or the legislature with a comprehensive view of all IT activities.

Best practices recognize ongoing monitoring of a project is a critical component of development and a strategic part of IT governance. Current policy does not include any details or guidance on project management. Providing additional project management guidance, including reporting requirements for ongoing project management activity, will help increase continuity and ensure the ongoing health of IT projects.

MITA requires the department to establish and enforce statewide information technology policies and standards. As part of our audit work, we evaluated the effectiveness of DOA policy development. We noted several factors that contribute to confusion among agency personnel regarding statewide policies. We recommend the department formalize its policy development process.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (11DP-13) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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## PERFORMANCE AUDIT

# Improving Montana's Office Supply Acquisition Processes

## Department of Administration

OCTOBER 2011

11P-09

REPORT SUMMARY

Existing processes for purchasing office supplies could be improved to reduce costs to agencies. We identified \$109,000-\$139,000 in potential savings during a review of a six-month time period.

### Context

Office supplies are necessary for the day-to-day function of any business or government agency. In Montana, state agencies purchase essential supplies such as paper, pens, toner, and tape through a statewide contract with a private contractor, through the state operated Central Stores warehouse, or from the retailer of their choice. Products from the contractor and Central Stores may be ordered through a single website while purchases made through other retailers may be in local stores or online. We reviewed transactions for each of these types of purchases with two objectives:

1. To determine if the processes in place for office supply acquisition obtain products at the lowest available price.
2. To evaluate management of the office supply acquisition processes.

We obtained transaction level data for office supplies for a six-month time period and compared the prices paid to the prices for which identical or equivalent products could be obtained from other sources during the same time period. We also obtained information related to office supply procurement in other states, evaluated monitoring procedures for each procurement method, and conducted a survey of individuals who purchased office supplies.

### Results

The existing statewide contract calls for the contractor to deliver office supplies to the Central Stores warehouse in Helena. State personnel at this warehouse then deliver (or arrange for delivery) to the ordering agency. A markup is added to the cost of contractor supplied items to cover overhead and delivery. There were a total of \$1.28 million in sales under the contract for the six-month timeframe we considered. We identified potential savings of \$103,000 if the Department of Administration would adopt a contract that provides vendor-direct delivery of contract items. The contract used for this pricing analysis features an optional administrative fee. If the maximum fee was added to the cost of products under this contract the potential savings would be reduced to \$83,000.

Central Stores carries three basic lines of products: office supplies, food service disposables, and custodial products. Products are ordered from various vendors and warehoused in Helena, where they may be ordered by agency end users. There are a total of 100 different types of office supplies in its catalog, mostly commonly purchased items such as paper, batteries, or mailing labels. Central Stores buys products from vendors using a competitive process then adds a markup to each product that it sells

to cover the overhead and delivery costs. The total dollar value for Central Stores office supply transactions during the time period analyzed was \$485,000. We identified potential savings of \$31,000-36,000 if the Department of Administration would adopt a contract that provides vendor-direct delivery of warehoused items. These contracts also feature an optional administrative fee. If the maximum fee was added to the cost of products under these contracts the potential savings would be reduced to \$26,000-28,000. Together with the potential savings discussed in the previous paragraph, these savings yield a total of \$109,000-139,000 in potential savings during the six months we reviewed.

If the Department of Administration does award a contract as described above it should also implement a process to monitor the performance of that contractor. Such a process would help ensure the contractor fulfills the contract as intended. Without periodic monitoring a contractor could bill at rates that are higher than those which are required by contract or the contractor may perform poorly in terms of service or delivery time.

Finally, there are many transactions with office supply retailers outside the existing state programs. The total value of transactions with office supply retailers using a state issued procurement card during our time period was \$781,000. These purchases are allowable if the product purchased is less expensive than through the state sponsored programs. We reviewed a sample of products from this set of transactions and found that in 24 of 29 cases the purchased products cost more than they would have through the state website. The Department of Administration should increase its outreach to state agencies to promote the requirements and benefits of using the state sponsored programs for purchasing office supplies.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (11P-09) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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## FINANCIAL-COMPLIANCE

## Department of Commerce

For the Two Fiscal Years Ended June 30, 2011

JANUARY 2012

11-16

REPORT SUMMARY

The Department of Commerce (Commerce) is charged statutorily with a variety of responsibilities including but not limited to: community development, housing programs, tourism promotion, Coal and Hardrock mining boards, Micro Business Loan Program, and the Montana Heritage Program. This audit report includes three recommendations directed to the department for improvements in its grant program controls.

### Context

During fiscal years 2010 and 2011 the department granted funds from both state and federal sources totaling approximately \$190 million. The grant programs are primarily administered by four different divisions at the department: Business Resources, Community Development, Housing, and the Director's Office. Grant programs administered by the department include Community Development, Block Housing and Planning, Treasure State Endowment, and Coal Board.

### Results

This report includes five recommendations to the department. We found the department made disbursements of approximately \$2.0 million without an appropriation which is contrary to requirements in the Constitution and state law. We also identified several aspects in which the department's control structure over the grants system

should be improved. The report includes control recommendations related to payment and contract approvals and subrecipient monitoring.

Recommendation Concurrence	
Concur	2
Partially Concur	1
Do Not Concur	2
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (11-16) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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**PERFORMANCE AUDIT**  
**Big Sky on the Big Screen Act: Montana’s**  
**Film Incentive Program**  
 Department of Commerce  
 Department of Revenue

SEPTEMBER 2011

11P-08

REPORT SUMMARY

While the Big Sky on the Big Screen Act will sunset January 1, 2015, controls could be strengthened to ensure ineligible production companies do not receive tax credits.

**Context**

The Big Sky on the Big Screen Act (Act) was passed by the Legislature in 2005. The Act was established to revitalize the motion picture and television industries in Montana by offering incentives to production companies for filming in Montana. Incentives are offered in the form of refundable tax credits for employing Montana residents and purchasing Montana goods and services. The Montana Promotion Division within the Department of Commerce and the Business and Income Taxes Division within the Department of Revenue administer the Act.

To qualify for the Act, a production company must meet statutory eligibility requirements. The Department of Commerce is responsible for approving eligibility through its certification process. The Department of Revenue is responsible for verifying and approving the production company’s expenditures and ensuring the accuracy of the tax credit amount claimed.

The following table shows the level of activity related to the Act including the number of productions certified for the incentive, the number of productions that claimed the tax credit, and the amount of tax credit claimed.

Years	Certified Productions	Productions that Claimed Credits	Tax Credit Claimed
2005	7	1	\$2,702
2006	15	7	\$193,760
2007	17	13	\$171,011
2008	25	8	\$70,190
2009	12	4	\$42,072
2010	12	3	\$28,697
<b>Totals</b>	<b>88</b>	<b>36</b>	<b>\$508,432</b>

Source: Compiled by the Legislative Audit Division from Department of Commerce and Department of Revenue data.

**Results**

Audit work determined controls over the Big Sky on the Big Screen Act could be strengthened to ensure production companies comply with statutory requirements. Specific areas are discussed below.

During our review of the Department of Commerce’s certification process we determined not all productions had a complete application. Since applications were not complete, we could not verify whether the production met statutory requirements of the Act. The Department of Commerce should strengthen controls to ensure the production

company meets statutory requirements before being certified. Additional recommendations related to the certification process include, ensuring the production is certified prior to the start of principal photography, ensuring the application aligns with statute, and establishing rules for the certification process. By strengthening controls, the Department of Commerce will be better able to ensure all productions certified for the Act meet statutory requirements.

Audit work also determined the Department of Revenue could improve its controls over the Act. Recommendations made to the Department of Revenue include ensuring production companies meet statutory requirements prior to issuing the tax credit. Specific areas include ensuring the production company submits expenditure and payroll records in a timely manner, pays the \$500 application fee, and certifies it has paid all Montana vendors.

When comparing the Act to other states' film incentive programs, we determined Montana's program is similar to those in comparable states; however, it does not have a program or production cap limiting the fiscal impact on the state. Without legislative action, the Act will sunset on January 1, 2015.

Recommendation Concurrence	
Concur	7
Partially Concur	0
Do Not Concur	0
<b>Source: Agencies audit response included in final report.</b>	

For a complete copy of the report (11P-08) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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## FINANCIAL-COMPLIANCE AUDIT

## Montana Facility Finance Authority

For the Two Fiscal Years Ended June 30, 2012

DECEMBER 2012

12-12

REPORT SUMMARY

The Montana Facility Finance Authority (authority) provides access to various debt financing or refinancing instruments at reduced rates to Montana nonprofit private and public health care institutions or prerelease centers and to for-profit or nonprofit small manufacturing facilities for purchases of capital equipment and buildings. The authority issued over \$400 million in bonds, notes, and loans during fiscal years 2012 and 2011.

## Context

The authority facilitates financing under the Direct Loan, Equipment Revenue Note, Master Loan, Trust Fund Loan, and Stand-Alone Bond programs. The authority also provides grants to eligible facilities through the Montana Capital Assistance program.

The Direct Loan and Montana Capital Assistance programs are financed by authority monies, and activity under these programs is recorded for the authority on the state's accounting records. In fiscal years 2011 and 2012, the authority issued \$104,500 and \$243,702, respectively, of loans under the Direct Loan Program and committed \$40,174 and \$60,000, respectively, for grants to be provided under the Montana Capital Assistance Program.

The Equipment Revenue Note, Master Loan, and Stand-Alone Bond programs are financed with conduit debt, which is not a debt or obligation of the authority. The activity under these programs is not recorded on the state's accounting records. The outstanding balances of conduit debt for fiscal years 2011 and 2012 were \$1,087,927,712 and \$1,131,299,619, respectively. The Trust Fund Loan program is authorized in state law, and allows the authority

to lend up to \$15 million of the Permanent Coal Tax Trust funds. The outstanding balances of loans made against the coal tax trust were \$8,286,258 and \$6,175,640 for fiscal years 2011 and 2012, respectively.

## Results

This report contains one recommendation to the authority on improving internal control over accounting and financial reporting of nonroutine activity. Our audit identified two nonroutine situations arising during the audit period, the settlement of a prevailing wage claim and two loans entering into default status. Based on our review, the authority's controls were not sufficient to ensure these situations were properly recorded on the state's accounting records and reported in the authority's financial statements.

Recommendation Concurrence	
Concur	1
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (12-12) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at

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## FINANCIAL AUDIT

## Montana Board of Housing

For the Two Fiscal Years Ended June 30, 2012

NOVEMBER 2012

11-07B

REPORT SUMMARY

In fiscal year 2012, the Montana Board of Housing (board) purchased a total of 281 mortgage loans with an average loan amount of \$128,303 to borrowers whose average income was \$45,988. The board maintains a portfolio of loans that have a low rate of default and potential foreclosure.

### Context

There are seven members of the board that are appointed by the Governor. The board provides policy direction to the agency staff, authorizes bond issues, approves development financing and evaluates Board of Housing programs. These programs include the Single Family Program, Recycled Single Family Program, Multifamily Loan Programs, Low Income Housing Tax Credit Program and the Reverse Annuity Mortgage (RAM) Program.

Under the Housing Act the board does not receive appropriations from the State's General Fund and is completely self-supporting. Substantially all of the funds for the board's operations and programs are provided by the private sector through the sale of tax-exempt bonds.

In fiscal year 2012, the board issued \$58 million in bonds and \$50 million of bond escrow proceeds were redeemed. Low Income Tax Credits totaling \$2.8 million were allocated providing approximately \$21 million of equity to produce or preserve 165 units of affordable rental housing. Between 2011 and 2012, mortgages decreased by \$80 million due to the board's limited ability to purchase new mortgages and

many existing borrower's refinancing loans due to low interest rates.

In fiscal year 2011, the board purchased 251 single family mortgages for \$33 million. Low Income Tax Credits totaling \$2.6 million were allocated providing approximately \$20 million of equity to produce or preserve 164 units of affordable rental housing. In total, the board retired \$142 million of bond debt while bond debt outstanding decreased from \$878 million to \$777 million.

### Results

Our audit report did not contain any recommendations to the board.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (11-07B) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>

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**FINANCIAL AUDIT**  
**Montana Board of Housing**  
 For the Fiscal Year Ended June 30, 2011

NOVEMBER 2011

11-07

REPORT SUMMARY

The Montana Board of Housing provides decent, safe, sanitary and affordable housing for lower income individuals and families in the state of Montana by issuing tax exempt bonds, administering federal housing programs and working in partnership with other housing programs and providers throughout Montana.

**Context**

The Montana Board of Housing (board) operates within the Department of Commerce for administrative purposes. Under the Montana Housing Act of 1975, the board does not receive appropriations from the State’s general fund and is completely self-supporting. Substantially all of the funds for the board’s operations and programs are provided by the private sector through the sale of tax-exempt bonds.

The powers of the board are vested in a seven member board, appointed by the Governor, subject to the confirmation of the State Senate. The board provides policy direction to the agency staff, authorizes bond issues, approves development financing and evaluates board housing programs. These programs include the Single Family Program, Recycled Single Family Program, Multifamily Loan Programs, Low Income Housing Tax Credit Program and the Reverse Annuity Mortgage (RAM) Program.

In fiscal year 2011 the board purchased 251 single family mortgages for \$33 million. Low Income Tax Credits totaling \$2.6 million were allocated, providing approximately \$20 million of equity to produce or preserve 164 units of affordable rental housing. The board retired \$142 million of bonded debt while bonded debt outstanding decreased from \$878 million to \$777 million during the fiscal year.

**Results**

Our audit report did not contain any recommendations to the board

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0

**Source: Agency audit response included in final report.**

For a complete copy of the report (11-07) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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FINANCIAL-COMPLIANCE AUDIT

Board of Investments

For the Two Fiscal Years Ended June 30, 2012

DECEMBER 2012

12-04A

REPORT SUMMARY

The Board of Investments (board) manages the Unified Investment Program, which had total net asset value/investments of \$13.8 billion at June 30, 2012, and \$13.6 billion at June 30, 2011. The board manages the investments of state agencies and certain investments of local governments, such as cities, counties, and school districts.

**Context**

To manage the Unified Investment Program, the board created seven investment pools that operate similar to mutual funds. Those pools are: Retirement Funds Bond Pool, Trust Funds Investment Pool, Montana Domestic Equity Pool, Montana International Equity Pool, Montana Private Equity Pool, Montana Real Estate Pool, and Short Term Investment Pool.

The board also manages direct investments in fixed income securities, equity index funds, and commercial loans for approximately 20 state agencies. Those investments are reported collectively in the board’s financial statements as All Other Funds (AOF). The board also manages the investments for state and local governments. Local government entities may only invest in the Short Term Investment Pool portion of the program.

The board administers the state’s Economic Development Bond Act and Municipal Finance Consolidation Act programs. Under the Municipal Finance Consolidation Act, the board is authorized to issue up to \$190 million in INTERCAP bonds which are used to provide loans to eligible Montana governments to finance capital expenditures for up to 15 years.

The Montana Veterans’ Home Loan Mortgage Program was established during the 2011 Legislative Session and is funded by up to \$15 million of principal from the Montana Coal Tax Trust Fund, as requested by the Montana Board of Housing. The program assists Montana residents who are National Guard members, reservists, or federally qualified veterans to purchase their first home. First mortgage loans are administered by the Montana Board of Housing and purchased by Montana Board of Investments.

**Results**

This report does not contain any recommendations. Our prior financial-compliance report included one recommendation, which was implemented by the board.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (12-04A) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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## FINANCIAL AUDIT

## Board of Investments

For the Two Fiscal Years Ended June 30, 2011

JANUARY 2012

10-04B

REPORT SUMMARY

Total assets managed by the Board of Investments' (Board's) consolidated unified investment program increased by almost \$1.5 billion between June 30, 2010, and June 30, 2011. During fiscal year 2011, the Board received \$14.7 million in principal repayments on previously defaulted securities, reducing the total outstanding investments in default status to approximately \$70.9 million at fiscal year-end. Additional information on defaulted securities can be found in Note 6 to the Board's Consolidated Unified Investment Program financial statements. Between July 1, 2011, and December 9, 2011, the Board received an additional \$5.9 million in principal and interest on these defaulted securities.

## Context

The Board manages the Unified Investment Program (program), which had total net asset value/investments managed of \$13.6 billion at June 30, 2011, an increase of approximately \$1.55 billion from June 30, 2010. To manage the program, the Board created seven investment pools that operate similar to mutual funds. Those pools are: Retirement Funds Bond Pool, Trust Funds Investment Pool, Montana Domestic Equity Pool, Montana International Equity Pool, Montana Private Equity Pool, Montana Real Estate Pool, and Short Term Investment Pool. In addition, the Board manages direct investments in fixed income securities, equity index funds, and commercial loans for approximately 20 state agencies. Those investments are reported collectively in the Board's financial statements as All Other Funds (AOF). The Board invests for the state and local governments. Local government entities may only invest in the Short Term Investment Pool portion of the program.

The Board accounts for the state's Economic Development Bond Act and Municipal Finance Consolidation Act programs. Under the Municipal Finance Consolidation Act, the

Board is authorized to issue up to \$190 million in INTERCAP bonds which are used to provide loans to eligible Montana governments to finance capital expenditures for up to 15 years. At fiscal year-end, total outstanding INTERCAP bonds were \$95.5 million.

The Board employs an executive director and chief investment officer who in turn hire and manage staff. The staff members advise the Board, implement its decisions, and perform daily investment, economic development, and record keeping functions.

## Results

This report contains no recommendations, and one disclosure issue related to the Board's investment of endowment funds on behalf of the Montana University System.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (10-04B) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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**FINANCIAL-COMPLIANCE AUDIT**  
**Office of the Governor and Lieutenant Governor**  
**For the Two Fiscal Years Ended June 30, 2012**

NOVEMBER 2012

12-23

REPORT SUMMARY

The Small Business Jobs Act of 2010 was created to help increase credit availability for small businesses. Montana was awarded \$13.1 million for programs designed to increase access to credit for small businesses. The Governor’s Office (office) subgranted these funds to the Department of Commerce. The recommendations in this audit report relate to the accounting errors related to recording this federal grant.

**Context**

The office spent \$5.9 million and \$10 million in fiscal years 2011 and 2012, respectively. Revenues also increased from \$179 thousand to \$8.9 million in fiscal year 2012. These increases were due to the federal award for the State Small Business Credit Initiative grant for \$13.1 million. The office was authorized 60.07 full-time equivalent (FTE) positions for each fiscal year.

audit report has one recommendation related to errors resulting from a lack of accounting procedures. The lack of procedures at the office resulted in fund and account misclassification of federal funds in the amounts of over \$4 million dollars in expenditures and over \$200,000 in revenue.

The office is comprised of nine programs that oversee the activities of the executive branch of Montana state government, consistent with statutory and constitutional mandates.

Recommendation Concurrence	
Concur	1
Partially Concur	0
Do Not Concur	0

**Results**

The office had five prior audit recommendations of which four were implemented. The prior audit recommendation not implemented was related to the office continuing to spend General Fund monies before the appropriated monies in the State Special Revenue Fund for Air Transportation expenditures. The current

**Source: Agency audit response included in final report.**

For a complete copy of the report (12-23) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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**FINANCIAL-COMPLIANCE AUDIT**  
**Department of Labor and Industry**  
**For the Two Fiscal Years Ended June 30, 2011**

OCTOBER 2011

11-15

REPORT SUMMARY

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

**Context**

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

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

**Results**

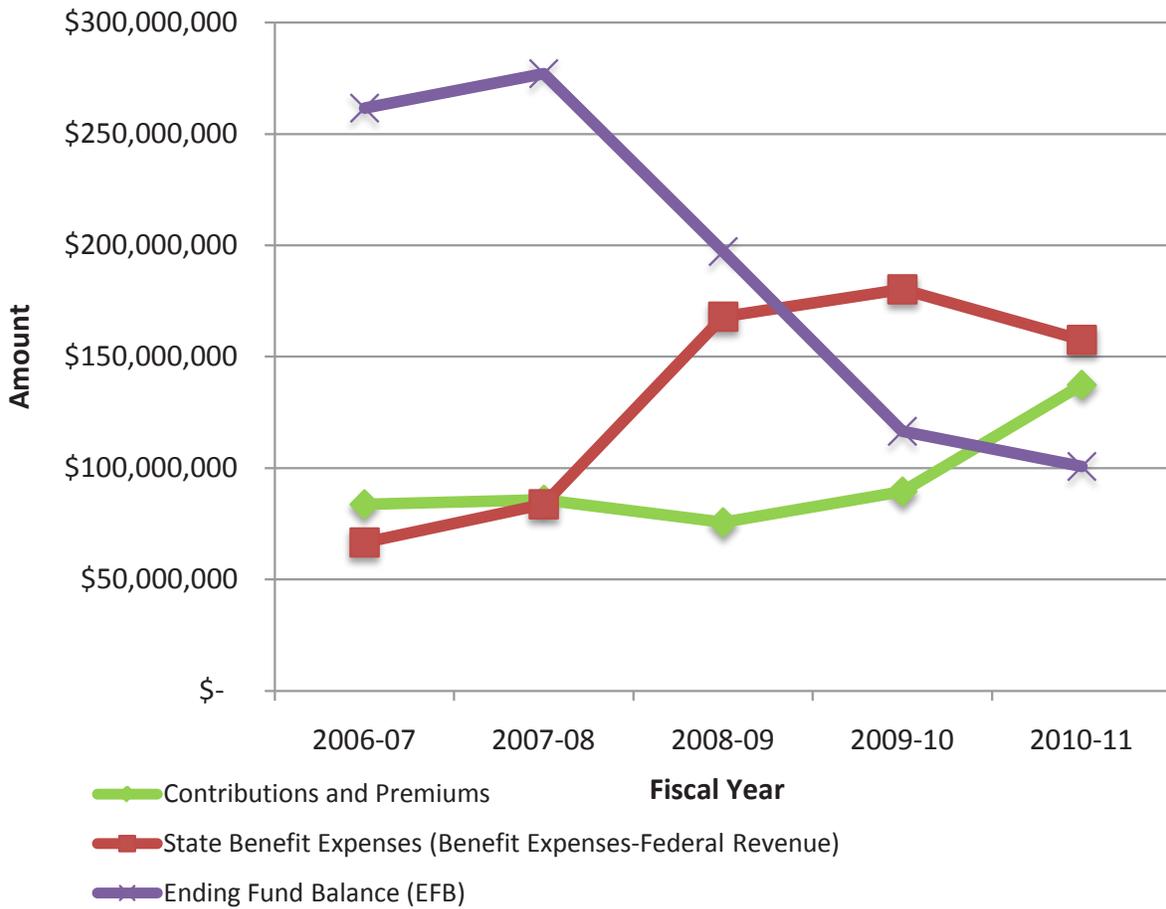
The report contains two federal compliance and control issues regarding the Workforce Investment Act (WIA) program. It identifies three state compliance issues related to the department’s Unemployment Insurance program. The report also discusses unapproved Internal Service Fund fees and recommends the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

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

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

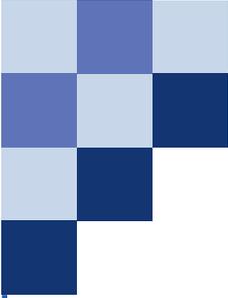
### Unemployment Insurance Enterprise Fund

Contributions and Premiums, State Benefits Expenses, and Ending Fund Balances by Fiscal Year



Source: Compiled by the Legislative Audit Division from the Statewide Accounting, Budgeting, and Human Resource System (SABHRS).

For a complete copy of the report (11-15) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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PERFORMANCE AUDIT  
Administration of Montana's  
Unemployment Insurance Program  
Department of Labor and Industry

OCTOBER 2012

12P-01

REPORT SUMMARY

The Department of Labor and Industry (department) could improve the timeliness of unemployment benefit eligibility decisions by streamlining the claim review process. In addition, improving collection controls would help the department collect millions of dollars in delinquent state unemployment insurance taxes and recover overpaid benefits.

## Context

Unemployment insurance (UI) provides benefits to eligible individuals who are out of work through no fault of their own. The Department of Labor and Industry's Unemployment Insurance Division is responsible for administering Montana's UI program. This includes processing claims to determine if individuals meet eligibility requirements to receive unemployment benefits, collecting state unemployment insurance taxes, and collecting overpaid unemployment benefits made to claimants. In fiscal year 2011 state UI tax assessments were approximately \$147 million.

Nationwide, state UI programs have been under pressure due to current economic conditions. Like other states, Montana was impacted by the national recession which began in early 2008. In fiscal year 2011, approximately 115,000 claims were filed and a total of \$278 million in unemployment benefits paid. This included \$168 million of state funded benefits and \$110 million federally funded.

The last several years have seen increases in the amount of delinquent UI state tax and the amount of benefits overpaid to claimants. Between fiscal year 2007 and 2011, the amount of delinquent UI taxes (not including penalties or interest) increased 15 percent from approximately \$3.3 million to over \$3.8 million

with 53 percent remaining uncollected for more than 18 months. During this same time period, the amount of overpaid unemployment benefits grew 204 percent from \$1.7 million to \$5.3 million. Approximately 22 percent of all unrecovered overpaid benefits have gone uncollected for more than 15 months.

## Results

Audit work found the department's determination process does not ensure timely eligibility decisions are made. Approximately half of the claim issues reviewed did not meet required federal timelines with the average time to make an eligibility decision taking more than 54 days to complete. Department internal quality control reviews indicated the process has not met required timelines for almost three years. Unresolved claim issues exceeding timelines can create financial hardships on claimants.

We found the department uses an eligibility determination business model that consists of multiple staff collecting and reviewing information during the process. This has created duplication of efforts, delays in resolving claim issues, and untimely benefit eligibility decisions. We recommended the department streamline its eligibility determination process.

*(continued on back)*

Our audit work determined the department has written off uncollected UI tax with limited management involvement and without referring these funds to Department of Revenue (DOR) for collection assistance. The department does not comply with state policy which has contributed to the growing amounts of delinquent UI taxes and overpaid benefits. The department should establish a formal process to review delinquent UI tax and overpaid benefit accounts and transfer those deemed to be uncollectable to DOR or outside collection agencies.

Our audit identified examples where inconsistent collection activities have occurred for delinquent UI taxes and overpaid benefits. Most collection decisions were at the discretion of individual collectors. We found improvements are needed in department management controls over the collection process.

Recommendation Concurrence	
Concur	5
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (12P-01) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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## PERFORMANCE AUDIT

# Mine Safety Inspection and Training Program

### Department of Labor and Industry

JANUARY 2012

11P-10

REPORT SUMMARY

State regulation of mining consists of inspections and miner training; the state mine inspection program duplicates federal regulation of mines and is not effective; changes in training programs should be considered to improve financial sustainability and cost-effectiveness.

### Context

The Department of Labor and Industry (the department) operates a mine safety program, which conducts inspections of mines and provides safety training for mine workers. Federal mine safety laws allow for dual regulatory activities at both federal and state levels. This means that although the federal Mine Safety and Health Administration (MSHA) conducts mine inspections, some states, including Montana, have also continued to inspect mines.

Until 1997, the department's mine safety program was responsible for conducting inspections of all mines in the state. Changes made during the 1997 Legislative Session resulted in state inspection of metal/nonmetal mines ending, although regular inspections of both coal mines and sand and gravel mines continued. The state's mine safety program now consists of regular mine inspections and since 2005, the department has averaged around 100 inspection events annually.

Federal law mandates workplace safety training for miners. Although many miners in Montana receive training through the department's program, mine operators can provide training themselves or use private providers. The department offers mine safety training on an as-needed basis and since 2003, demand for department mine safety training more than

doubled. In 2010, almost 2,900 individuals received training through the program.

### Results

Federal and state mine safety data indicates that continuing duplicative state inspections of mines is not effective. Montana's metal/nonmetal mines have gradually improved their safety records and Montana's experience mirrors that of some other regional states that have stopped inspecting mines. These states have improved mine safety to the point where there is a negligible difference when compared with states that still conduct inspections. If the department were to cease regular state mine safety inspections, resources could be used more efficiently in other areas. The department should seek revisions to mine safety inspection statutes to ensure its regulatory activities protect workplace health and safety in mines, while not duplicating federal inspections.

Up until 2011, demand for training services had increased in every year and the department was able to continue providing services while controlling costs associated with the program. However, despite increased demand for services, the department continues to offer training with very minimal costs to participants.

*(continued on back)*

Faced with the possibility of stagnant federal funding, the long-term financial sustainability of the training program is unclear. To ensure financial stability of mine safety training programs, the department should review available options and adjust the basis for funding these activities. This could include ending state provision of mine safety training, contracting with the state university system to provide the services, charging nominal participation fees for training, or other available options.

Audit work involved reviewing mine safety training records showing the types of classes provided and the number of class participants. Out of approximately 200 training classes in 2010, we identified several classes where there were a limited number of participants attending. Providing training for a very limited number of participants rather than pooling/combining participants in larger classes is not cost-effective. The department relies on contact from mine operators to develop training schedules, rather than pre-scheduling training events. The department should address training class sizes and scheduling. This would help avoid excessive and unnecessary costs and maintain the cost-effectiveness of the program as a whole.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (11P-10) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL-COMPLIANCE AUDIT

### Department of Military Affairs

For the Two Fiscal Years Ended June 30, 2010

JANUARY 2011

10-25

REPORT SUMMARY

The Department of Military Affairs (department) provides security to Montana citizens through its support of the Army and Air National Guard programs and administration of the Homeland Security Grant Program. The department assists veterans in receiving their veteran's benefits and provides educational opportunities to at-risk youth.

#### Context

The department has 193 Full-Time Equivalent Employees (FTE) to carry out its mission. Approximately 40 percent of the total FTE supports the Army and Air National Guard programs and 25 percent of the total provides educational opportunities to at-risk youth. The remaining 35 percent of FTE consists of administration to support the functions at the department, assistance in disaster and emergency situations, and assistance to veterans and their families.

Over 70 percent of the department's operations are federally funded. The department received \$19 million in Homeland Security Grant Funds and granted approximately 95 percent of these to state agencies and local governments.

#### Results

The department does not have adequate internal controls to ensure it complies with federal regulations for four different federal programs. The first five report sections discuss where the department should implement effective internal controls. We identified

five instances where the department did not comply with federal regulations. Three of these instances relate to the department not monitoring any Homeland Security subrecipients; not providing required Homeland Security funds to local entities, instead spending those local funds on state activities; and charging personal services to federal programs for which the employees did not work.

In addition we found the department made a significant accounting error, resulting in a qualified opinion on its fiscal year 2010 Schedule of Changes in Fund Balances opinion. The remaining schedules are fairly presented.

Recommendation Concurrence	
Concur	10
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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

**FINANCIAL-COMPLIANCE AUDIT**  
**Department of Military Affairs**  
**For the Two Fiscal Years Ended June 30, 2012**

OCTOBER 2012

12-25

REPORT SUMMARY

The Department of Military Affairs (department) provides security to Montana citizens through its support of the Army and Air National Guard programs and administration of the Public Assistance Grant Program. The department assists veterans in receiving their veteran’s benefits and provides educational opportunities to at-risk youth.

**Context**

The department has 193 Full-Time Equivalent Employees (FTE) to carry out its mission. Approximately 40 percent of the total FTE supports the Army and Air National Guard programs and 25 percent provides educational opportunities to at-risk youth. The remaining staff support the functions at the department, assist in disaster and emergency situations, and assist veterans and their families.

Over 75 percent of the department’s operations are federally funded. The department receives funding from the Operations and Maintenance Grant, Public Assistance Grant, Homeland Security Grant and numerous other smaller grants.

In June of 2011, the Governor declared a state of emergency related to the flooding in eastern Montana. As a result of this emergency, the department will receive approximately \$60 million of Public Assistance Grant funds to assist those affected by the floods over the course of the next three years. In fiscal year 2012, the department entered into formal contracts totaling \$34,732,193.

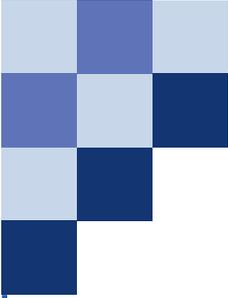
**Results**

The current audit report contains three recommendations related to recruitment and selection procedures, miscoded accruals, and compliance with the Federal Transparency Act.

The department had ten prior audit recommendations of which nine were implemented. The one not implemented, relating to expenditure accruals, is a recommendation in this report.

Recommendation Concurrence	
Concur	2
Partially Concur	0
Do Not Concur	1
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (12-25) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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PERFORMANCE AUDIT  
Contract Management  
Department of Military Affairs

JUNE 2011

11P-06

REPORT SUMMARY

The Department of Military Affairs spends millions of dollars per year for contracted goods and services; however, overall contract management does not assure compliance with procurement law and accountability for contracting activities.

## Context

The mission of the Department of Military Affairs is to provide for the safety and well being of the citizens of Montana through the maintenance of mission ready forces for federal and state activations, emergency services as directed by the Governor, and services to Montana veterans. In carrying out its duties, the department manages a significant amount of contracts. Based on our review, we estimate the department enters into more than 100 new contracts each fiscal year. These contracts are for a wide variety of goods and services, ranging from lawn care and other facility maintenance services to equipment, training, and work related to unexploded ordnances. For fiscal years 2006 through 2010, the department expended \$15.1 million on consulting and professional services alone.

Contract management activities are spread throughout the department. Thirty-one employees who have been delegated purchasing authority handle procurement under \$5,000. For purchases exceeding that amount, staff coordinate with the department's Contracts and Purchasing Officer to execute the needed contract. All procurements for services or goods exceeding \$100,000 are referred to the Department of Administration's State Procurement Bureau.

Upon execution of a contract, a contract liaison is designated. The liaison serves as the department's representative for the duration of the contract and is the primary contact for contractors. As part of their duties as a contract liaison, these employees are responsible for oversight of the provision of the services or goods by the contractor, approval of contractor payments, and assurance of compliance with contract terms. In addition, contract liaisons identify when contract amendments are necessary and if contract renewals are warranted and appropriate based on the department's need and the contractor's performance thus far.

Our audit sought to determine if the Department of Military Affairs' contract activities assure compliance with Montana procurement requirements and ensure accountability for goods and services provided. In order to meet our objective, we reviewed contract procurement and monitoring files, observed contract related processes, and interviewed staff and contractors.

## Results

We reviewed a sample of 50 contracts and found the department has not developed controls over its contract management. We noted weaknesses related to the documentation

of contract related activities, noncompliance with procurement law and policy, and a lack of overall oversight of department contracting.

We noted the department has limited contract related information, which hinders its ability to determine the number of contracts in which it is engaged and funds associated with those contracts.

In addition, we found instances in which the use of sole source procurement was not appropriate or justified for contracts worth \$256,944. In one case, an existing contract was amended to add \$118,500 for a subcontract. Sole source procurement was used on the basis this subcontractor was the only one able to complete the work; however, interviews suggested the work could have been completed by other vendors.

During the course of the audit, we found instances of inappropriate contractor payments. The department paid a contractor for invoices exceeding the total amount allowed by the contract. This represents an overpayment of \$1,487. The department also paid invoices totaling \$14,058 for services provided outside of contract specified timeframes. Further, we identified one contract in which the contract liaison had approved payments of over \$23,000 to a contractor, but the department was unable to locate any documentation to indicate any services had been provided.

We found in nearly 44 percent of the contracts we reviewed, an employee whose purchasing authority had been limited to \$5,000 had signed contracts worth more than that amount. These contracts totaled nearly \$5.3 million.

To address these concerns and others, our audit made several recommendations to improve the department’s contract management. Recommendations issued related to:

- ◆ Developing a management information system
- ◆ Documenting contracting activities
- ◆ Processing of contractor invoices
- ◆ Clarifying purchasing authority of employees
- ◆ Complying with sole source procurement requirements
- ◆ Distinguishing between employees and contractors
- ◆ Defining the role and responsibilities of contract liaisons
- ◆ Centralizing overall contract management

Recommendation Concurrence	
Concur	9
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (11P-06) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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## FINANCIAL-COMPLIANCE AUDIT

## Montana State Lottery

For the Two Fiscal Years Ended June 30, 2011

MAY 2012

10-30B

REPORT SUMMARY

State law requires that a minimum of 45 percent of the money paid for tickets or chance must be paid out as prize money and that net revenue earned must be transferred to the General Fund. In fiscal year 2011, the Montana State Lottery transferred approximately \$10 million to the General Fund. The three findings in this report focus on improvements needed in the Lottery's control systems.

## Context

The Montana State Lottery was approved in November 1986 by a referendum vote by the people of Montana to allow lottery games in which players purchase, through a state lottery, a chance to win a prize. A five-member Lottery Commission, whose members are appointed by the Governor, has certain powers and duties in law. State law also provides certain powers and duties to a director of the Montana State Lottery who is also appointed by the Governor.

This audit is the second audit that the Legislative Auditor has conducted; all others audits since the Montana State Lottery's inception were performed by private CPA firms through contracts with the Legislative Auditor.

The prior audit of the Montana State Lottery included six recommendations to the Montana State Lottery. We found the Lottery fully implemented five and partially implemented one recommendation.

## Results

This audit report includes three recommendations to the Montana State Lottery. All three recommendations address areas we identified where the Lottery should improve its control systems related to contract monitoring and financial reporting.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (10-30B) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>

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## FINANCIAL-COMPLIANCE

## Montana State Lottery

For the Fiscal Year Ended June 30, 2010

MARCH 2011

10-30A

REPORT SUMMARY

State law requires that a minimum of 45 percent of the money paid for tickets or chances must be paid out as prize money and that net revenue earned must be transferred to the General Fund quarterly. In fiscal year 2010, approximately \$10.6 million was transferred to the General Fund, which was approximately 22 percent of total revenue.

### Context

The Montana State Lottery, created by the 1985 Legislature and approved by the Montana electorate in 1986, allows lottery games in which players purchase through a state lottery a chance to win a prize. A five-member Lottery Commission, whose members are appointed by the Governor, has certain powers and duties in law. State law also provides certain powers and duties to a director of the Montana State Lottery who is appointed by the Governor.

This audit is the first audit that the Legislative Auditor has conducted; all other audits since the Montana State Lottery's inception were performed by private CPA firms through contracts with the Legislative Audit Division. The prior audit of the Montana State Lottery did not include any recommendations.

### Results

This audit report includes six recommendations to the Montana State Lottery. Five of the six recommendations relate to the Lottery's inadequate control system. The control issues relate to management override of controls for equipment purchases and contracts, contractor information used in financial reporting, prize payouts system, and payments for operating expenses. The other recommendation addresses two situations in which we determined the Lottery is not in compliance with the state law that requires it to record its financial activity on the state accounting system in accordance with generally accepted accounting principles.

Recommendation Concurrence	
Concur	6
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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# FINANCIAL-COMPLIANCE AUDIT

## Office of the Commissioner of Political Practices

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

OCTOBER 2012

12-21

REPORT SUMMARY

The Office of the Commissioner of Political Practices (office) issued formal decisions involving 11 campaign finance and practice complaints in each of fiscal years 2011 and 2012. Seventeen campaign complaints were dismissed and five ethics complaint decisions were issued in the two fiscal years. Four commissioners served during the two-year period from July 1, 2010, to June 30, 2012.

### Context

The office is responsible for enforcing campaign and lobbying disclosure laws, and code of ethics laws for state officials and employees. It performs these duties through campaign and political committee expenditure tracking, investigations of campaign finance and disclosure cases, registration of lobbyists and principle expenditure tracking, and formal ethics complaint proceedings.

The report also has a recommendation concerning use of administrative rules to adjust the minimum payments to lobbyists that triggers a financial reporting requirement.

### Results

Our current audit resulted in two recommendations related to compliance with state accounting policy. The office successfully implemented a procedure to allocate revenue from multi-year lobbyist licenses to the three fiscal years covered by the 2011 and 2012 calendar year licensing period. However, the office did not detect and correct deferred revenue errors from the previous audit period. The office also accrued expenditures in fiscal year 2010-11 for which it did not have a contract in place by June 30, 2011.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report 12-21 or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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**FINANCIAL AUDIT**  
**Public Employees' Retirement Board**  
**For the Fiscal Year Ended June 30, 2011**

DECEMBER 2011

10-08B

REPORT SUMMARY

The contributions and investment income of four of the eight defined benefit retirement plans administered by the Public Employees' Retirement Board (PERB) are not sufficient to fund future benefits earned by members of those plans. The eight defined benefit retirement plans and the defined contribution plan administered by the PERB had 21,480 retirees or beneficiaries receiving benefits and 34,531 active members as of June 30, 2011.

**Context**

The PERB is an independent, seven-member board, appointed by the Governor to administer ten retirement systems consisting of eight defined benefit plans and two defined contribution plans. The defined benefit pension trust funds include the Public Employees' Retirement System-Defined Benefit Retirement Plan, Judges' Retirement System, Highway Patrol Officers' Retirement System, Sheriffs' Retirement System, Game Wardens' and Peace Officers' Retirement System, Municipal Police Officers' Retirement System, Firefighters' Unified Retirement System, and the Volunteer Firefighters' Compensation Act. The defined contribution pension trust funds include the Public Employees' Retirement System-Defined Contribution Retirement Plan and the Section 457 Deferred Compensation Plan. PERB's revenues consist of employee contributions, employer contributions, state and other contributing entities and investment income. Employee and employer contribution rates are set in statute. PERB's expenses consist mainly of distributions to retirees.

**Results**

The Public Employees' Retirement System-Defined Benefit Retirement Plan, Sheriffs' Retirement System, Game Wardens' and Peace Officers' Retirement System, and Highway Patrol Officers' Retirement System do not have sufficient resources to fund the full actuarial cost of these systems as required by the Montana Constitution.

Recommendation Concurrence	
Concur	1
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (10-08B) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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## FINANCIAL AUDIT

## Teachers' Retirement System

For the Two Fiscal Years Ended June 30, 2011

DECEMBER 2011

10-09B

REPORT SUMMARY

At July 1, 2011, the Teachers' Retirement System (system) served 18,484 active members and 12,899 retired members or beneficiaries. The system is funded by employer and member contributions, state contributions, and investment income. In the 2011 biennium, those contributions totaled \$305,575,775 and net investment income totaled \$839,982,887. Benefit payments for the biennium totaled \$455,316,162. The Montana constitution requires the system to be actuarially sound. To be actuarially sound, resources derived from contributions and investment performance must be sufficient to fund member benefits and maintain the amortization period of the unfunded liability at or less than 30 years. The July 1, 2011, actuarial valuation indicates the system is not actuarially sound.

### Context

All full-time members of the public teaching profession, except for eligible employees of the Montana University System hired after July 1, 1993, are required by law to be members of the retirement system.

State law established a six-member retirement system board, appointed by the governor, to oversee the system. The board members each serve five-year terms. The Executive Director and other personnel conduct the daily administration functions of the system.

The Board's funding policy recognizes the constitutional requirement to ensure the system is actuarially sound and acknowledges that the legislature has the full and final authority to enact proposed legislation.

The Board sponsored legislation in the 2011 Legislative Session to address funding shortfalls. One of the proposed measures that became law is projected to make some improvement in the actuarial soundness of the system.

### Results

The audit report contains a recommendation to the Teachers' Retirement System to ensure the retirement system is actuarially sound as required by the Montana constitution. The results of the July 1, 2011, actuarial valuation indicate the system is not actuarially sound.

Recommendation Concurrence	
Concur	1
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (10-09B) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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FINANCIAL-COMPLIANCE AUDIT

Department of Revenue

For the Two Fiscal Years Ended June 30, 2012

OCTOBER 2012

12-14

REPORT SUMMARY

The Montana Department of Revenue (department) administers state tax laws, enforcing regulations for more than 30 state taxes and fees. In fiscal year 2011-12, the department collected approximately \$1.7 billion in taxes. Of this, over \$211 million was distributed to local governments. Our recent audit identified potential overpayments by payers of individual income tax.

**Context**

In addition to tax administration, the department oversees liquor distribution and licensing operations in the state and administers the one-stop licensing program and bad debt collections on behalf of state agencies. The department also manages unclaimed property, returning property to its rightful owners. For fiscal year 2011-12, the department had 661 authorized full-time equivalent employees.

Accounting policy requires funds to have positive cash balance at the end of a fiscal year. One of the department’s federal funds does not sustain a positive cash balance at fiscal year-end without a loan or advance from another fund. Rather than obtain a short-term loan each year, the department obtained a long-term loan from the liquor fund. The liquor fund should not be used for this purpose.

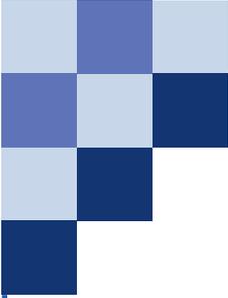
**Results**

State law allows for an inflation factor to be applied to personal tax exemptions and the standard deduction each year. We found the factor was not accurately calculated resulting in an approximate \$700,000 overpayment by individual income tax payers to the department.

State law also prescribes procedures for administering unclaimed property. An auction should be held for property unclaimed after three years, if prudent to do so. We found the last auction was held over ten years ago.

Recommendation Concurrence	
Concur	3
Partially Concur	1
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (12-14) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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PERFORMANCE AUDIT  
One-Stop Business Licensing Program  
Department of Revenue  
Board of Review

OCTOBER 2012

12P-05

REPORT SUMMARY

Audit work revealed the need for the Department of Revenue to strengthen some elements of program administration and for the legislature to reevaluate the Small Business Licensing Coordination Act.

## Context

The legislature passed the Small Business Licensing Coordination Act (Act) in 1981 in order to streamline and minimize the total government and business costs of business licensing. The Department of Revenue (Department) fulfills the Act's provisions through the One-Stop Business Licensing Program (One-Stop program). The Act also establishes a Board of Review, whose role is to provide policy direction to the Department in the establishment and operation of the One-Stop program.

The One-Stop program issued over 11,100 individual licenses to over 5,100 business entities and processed nearly \$3 million in license/permit fees in fiscal year 2012, providing convenience to businesses around the state. The program, administered by the Department, currently receives and processes license applications and associated fees, issues licenses, and issues renewal and delinquent notices for seven business licenses on behalf of five state agencies.

Businesses that require multiple license types at a single location, such as gas stations and grocery stores, can submit a single payment and master application to the One-Stop program instead of a separate payment and application to a separate agency for each license. The

Department maintains a website where businesses can access general information on operating a business in Montana, information on One-Stop program licenses (including supplemental forms and requirements), and the master application for licenses issued through the One-Stop program. The authority to issue and enforce a license or permit remains with the agency statutorily authorized to issue that license or permit. Any inspections and monitoring required to obtain licenses and permits issued via the One-Stop program are performed by the agency with licensing authority.

## Results

Our audit work revealed many aspects of the One-Stop program work well and businesses and participating agencies are generally satisfied with program operations. However, some elements of program administration could be strengthened to enhance the One-Stop program, gain efficiencies, and better serve businesses and agencies. These include the Department developing additional documented operating processes for the program, and working through the Board of Review to define the delinquent notice process.

Audit work determined that the legislature needs to reevaluate whether the Act meets current business licensing needs. Currently, the One-Stop program streamlines the licensing process for many businesses by offering the convenience of a single license application and payment, but it is not necessarily timely for businesses due to its non-online, paper-driven process.

Recommendation Concurrence	
Concur	2
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (12P-05) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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# FINANCIAL-COMPLIANCE AUDIT

## Office of the Secretary of State

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

DECEMBER 2012

12-19

REPORT SUMMARY

The Office of the Secretary of State (office) provides diverse services to the public and other state agencies. The Secretary of State interprets state election laws and oversees elections. The Secretary also serves on the Board of Land Commissioners, the Board of Examiners, and the Capital Finance Advisory Council.

### Context

Services provided by the office include maintaining the official records of the executive branch and the acts of the legislature; reviewing, maintaining, and distributing public-interest records of businesses and nonprofit organizations; filing administrative rules adopted by state departments, boards, and agencies; filing and maintaining records of secured financial transactions, such as liens; and commissioning notaries of public.

The office accounts for its expenditures in its Business and Government Services program. The majority of the office's expenditures are payroll and operating costs. The office's main source of revenue is derived from the fees it charges for the various services it provides. The office received approximately \$5.8 and \$5 million in fiscal years 2011 and 2012, respectively, for these services.

### Results

The office implemented three of the four recommendations made in the prior audit report (10-19) and did not implement one.

Recommendations contained in this report relate to internal control deficiencies, unallowable use of reverted appropriation authority, and no indirect cost recoveries. A disclosure issue discusses fees charged by the office and the resulting fund balance.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (12-19) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>

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**FINANCIAL-COMPLIANCE AUDIT**  
**State Auditor's Office**

For the Two Fiscal Years Ended June 30, 2012

DECEMBER 2012

12-20

REPORT SUMMARY

The State Auditor's Office (office) collected over \$65 million in General Fund revenue in each of the fiscal years 2010-11 and 2011-12. While the office's operations provide significant revenue streams to the General Fund, it uses no General Fund money for its operations. The results of the audit indicate accounting errors related to the office's insurance policyholder trusts.

**Context**

The State Auditor's Office regulates the insurance and securities industries in Montana. Its duties include, but are not limited to, resolving consumer inquiries and complaints, licensing companies and individuals, conducting routine examinations, investigating code and rule violations, and prosecuting violators.

The office also acts as a revenue collection agency for the state's General Fund. In this capacity, the office collected over \$65 million in General Fund revenue in each of the fiscal years 2010-11 and 2011-12. The office distributed about \$25 million and \$26 million of insurance premium taxes collected to the Firefighters' Unified Retirement System, the Volunteer Firefighters pension trust fund, and local police and fire department pension trust funds as nonemployer contributions in fiscal years 2010-11 and 2011-12, respectively.

The office continued to administer the Insure Montana Program. The program expended approximately \$11.5 million and \$9 million in fiscal years 2010-11 and 2011-12, respectively, in health insurance premium assistance and tax credit benefits.

**Results**

This report contains the audited financial schedules for the two fiscal years ended June 30, 2012. Our audit identified accounting errors involving the office's private-purpose trust fund and direct entries to fund balances. As discussed in the report, the office used an incorrect fund classification in 2010-11 and did not report the private-purpose trust fund in its entirety in 2011-12. Additionally, the report describes a control deficiency over insurance premium tax collections where the office did not separate the custody of assets duties with record keeping duties.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (12-20) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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FINANCIAL-COMPLIANCE AUDIT

Montana State Fund

For the Two Fiscal Years Ended June 30, 2012

DECEMBER 2012

12-05A

REPORT SUMMARY

As a result of worker’s compensation legislation passed in 2011, Montana State Fund (MSF) implemented an overall 20 percent rate decrease in fiscal year 2011-12. As a result, MSF’s Net Earned Premium decreased approximately 13.3 percent from \$173.6 million in fiscal year 2010-11 to \$150.5 million in fiscal year 2011-12. The long-term impact of this legislation on worker’s compensation claims will not be known for several years.

**Context**

MSF is administratively attached to the state of Montana, Department of Administration. MSF is governed by a seven member board of directors appointed by the Governor. The MSF is a nonprofit, independent public corporation established under Title 39, chapter 71 of the Montana Code Annotated, and provides Montana employers with an option for workers’ compensation and occupational disease insurance, guaranteeing available coverage for all employees in Montana.

In fiscal year 2011-12, MSF’s net premiums earned were \$150.5 million and claims incurred were close to \$130 million. Active policies remained about the same for fiscal years 2010-11 and 2011-12. MSF paid \$6 million in dividends to policyholders in fiscal year 2011-12.

MSF accounts for claims incurred on or after July 1, 1990 (New Fund) separately from claims incurred prior to July 1, 1990, (Old Fund). By fiscal year-end 2010-11, the Old fund exhausted all of its resources and by state law, the General Fund became responsible for paying the claims. In fiscal year 2010-11, a

General Fund transfer of \$50,000 was made to cover remaining claims for the year. In fiscal year 2011-12, payment of the Old Fund claims and operating costs required a General Fund transfer of \$10,041,517. The total Old Fund estimated claims liability at June 30, 2012 was \$59,161,706. Because the claims are an obligation of the General Fund, Old Fund liabilities are no longer reflected in the MSF financial statements.

**Results**

This report contains one recommendation related to recording the current portion of the estimated claims liability on the state’s accounting records in accordance with state law.

Recommendation Concurrence	
Concur	1
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (12-05A) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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**FINANCIAL AUDIT**  
**Montana State Fund**  
 For the Two Fiscal Year Ended June 30, 2011

DECEMBER 2011

10-05B

REPORT SUMMARY

Montana State Fund (MSF) accounts for claims incurred on or after July 1, 1990, (New Fund) separately from claims incurred prior to July 1, 1990, (Old Fund). Adequate funding of the Old Fund is the responsibility of the state of Montana's General Fund. By fiscal year-end 2010-11, the Old Fund liquidated all of its assets and received a \$50,000 transfer from the General Fund to pay claims. Payment of the Old Fund liabilities in the amount of approximately \$64 million is now the responsibility of the General Fund.

**Context**

MSF is administratively attached to the state of Montana, Department of Administration. MSF is governed by a seven member board of directors appointed by the Governor. The MSF is a nonprofit, independent public corporation established under Title 39, chapter 71 of the Montana Code Annotated. MSF provides Montana employers with an option for workers' compensation and occupational disease insurance and guarantees available coverage for all employees in Montana.

In fiscal year 2010-11, MSF premiums were approximately \$174 million and claims were approximately \$151 million. Active policies decreased from approximately 25,253 to 24,780 as of June 30, 2010, and 2011. MSF paid dividends to policyholders of \$4 million in fiscal year 2010-11. In addition, MSF accrued \$1.1 million at June 30, 2011, to pay its employees an incentive for meeting certain benchmarks. The incentive payments were made to employees in November 2011.

**Results**

There are no recommendations to the MSF in the current audit report.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (10-05B) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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## Chapter II – Health and Human Services

### **Disclosure Issues**

In addition to the recommendations included in audit reports for state agencies, audit reports may also include disclosure issues. Disclosure issues are items of which the Legislative Auditor believes the legislature should, but may not be, aware. They include situations where the law may not directly address the issue, where spending by state agencies might be inconsistent with what appears to be the intent of the legislature or where amounts on the state's accounting records might not be accurate. The disclosure issues listed below are included in reports for the agencies addressed in this section.

There were no disclosure issues for agencies included in this section.

# FINANCIAL-COMPLIANCE AUDIT

## Department of Public Health and Human Services

For the Two fiscal years ended June 30, 2011

OCTOBER 2011

11-14

REPORT SUMMARY

The Department of Public Health and Human Services operates a portfolio of medical, economic assistance, and public health programs to serve Montanans. Many of these programs are counter-cyclical, with increases in demand for services coinciding with downturns in employment, income, and state revenues. We questioned \$285,118 in costs charged to federal grants.

### Context

Department expenditures during the past fiscal year included \$1,288,782,706 in federal funds and \$508,777,127 in state matching funds. Thirteen federal programs comprised 92 percent of the federal expenditure total. Medicaid and Supplemental Nutrition Assistance Program (SNAP) are the largest of these programs, but Child Health Insurance Program, Low Income Energy Assistance Program (LIEAP), Weatherization, Women, Infants, and Children, Child Care and Development, and Temporary Assistance for Needy Families (TANF) each incurred expenditures greater than \$25 million for the two fiscal years ended June 30, 2011. The department received increased federal funding throughout the biennium from the American Recovery and Reinvestment Act through increased federal participation rates and direct supplements to grant programs. The department expended \$3.5 billion in the two fiscal years ended June 30, 2011.

The department also operates mental health, developmental disabilities, and long-term care facilities. The department contracts for Medicaid claims processing services and manages a number of information systems to handle eligibility, contractor payments, and other data intensive elements of its programs.

### Results

The report includes 15 recommendations to improve controls and enhance compliance with provisions of state law, federal regulations, and state accounting policy. Issues addressed include expending moneys from funds other than those where the costs were incurred to avoid short-term appropriation deficiencies, making payments to federal agencies, and expending general fund before nongeneral fund sources.

The report recommends correcting deficiencies in contract compliance for TANF and Foster Care contracts, limiting LIEAP grant carryforward to the level allowed by federal law, and following state regulations on sole source procurement. The audit also addresses financial reporting controls related to Foster Care and Vocational Rehabilitation federal programs, physical controls over SNAP electronic benefit cards, and the monitoring processes for TANF and LIEAP subgrantees.

The department implemented all of the 14 recommendations made in the previous audit.

Recommendation Concurrence	
Concur	15
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (11-14#) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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## PERFORMANCE AUDIT

## Montana State Veterans' Homes

## Department of Public Health and Human Services

JUNE 2012

12P-03

REPORT SUMMARY

Montana operates quality veterans' nursing homes but could address funding differences between the homes by specifying cigarette tax allocation in statute and the state could save over \$1 million annually through cost containment measures.

### Context

In Montana, there are two state veterans' homes. One is located in Columbia Falls and the other in Glendive. A third facility is proposed to be constructed in Butte. The homes provide skilled nursing care to honorably discharged veterans and eligible family members. Care includes basic assistance with daily living tasks and specialized medical treatments, when necessary. Quality of care at both homes is rated by national experts to be above average.

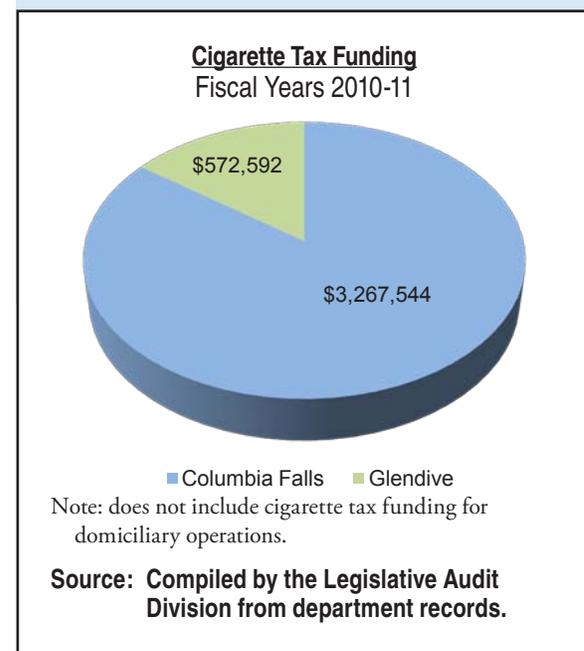
The cost of care is paid for from a variety of sources, including a veteran's personal savings or income, private insurance, Medicaid and Medicare, and two additional sources of funding unique to state veterans' homes: Veterans Administration per diem payments and a state tax levied on cigarettes.

Montana's homes operate under differing management structures. The home in Columbia Falls is managed and operated by the state while the home in Glendive is overseen by the state but day-to-day operations are carried out by a private contractor. This report details our findings related to the funding for each home, costs associated with operating these and comparable homes, and options for decreasing costs while maintaining high quality service.

### Results

Several differences exist in funding the state veterans' homes. At the end of fiscal year 2011, the full daily rate at Columbia Falls was \$221.90 while at Glendive it was \$189.50 so Columbia Falls received more revenue from residents themselves. More significantly, however, Columbia Falls also received \$51.20 per patient day from the state's cigarette tax while Glendive received \$12.25 per patient day.

By allocating cigarette tax revenues at a ratio of approximately 4:1 in favor of Columbia Falls, the state provides a subsidy to the cost of care at this facility that is not available to the same degree for residents in Glendive.



(continued on back)

We recommend the Montana Legislature review the allocation of cigarette tax funding to the state veterans' homes to determine if the allocation between homes should be addressed in statute. We also recommend the Department of Public Health and Human Services comply with statutorily-prescribed rate calculation methods or seek legislation to revise calculation procedures to establish the daily rate charged to veterans.

Using data that homes report to the federal government, we compared the costs of Montana's state veterans' homes to one another and other nursing homes. We estimate the average cost of providing skilled nursing care during fiscal years 2010 and 2011 at Columbia Falls was \$284.44 and in Glendive it was \$196.31.

We examined trends in expenses in selected cost centers (social services, laundry, dietary, and employee benefits) and found that expenses per bed day have been increasing more rapidly at Columbia Falls than in other homes. Over a six-year timeframe costs per bed day for these centers increased 76.3 percent at Columbia Falls while at other homes the costs for these centers increased by 21.3 percent. Costs at the Columbia Falls home are higher than comparison homes because of higher staffing levels and increasing costs in specific cost centers.

This audit began with a request from the House State Administration Standing Committee, which specifically asked that our audit address options and recommendations for more efficient operation of the Montana Veterans' Home without compromising quality of service. So, we examined costs at a sample of homes in order to develop options by which the home in Columbia Falls could reduce costs but maintain its high quality.

One of the options for controlling costs is by contracting for the services with a private provider. This service delivery model is currently in use at Glendive. We estimate the state of Montana would benefit from about \$1.7 million in unused cigarette tax revenues being reverted to the General Fund by doing so but a private provider would need to reduce nursing hours by about 17 percent to operate the home on a financially sustainable basis.

We also considered whether costs could be reduced without using a contracted provider. By analyzing costs within existing facility cost centers we identified several expense areas where Montana Veterans' Home costs exceeded the average costs at a set of comparable nursing homes. These expense areas were not related to direct nursing care and if they were reduced to the average level of comparable homes, could save the state up to \$1.3 million annually. We recommend the implementation of a cost containment plan for the Montana Veterans' Home that reduces expenses to a level that reflects normal costs for comparable homes.

Recommendation Concurrence	
Concur	2
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (12P-03) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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## PERFORMANCE AUDIT

Inspection and Complaint Activities for the  
Child Care Licensing Program

Department of Public Health and Human Services

OCTOBER 2011

11P-11

REPORT SUMMARY

The Department of Public Health and Human Services should strengthen management of inspection and complaint processes for the Child Care Licensing Program to assure the safety and security of children in child care facilities.

## Context

The Child Care Licensing Program is responsible for protecting the health, safety, and well-being of children receiving child care in Montana. The program registers, licenses, and monitors the state's child care facilities. As of April 2011, there were 1,188 registered or licensed child care facilities in the state.

Complaint response is also defined by individual program staff. We noted several complaints for child care facilities which alleged abuse or neglect, but there was no documentation regarding how the program and Child and Family Services Division (CFSD) coordinated and resolved the complaint.

### Child Care Facility Information

As of April 2011

Facility Type	Registration or Licensure	Number of Children Allowed	Total Number of Facilities
Family	Registration	3 to 6	455
Group	Registration	7 to 12	480
Center	Licensure	13+	253

**Source:** Compiled by the Legislative Audit Division from Department Records.

Audit work examined the processes for conducting inspections and responding to complaints in child care facilities. Overall, we identified the need for more active guidance on the part of department management to direct the activities of the program. Inspection selection and prioritization, including following up on deficiencies identified in a prior inspection, is primarily left to the discretion of individual program staff. As a result, there are inconsistencies in the way the program chooses inspections for childcare facilities.

We also determined management information could be improved related to consistently documenting program activities and increasing the reliability of program data. The department documents program activities in multiple locations. As a result, the department is unable to clearly demonstrate compliance with state law. For example, the department does not have data to determine if it is inspecting centers licensed annually on an annual basis, as required by state law. And for complaints, the department is unable to clearly demonstrate it investigates and resolves complaints in a timely manner to assure the safety and security of children in child care facilities.

## Results

Audit recommendations address the need for the department to strengthen the inspection and complaint processes for the program. Recommendations include:

- ◆ Establish a protocol for the selection and prioritization of inspection activities,

(continued on back)

- ◆ Establish a policy for following up on deficiencies identified in child care facilities,
- ◆ Comply with administrative rules regarding required notifications for negative licensing actions,
- ◆ Establish a policy for the intake and response to complaints in child care facilities based on complaint type,
- ◆ Clarify the roles and responsibilities between the Child Care Licensing Program and Child and Family Services Division relative to complaints involving child care facilities, and
- ◆ Strengthen documentation controls for the activities of the child care licensing program.

Recommendation Concurrence	
Concur	6
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (11P-11) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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## Chapter III – Natural Resources and Transportation

### **Disclosure Issues**

In addition to the recommendations included in audit reports for state agencies, audit reports may also include disclosure issues. Disclosure issues are items of which the Legislative Auditor believes the legislature should, but may not be, aware. They include situations where the law may not directly address the issue, where spending by state agencies might be inconsistent with what appears to be the intent of the legislature or where amounts on the state's accounting records might not be accurate. The disclosure issues listed below are included in reports for the agencies addressed in this section.

There were no disclosure issues for agencies included in this section.

## FINANCIAL-COMPLIANCE AUDIT

### Department of Agriculture

For the Two Fiscal Years Ended June 30, 2011

OCTOBER 2011

11-21

REPORT SUMMARY

The department of Agriculture's State Grain Lab deposits revenue weekly, even though its level of collections requires more frequent deposits.

### Context

The Department has 124.5 employees and is organized under three divisions; Agricultural Sciences Division, Agricultural Development Division, and Central Services Division. Expenditures totaled approximately \$25.9 and \$24.6 million in fiscal years 2011 and 2010 respectively. Approximately 10 percent of the Department's funding is derived from the General Fund, while over 50 percent of the funding is generated primarily from Licenses and Permits and Taxes on Agricultural Products. Another 30 percent is derived from Charges for Services for the Hail Insurance Program.

### Results

There is one recommendation resulting from our audit.

The State Grain Lab (SGL) had not deposited collections in compliance with state law. The SGL bills and collects payment for the testing services provided to grain producers and elevators. We found the SGL is depositing their collections weekly while state law requires deposits to be made on a timelier schedule.

Recommendation Concurrence	
Concur	1
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (11-21) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at

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**FINANCIAL-COMPLIANCE AUDIT**  
**Department of Environmental Quality**  
**For the Two Fiscal Years Ended June 30, 2012**

DECEMBER 2012

12-16

REPORT SUMMARY

The Department of Environmental Quality (DEQ) administers environmental protection and enhancement efforts of the state of Montana. As an agency created and empowered by the legislature to encourage the maintenance of a clean and healthful environment mandated by the Constitution, DEQ monitors environmental conditions, issues permits and evaluates permit compliance for activities with defined impacts on the environment. DEQ also works to ensure remediation of environmental damage in Montana and enforces the state’s environmental laws. The four recommendations in the report focus on improving compliance with state laws and policy regarding accounting for certain department operations.

**Context**

DEQ promotes environmental quality through programs to promote air quality; improve water supply, wastewater, and solid waste disposal infrastructure; regulate the discharge of pollutants by issuing permits and assessing compliance with the conditions of the permits; enforce the environmental laws of the state; and encourage remediation and reclamation at the sites of past natural resource damages.

pricing of storm water permits and the accounting fund placement of the abandoned mine land reclamation account required by state law.

**Results**

The report recommends DEQ limit the encumbrance of current budget authority for expenditure in future years to valid obligations as defined in state accounting policy. Another section recommends excess money in the hard-rock mining debt services fund be transferred to a related special revenue fund where the resources can be invested and used as directed by state law. Other issues address compliance with regulations regarding the

Recommendation Concurrence	
Concur	4
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (12-16) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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## PERFORMANCE AUDIT

# The Alternative Energy Revolving Loan Program

### Department of Environmental Quality

NOVEMBER 2012

12P-08

REPORT SUMMARY

The Department of Environmental Quality (department) should comply with existing administrative rules and program policy to ensure that the over \$5 million of state and federal funds loaned out by the program results in the continued development of alternative energy in Montana.

### Context

The Alternative Energy Revolving Loan Program (AERLP) was established by the Montana Legislature in 2001 to provide a financing option to Montana homeowners, small businesses, nonprofits and government entities to install alternative energy systems. Alternative energy systems can take many different forms, including energy derived from other sources such as solar, wind, geothermal, and biomass. The program has historically been funded by air quality violation penalties collected by the department for environmental enforcement activities. However, the department also directed approximately \$1.2 million in federal funds to supplement the program from the department's stimulus funding under the 2009 American Recovery and Reinvestment Act. These state and federal funds jointly comprise a revolving loan fund for the program. Since inception of the program, in 2001, the department has loaned out over \$5 million, approving 259 loans through the program.

During our review, we determined that the department should improve program compliance for the program. Audit work identified the need for the department to complete environmental reviews prior to executing a service agreement and releasing

program funds. In addition, we noted that the department does not follow administrative rules or program policy regarding project verification to ensure projects are built and funds used for their intended purposes. We also determined the department does not collect information on system performance as required by administrative rules and program policy. During our review, we determined that department staff recognized these instances of noncompliance and were taking steps to actively address our findings.

### Results

Audit recommendations address the need for the department to strengthen compliance for the program. Recommendations include:

- ◆ Completing an environmental review prior to executing a service agreement;
- ◆ Verifying project completion, including a final accounting of loan expenditures, photo verification, and site visits; and
- ◆ Collecting information from loan recipients on an annual basis regarding system performance and reliability.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (12P-08) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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## FINANCIAL AUDIT

Montana Water Pollution Control and  
Drinking Water State Revolving Fund  
Programs

For the Fiscal Year Ended June 30, 2011

JANUARY 2012

11-25A

REPORT SUMMARY

At June 30, 2011, the total outstanding loan principle for the Montana Water Pollution Control and Drinking Water State Revolving Fund programs exceeded \$322 million. Water pollution control loans are funded 83.33 percent by federal Environmental Protection Agency (EPA) capitalization grants, and 16.67 percent by state match. Drinking Water Programs are funded approximately 80 percent by federal EPA capitalization grants, and 20 percent by state match.

**Context**

The State Revolving Fund (SRF) programs provide reduced interest rate loans for the construction of waste water pollution treatment facilities and drinking water treatment facilities. The programs are jointly administered by the Department of Natural Resources and Conservation and the Department of Environmental Quality. The Department of Natural Resources and Conservation has requested an annual financial audit as required by the federal Environmental Protection Agency.

The SRF programs have loaned funds to many public entities across the state. The five largest borrowers are Billings, Bozeman, Big Sky, Kallispell, and Great Falls. The total outstanding loan principal for these borrowers for the two programs equaled \$98.3 million at June 30, 2011.

**Results**

This report contains no recommendations and contains an unqualified opinion. Financial statement users can rely on the information in the financial statements and notes.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (11-25A) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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## FINANCIAL AUDIT

# Montana Water Pollution Control and Drinking Water State Revolving Fund Programs

For the Fiscal Year Ended June 30, 2010

FEBRUARY 2011

10-29B

REPORT SUMMARY

In early 2009, the U.S. Congress passed the American Recovery and Reinvestment Act (ARRA). The State of Montana Water Pollution Control and Drinking Water State Revolving Fund (SRF) programs received approximately \$38,000,000 of ARRA funds for the fiscal years 2008-09 and 2009-10. There were 64 projects funded from the Federal ARRA funds received.

## Context

The SRF programs provide reduced interest rate loans for the construction of waste water pollution treatment facilities and drinking water treatment facilities. The programs are jointly administered by the Department of Natural Resources and Conservation and the Department of Environmental Quality. The Department of Natural Resources and Conservation has requested an annual financial audit as required by the federal Environmental Protection Agency.

The SRF programs have loaned funds to many public entities across the state. The largest loans are to Big Sky, Kalispell, Great Falls, Bozeman, Helena, and Billings. At June 30, 2010, the total outstanding loan principal for the two programs exceeded \$287 million.

## Results

This report contains no recommendations and contains an unqualified opinion. Financial statement users can rely on the information in the financial statements and notes.

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

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

## FINANCIAL-COMPLIANCE

Department of Fish, Wildlife and Parks  
For the Two Fiscal Years Ended June 30, 2011

OCTOBER 2011

11-18

REPORT SUMMARY

The department spent over \$116 million and \$112 million in fiscal years 2011 and 2010 respectively. The main sources of funding are licenses, permits, and federal awards. The department does not receive General Fund appropriations. Our audit report contains recommendations to the department regarding internal controls and compliance with state and federal laws. Recommendations relate to land acquisitions, reporting theft, monitoring changes in state law that affect the department, Big Horn Sheep auction proceeds, and untimely deposits.

## Context

The department controls 320 fishing access sites and 54 state parks, issues hunting and fishing licenses, and oversees fish and wildlife preservation programs, enforcement activities, land acquisitions, and community education programs. The five-member Fish, Wildlife and Parks Commission sets fish and wildlife regulations, approves property acquisitions, and approves certain rules and activities of the department as provided by statute. Commission members are appointed by the governor and confirmed by the senate. There are seven regional offices throughout the state. The department's headquarters is in Helena.

## Results

Recommendations in the report relate to land acquisitions, reporting theft, monitoring changes in state law that affect the department, Big Horn Sheep auction proceeds, and untimely deposits. The department implemented the four recommendations contained in our prior audit report.

Recommendation Concurrence	
Concur	5
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (11-18) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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**FINANCIAL-COMPLIANCE AUDIT**  
**Department of Livestock**

For the Two Fiscal Years Ended June 30, 2011

DECEMBER 2011

11-22

REPORT SUMMARY

The Department of Livestock (department) is established by state law and governed by the Board of Livestock. As of June 30, 2011, the department collected approximately \$2,768,000 in brand re-record fees for the 2011 brand re-record year.

**Context**

State law tasks the department with controlling and eradicating animal disease, preventing the transmission of such diseases to humans, protecting livestock from predatory animals, performing meat, milk, and egg inspections, and regulating producer pricing of the milk industry. The department carries out these tasks through the Animal Health Division, the Brands Enforcement Division, the Diagnostic Laboratory, and the Meat, Milk, and Egg Inspection Division. Department-wide functions, such as budgeting, accounting, and payroll, are performed by the Centralized Services Division.

The department's operations are funded through brand license fees, per capita livestock taxes, and various charges for services. Every ten years, the department requires that brand holders re-record their brands. Brand holders are charged a fee of \$100 per brand re-recorded in exchange for the exclusive use of the brand for ten years. Calendar year 2011 is a re-record year. From January to June 2011, the department collected approximately \$2,768,000 in brand re-record fees. The department anticipates collecting a total of \$4,800,000 in re-record fees for the 2011 re-record.

**Results**

This report contains three recommendations to the department. The recommendations address areas where the department can improve accounting controls related to recording brand transactions, coding revenue transactions, and eliminating balances of federal moneys; enhance compliance with laws and regulations related to the Board of Horse Racing; and improve the timeliness of deposits to comply with state law and state accounting policy.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (11-22) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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## FINANCIAL-COMPLIANCE AUDIT

### Department of Natural Resources and Conservation

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

OCTOBER 2012

12-17

REPORT SUMMARY

The Department of Natural Resources and Conservation (department) administers and manages trust lands, establishes statewide forestry programs, provides wildfire suppression, manages loan and grant programs for local communities, local governments, state agencies, and private citizens, issues licenses and permits, inspects wells for the oil and gas programs, and manages and maintains state owned dams, reservoirs and canals. Our audit identified several areas for improvement, including inadequate procedures for trust land acquisitions, state parks on trust lands, inadequate controls over transactions governed by statute or policy, and the accumulation, use, and payment of excess leave payouts.

### Context

In fiscal years 2011-12 and 2010-11, the department has generated distributable revenues of approximately \$69.2 million and \$68.7 million, respectively, through the management of state lands for its 12 separate land trusts. Of this, \$58.4 million and \$55.9 million were for Montana school children as part of the Common Schools Trust.

### Results

The current audit report contains six recommendations and unqualified opinions on each of the financial schedules for fiscal years 2011-12 and 2010-11. The prior audit report for the two fiscal years ended June 30, 2010, contained 11 recommendations to the department. The department implemented six, did not implement four, and partially implemented one. The recommendations not implemented related to various trust land issues and firefighter meal allowances. The trust lands administrative costs and firefighter meal allowances prior audit

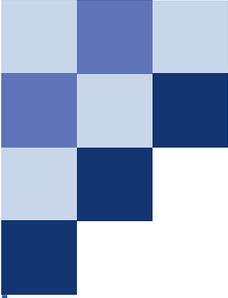
recommendations have been reported in several prior audit reports. The department does not agree with our finding, reported in our past two audit reports, related to unreimbursed overcharges of administrative costs for trust lands and has no intention of implementing our recommendation. As a result, we included the information in the prior audit recommendation section of the report. The department is making progress on its implementation of our prior audit recommendation related to firefighter meal allowances and a recommendation is included in this report.

Recommendation Concurrence	
Concur	4
Partially Concur	2
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

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PERFORMANCE AUDIT  
Board of Oil and Gas Conservation  
Regulatory Program  
Board of Oil and Gas Conservation

SEPTEMBER 2011

11P-04

REPORT SUMMARY

The Board of Oil and Gas Conservation must improve its inspections and enforcement processes to more effectively regulate the state's 17,600 active oil and gas wells.

## Context

The Board of Oil and Gas Conservation and its staff in the Oil and Gas Conservation Division regulate oil and natural gas development in Montana. Their work helps protect the petroleum resource, property owners, the environment, taxpayers, and oil and gas operators. The governor appoints the seven members of the board. The board and division is administratively attached to the Department of Natural Resources and Conservation.

The board is the policy setting and rulemaking entity. Administrative functions are the responsibility of the division. Division staff issue permits; classify wells; issue and carry out board orders; conduct field inspections; require performance bonds for site restoration; and maintain a repository of administrative, technical and geologic information about these wells.

Audit work reviewed the regulatory activities of the board and division. In addition, we examined the controls used to ensure integrity and accuracy of the Oil and Gas Information System, a database of well information.

## Results

Under the supervision of the Board of Oil and Gas Conservation, division management should generally provide more formalized

direction to division staff for inspection and enforcement activities.

For the regulatory processes, the division's permitting and abandonment processes appear sound, while improvements are necessary for the inspections and enforcement processes.

Although faced with a large number of wells to inspect, audit work found the division lacks a formalized approach to their work. The division should create formal inspection priorities, develop documented inspection procedures, improve inspection documentation, and consistently document field deficiencies and violations.

When inspectors identify a violation, the board and division collaborate with the operator to gain compliance. The division could improve its compliance rate, and lessen the number of unresolved violations, by applying existing compliance timelines and creating additional ones.

The division could improve management of the Oil and Gas Information System in the areas of segregation of duties, security planning, password policies, and disaster recovery planning.

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

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**FINANCIAL-COMPLIANCE AUDIT**  
**Montana Department of Transportation**  
**For the Two Fiscal Years Ended June 30, 2011**

OCTOBER 2011

11-17

REPORT SUMMARY

The Montana Department of Transportation (department) spent approximately \$206.6 million in American Recovery & Reinvestment Act funds in fiscal years 2010-11 and 2009-10 for planning, designing, building, and maintaining approximately 25,000 miles of highways, without hiring additional staff. The department is one of the largest employing agencies in state government with 2,242 authorized positions in fiscal years 2010-11 and 2009-10. Our audit identified several areas for improvement, including the recruitment and selection of employees and controls over conflicts of interest.

**Context**

The department’s primary funding sources are federal highway planning and construction and state motor fuel tax revenues. In fiscal year 2009-10 the department received approximately \$828 million in total revenues. Federal special revenues were approximately \$486 million and state special revenues were approximately \$292 million.

The Highways and Engineering Program, and Maintenance Program account for approximately \$668 million of the \$793 million total expenditures in fiscal year 2009-10. The single largest expenditure is approximately \$518 million, which represents the network of highways completed during fiscal year 2009-10.

internal controls over federal program requirements, and infrastructure transactions. The report includes unqualified opinions on each of the financial schedules for fiscal years 2010-11 and 2009-10.

The prior audit report for the two fiscal years ended June 30, 2009, contained four recommendations to the department. Two of the prior audit recommendations were fully implemented, one was partially implemented, and the fourth relates to the fuel purchasing cards and will be followed up on as part of our performance audit (10P-02).

**Results**

The current audit report contains ten recommendations. Recommendations included in the report relate to improper recruitment and selection of employees, controls over conflicts of interest, deficient

Recommendation Concurrence	
Concur	9
Partially Concur	1
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

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# PERFORMANCE AUDIT

## The Highway Safety Improvement Program

### Montana Department of Transportation

OCTOBER 2012

12P-07

REPORT SUMMARY

The Montana Department of Transportation (department) should evaluate the Highway Safety Improvement Program to ensure the \$80 million in state and federal funds obligated to safety projects results in a reduction in traffic fatalities and serious injuries on public roads in Montana.

### Context

The Highway Safety Improvement Program (HSIP) is a federal-aid program of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users, which is a 2005 federal funding and authorization bill that governs U.S. federal surface transportation spending. On an annual basis, the department identifies locations on Montana's public roads where public safety could be increased through the installation of a safety improvement, such as lighting, chevrons, guardrails, and rumble strips. While the scale of projects is generally small, larger projects such as the installation of a roundabout may also be considered for an HSIP project. Since inception of the program, the department has approved 304 HSIP projects. Since 2005, over \$80 million in state and federal funding has been obligated by the program.

Audit work examined how the department implements the HSIP and assesses if the program results in reductions in fatalities and serious injuries on public roads. Audit work identified the need for the department to evaluate the HSIP in order to ensure that the program is achieving intended results and project investments are reducing fatalities and serious injuries.

As part of audit work, we also determined that internal controls for the program could be improved. Information on the status or completion of HSIP projects is not readily available. At present, the department does

not track the status of HSIP projects in order to demonstrate that projects are completed as planned. For example, of the 66 projects the department prioritized for completion in 2005, information on the status or a date of completion for 79 percent of those projects was not documented.

### Results

Audit recommendations address the need for the department to evaluate the HSIP and strengthen internal controls for the program. Recommendations include:

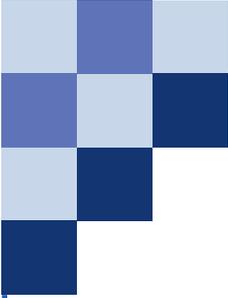
- ◆ Comply with federal regulations by analyzing and assessing how the program reduces the number of crashes, fatalities and serious injuries, or potential crashes on public roads in Montana; and
- ◆ Strengthen internal controls for the program to track and document the status and completion of HSIP projects.

Recommendation Concurrence	
Concur	2
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (12P-07) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>

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## PERFORMANCE AUDIT

# Controls Over Dyed Diesel Use in Montana

### Montana Department of Transportation

SEPTEMBER 2011

11P-01

REPORT SUMMARY

Operating vehicles on public roads with dyed diesel fuel contributes to a loss of fuel tax revenue to the state. The Montana Department of Transportation could strengthen its process to identify vehicles and equipment operating on public roads using dyed diesel.

### Context

Montana defines “special fuel” as any diesel fuel used in motor vehicles or equipment operating upon the public roads and highways of the state. Consumers in Montana can purchase two different types of diesel fuel, depending where the vehicle is operating. Clear diesel fuel includes a state and federal fuel tax for each gallon purchased of \$0.2440 and \$0.2775, respectively. Any vehicles operating on public roads or working on public road construction projects (roads, bridges, etc) must use clear diesel fuel.

The second type of diesel fuel consumers can purchase is sold tax free. Tax free diesel fuel is intended to be used only for off road purposes, such as for agricultural operations. It cannot be used in vehicles or equipment operating on Montana’s public roadways. Because certain diesel fuel is sold tax free, there can be motivation for individuals to use it inappropriately. Untaxed diesel fuel is dyed red to provide a simple way to identify when it is being used.

Montana enacted state law (Title 15, Section 70, Part 3) prohibiting the use of dyed diesel fuel for purposes other than off road use. These laws prohibit vehicles operating on public roads from using dyed diesel and also require all contractors and subcontractors performing any work on public roads (construction, maintenance, etc.) to obtain a special fuel users (SU) permit. This permit requires SU permit

holders to use clear diesel fuel at all times and prohibits them from storing or using dyed diesel.

The Montana Department of Transportation (MDT) is responsible for enforcing statutes related to dyed diesel. Our performance audit examined the department’s controls over dyed diesel use in Montana. Our audit included a review of 148 department road project contracts for 2010, 49 public road projects administered by local governments in 2009 and 2010, an analysis of MDT dyed diesel violations issued in 2009 and 2010, interviews with MDT and local government officials, and observation of dyed diesel enforcement field activities.

### Results

Studies indicate that entities responsible for laws related to dyed diesel fuel have an organizational structure that provides for both enforcement and auditing activities. MDT’s organizational structure provides the mechanism for both these activities to occur. However, audit work found specific controls related to dyed diesel enforcement can be improved. Recommendations made to strengthen the process include:

- ◆ Establishing a review process to ensure subcontractors working on MDT road projects have SU permits.
- ◆ Providing training to local and

*(continued on back)*

federal government contracting personnel regarding SU permitting requirements.

- ◆ Defining the process and expectations for public road project inspections to ensure contractors comply with dyed diesel laws.
- ◆ Establishing a risk based vehicle inspection program for dyed diesel enforcement.
- ◆ Improving the process to recommend high risk areas related to dyed diesel that should be further examined by the Internal Audit Unit.
- ◆ Strengthening dyed diesel enforcement through better use of available information to prioritize enforcement activities.

Recommendation Concurrence	
Concur	6
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

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## Chapter IV – Corrections and Public Safety

### **Disclosure Issues**

In addition to the recommendations included in audit reports for state agencies, audit reports may also include disclosure issues. Disclosure issues are items of which the Legislative Auditor believes the legislature should, but may not be, aware. They include situations where the law may not directly address the issue, where spending by state agencies might be inconsistent with what appears to be the intent of the legislature or where amounts on the state's accounting records might not be accurate. The disclosure issues listed below are included in reports for the agencies addressed in this section.

There were no disclosure issues for agencies included in this section.

## FINANCIAL-COMPLIANCE AUDIT

## Department of Corrections

For the Two Fiscal Years Ended June 30, 2012

OCTOBER 2012

12-15

REPORT SUMMARY

The Department of Corrections (department) manages adult male and female offenders through secure-care facilities, prerelease centers, probation and parole activities, and treatment programs. The Youth Services Division holds juvenile offenders accountable for their actions through custody, supervision, restitution, and life skills development. Total expenditures in fiscal year 2012 were \$189.7 million. Approximately 90 percent of this amount is funded by General Fund appropriations.

### Context

The department promotes public safety and trust by holding adult and juvenile offenders, referred by the courts, accountable for their actions against victims through custody, supervision, treatment, work, restitution, and skill development. Skill development includes various programs at the prisons such as carpentry, print and sign shop, dog training program, ranching, dairy operations, lumber processing, fire fighting, motor vehicle maintenance, and cooking. The department supervises offenders through five prisons, three youth facilities, seven treatment programs, three assessment and sanction centers, and six prerelease centers.

### Results

The audit resulted in three recommendations to the department. Those recommendations relate to maintaining fees commensurate with costs in the license plate Internal Service Fund, deposits to the inmate welfare account, and documenting and testing internal controls.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

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**FINANCIAL-COMPLIANCE AUDIT**  
**Judicial Branch**

For the Two Fiscal Years Ended June 30, 2012

DECEMBER 2012

12-27

REPORT SUMMARY

The Judicial Branch’s (branch) main operations consist of the Supreme Court and district courts. The Supreme Court has general supervisory control over all other courts in the state. The branch can improve internal controls to comply with federal regulations and properly record all revenues and expenditures on the state’s accounting records.

**Context**

The judicial power of the state is vested in the Supreme Court; district courts in the 22 judicial districts; the Workers’ Compensation Court; the Water Court; courts of limited jurisdiction; and any other courts established by law. Branch operations only include the Supreme Court, clerk of the Supreme Court, the Water Court, district courts, the state law library, and the computer technology of all courts of limited jurisdiction. District Court operations account for 70 percent of the branch’s activity. Of the branch’s 410 full-time equivalent staff, 311.5 work in the 22 judicial districts.

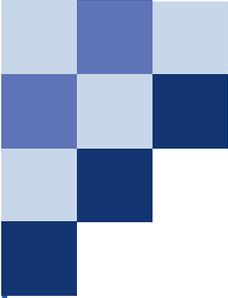
The 2005 legislature passed the Drug Offender Accountability and Treatment Act recognizing that district courts and courts of limited jurisdiction have a jurisdictional basis to implement drug treatment courts, in an effort to reduce recidivism and restore drug offenders to being productive law abiding and taxpaying citizens. During the audit period 18 of the 25 state drug treatment courts resided in district courts.

**Results**

This report contains five recommendations on improving compliance with state and federal laws and regulations. Additionally, the branch did not record all revenues and expenditures associated with drug treatment court fees on its accounting records, and misclassified over \$400,000 of activity expenditures on its financial schedules each fiscal year.

Recommendation Concurrence	
Concur	4
Partially Concur	0
Do Not Concur	1
<b>Source: Agency audit response included in final report.</b>	

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# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL-COMPLIANCE AUDIT

### Department of Justice

For the Two Fiscal Years Ended June 30, 2012

NOVEMBER 2012

12-18

REPORT SUMMARY

The Department of Justice (department) provides a diverse set of services to the state of Montana. One of those services is management of the settlement funds for reclamation of the Upper Clark Fork River. Our audit identified errors in the liability recorded for this project.

### Context

The Attorney General is an elected official that heads the department, whose operations include the Montana Highway Patrol, the Montana Law Enforcement Academy, the State Forensic Lab, driver and vehicle licensing and registration, and oversight of gambling within the state. The department is primarily funded by the General Fund (approximately 25 percent) and the State Special Revenue Fund (approximately 60 percent). The largest sources of revenue generated through the department are from motor vehicle licenses and permits and gambling taxes, which provided approximately \$185 million in revenues to the General and State Special Revenue Funds for each fiscal year.

The Montana Board of Crime Control, Natural Resource Damage Program, and Public Safety Officer Standards and Training Council (POST) are administratively attached to the department. The Board of Crime Control administers federal grants dedicated to preventing and addressing crime statewide. The Natural Resource Damage Program conducts natural resource damage assessments and lawsuits, and develops restoration plans and projects. POST is responsible for establishing basic and advanced qualification and training standards for employment of Montana's public safety officers.

### Results

There are four recommendations in this report. We identified a control deficiency related to pollution remediation liabilities, which led to an overstatement of \$43.3 million and an understatement of \$35.2 million in these liabilities for fiscal years 2011 and 2012, respectively. We also identified accounting errors in recording agency fund activity and equipment and intangible assets.

Fees and charges for services are not commensurate with costs within the Agency Legal Services Bureau Internal Service Fund. During the audit period, the fees and charges did not cover the cost of bureau operations.

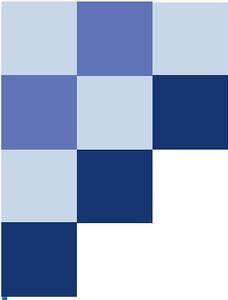
We identified noncompliance with state laws related to the registration of motor vehicles, grants to chronically and critically ill children, and reporting requirements for licensed amateur radio operators.

Recommendation Concurrence	
Concur	4
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (12-18) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>

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## INFORMATION SYSTEMS AUDIT

# Improving Controls Over Security of Laptop Data

Department of Justice, Department of Labor and Industry, Department of Public Health and Human Services, Department of Revenue

JANUARY 2012

11DP-12

REPORT SUMMARY

Laptops comprise almost 25 percent of all computers used in Montana state government. Laptops provide for added mobility, but they also present an increased risk to data security. Current controls do not ensure an adequate level of security for all data within the departments reviewed.

### Context

During recent years, use of laptop computers within state government has steadily increased. The 2011 Biennial IT Report states laptops make up 23 percent of all computers compared with 14.6 percent for the previous biennium. Overall, the State Information Technology Services Division reports 3,431 laptops in service throughout state government, excluding the university system. Reasons for the rise in laptop use are their portability and ability to connect remotely to the state network. This provides laptop users the flexibility to travel for work and maintain communication with their offices.

While laptops allow for added mobility and flexibility, they also present added data security risks. Because they are portable, laptop computers are often outside the physical security of state offices and at risk of loss or theft. This becomes critical when laptops are used to service and store confidential data, increasing the need for added physical and data security. Because of the heightened security risk, we conducted an audit to identify and test laptop security controls to verify security

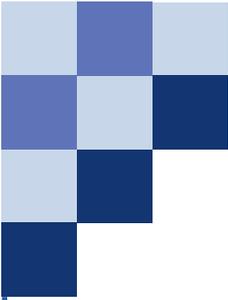
of sensitive data. To achieve our objective, we developed testing protocol based on statute, best practices, and state policy and tested a sample of 100 laptops at four different agencies.

### Results

Overall, we identified laptops throughout all four agencies that are vulnerable to potential security breaches. We issued recommendations for agencies to improve security controls, including periodic monitoring of laptop security settings, improving user awareness of security policies and procedures, ensuring encryption of sensitive laptop data, and limiting the use of laptops.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (11DP-12) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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## INFORMATION SYSTEMS AUDIT

# Sexual or Violent Offender Registry

### Department of Justice

JUNE 2011

11DP-08

REPORT SUMMARY

The Sexual or Violent Offender Registry (SVOR) system plays a key role in the tracking and management of sexual and violent offenders in Montana. Given its important role in public safety and informing law enforcement and the public on the whereabouts of offenders, data integrity is critical. We determined nearly 26 percent of the total registered active offender addresses are not verified and not flagged in the system.

### Context

The registry is the primary database which houses all offender registration information in Montana. As of April 2011 there were nearly 5,000 registered sexual or violent offenders in the registry. The registry is used by the public to identify the location of registered offenders and by law enforcement for queries of criminal history and offender information. There were over 120,000 public searches and 100,000 law enforcement queries during November 2010.

### Results

Overall, SVOR has controls in place in the areas we tested. However, we identified areas where controls over the SVOR system can be strengthened including: user access, change management, and data integrity.

The Department of Administration hosts two components of the SVOR system. DOA users have excessive access to SVOR systems. The Department of Justice (DOJ) was not aware of DOA access to offender photographs, the website program code, or the website database. Additionally, they did not participate in, or review, determination of DOA user access.

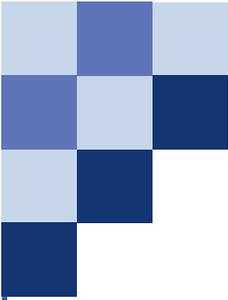
We reviewed change management documentation for evidence the department's change management processes were being followed. Our review of these records identified weaknesses in the documentation process including: lack of management approval, no indication of user acceptance testing, and inconsistent indication of reasons for changes. Lack of an effective change management process can lead to unauthorized changes to the system or the inability to quickly identify and correct programming errors.

According to §46-23-507, MCA, offenders who fail to register, verify registration, or keep registration current are subject to potential incarceration, a fine, or both. However, offenders who fail to submit their annual verification letter within 15 days are not automatically flagged in SVOR in such a way that makes their overdue status available to law enforcement or the public. We determined nearly 26 percent of the total registered active offender population are

overdue and not flagged. As a result, when members of the public access the website or law enforcement queries data, they will not be aware of the offender's failure to verify their registration.

Recommendation Concurrence	
Concur	5
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (11DP-08) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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PERFORMANCE AUDIT  
Motor Vehicle Title and Registration  
Process  
Department of Justice

MAY 2012

11P-07

REPORT SUMMARY

The State of Montana titles and registers over a million vehicles and collects over \$100 million in fees annually using the new Montana Enhanced Registration and Licensing Information Network (MERLIN) system; the Department could strengthen controls to ensure motor vehicle records and fees are accurate and should improve its communications with county offices using the system.

## Context

The Department of Justice (Department) titles and registers over one million vehicles each year and in 2011 collected over \$100 million in fees. The Department's Motor Vehicle Division operates MERLIN, which is used to manage various activities, including titling and registering of vehicles, driver examinations and licensing, and regulating of motoring activities in Montana.

In 2009, the Department implemented MERLIN replacing its previous information system. MERLIN was designed to offer additional functionality. While citizens can conduct transactions online or in county offices, MERLIN records, processes, and generates fees for all transactions. County offices send revenue collected from title and registration transactions to the Department each month. The amount sent to the Department includes fees collected from title and registration transactions, excluding the county's portion of revenue collected. The Department then records revenues on the state's accounting records. For online transactions, the Department's contractor sends both state and county portions of revenue to the Department.

## Results

Audit work determined MERLIN accurately records and processes transactions, including title and registration fees. However, the Department could strengthen controls to ensure vehicle ownership records in MERLIN are accurate, duplicate plates do not exist, and fee adjustments are accurate. Additionally, since county offices are responsible for conducting front-end title and registration transactions, the Department could improve its communication structure with county offices to promote a more accurate and efficient motor vehicle title and registration process.

Based on audit work, we conclude MERLIN accurately captures and records transactions at the county level and generates transactions for all vehicle registration changes. However, the Department could improve the accuracy of vehicle and ownership records in MERLIN. Recommendations related to this area include establishing controls to ensure vehicle ownership records are accurate, identifying and correcting inaccurate security

interest or lien information, and correcting records affected by plate reassignment errors. Additionally, audit work determined duplicate license plates exist, meaning two or more citizens may be driving vehicles with the same plate number. Therefore, we recommend the Department remove duplicate license plates from circulation and issue new license plates to affected citizens.

Audit work also determined MERLIN accurately records and processes title and registration fees. However, 50 percent of counties responding to our survey indicated some type of inaccuracy with fees generated in MERLIN. Based on our review we identified variances in fees exist, due to fee amounts being adjusted during transactions. Since certain fees can be waived, counties need to be able to conduct fee adjustments. However, in some cases, we could not identify why adjustments were made. Therefore, to ensure fees charged are accurate, we recommend the Department strengthen its controls over fee adjustments.

County offices have an important role in the recording and processing of vehicle title and registration transactions. Audit work determined the Department could make improvements to its communications with county offices. Recommendations for improvement include, establishing a formal training plan for county offices, developing a formal communication structure with county offices, and following-up with county offices on inventory issues.

Recommendation Concurrence	
Concur	1
Partially Concur	7
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (11P-07#) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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**FINANCIAL-COMPLIANCE AUDIT**  
**Office of the State Public Defender**  
**For the Two Fiscal Years Ended June 30, 2012**

OCTOBER 2012

12-28

REPORT SUMMARY

The Office of the State Public Defender (office) is the state’s newest executive branch agency, created in 2005. The agency provides criminal defense services to low income Montanans, employing over 100 attorneys and contracting with about 200 Montana attorneys.

**Context**

The office is organized into two programs: the Office of the State Public Defender and the Office of the State Appellate Defender. The Office of the State Public Defender provides criminal defense services as well as representation on child abuse or neglect and involuntary commitment proceedings. It is organized into 11 regions with a regional deputy public defender supervising each region. The Office of the State Appellate Defender is located in Helena and represents indigent clients during requests for appeals and post-conviction relief.

The office receives its funding almost entirely through the General Fund. In both fiscal years 2011-12, and 2010-11, over 99 percent of expenditures were General Fund expenditures. Increased demand for services in the audited period drove up costs, reflected by an 8.5 percent increase in personal and contracted services expenditures in fiscal year 2011-12. In addition, the office implemented changes in operations including a requirement that the Chief Appellate Defender report directly to the Public Defender Commission rather than the Chief Public Defender and revised procedures for collection of court assessed fees. During the audited period, the Public

Defender Commission appointed a new Chief Public Defender and Chief Appellate Defender.

**Results**

This report contains the audited financial schedules for the two fiscal years ended June 30, 2012. We identified an error in the June 30, 2011, General Fund, fund balance of a material amount. The report contains four recommendations to implement internal controls over financial reporting and safeguard office assets as well as to comply with state policies.

Recommendation Concurrence	
Concur	4
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (12-28) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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## PERFORMANCE AUDIT

## Improving Statewide Consistency of Key Processes for the Office of the State Public Defender

MAY 2012

11P-03

REPORT SUMMARY

The Office of the State Public Defender should strengthen both its attorney contracting and indigency determination processes to improve the consistency of its activities and ensure compliance with statutory requirements.

### Context

The Sixth Amendment to the United States Constitution and Article II, §24 of the Montana Constitution provide that a person accused of a crime has the right to assistance of counsel for his defense. The right extends to those individuals who cannot afford to provide their own counsel and so may be entitled to an attorney provided at the public's expense. The 2005 Legislature enacted Title 47 of the Montana Code Annotated, also known as the "Montana Public Defender Act," to create a statewide system to provide public defender services for eligible clients, beginning July 1, 2006.

The Public Defender Commission, composed of eleven members appointed by the governor, directs and oversees the statewide public defender system, which includes the Office of the State Public Defender (OPD). OPD, which is administratively attached to the Department of Administration, was appropriated approximately \$42 million for the 2013 biennium. In total, the agency has 199.5 FTE for fiscal year 2012. The agency's staff, along with contracted attorneys, is responsible for handling the more than 27,500 new cases to which the agency is appointed each year.

Our audit focused on two main topics: contracting for attorney services and determination of client eligibility.

In addition to staff, OPD uses contracted attorneys to provide public defender services. The agency has approximately 200 attorneys in its contract attorney pool. The number of available contractors varies by region and in two regions, contract attorneys handle nearly all cases that come to OPD. In some instances, contractors take cases in multiple counties. In fiscal year 2011, the agency assigned approximately 26 percent of its new cases to contract attorneys and paid contractors over \$5 million.

Per §§46-8-101 and 47-1-111, MCA, OPD is responsible for determining client eligibility for services upon appointment to a case by the court. OPD uses two methods, which are defined in statute, to determine if an individual is indigent, thus meeting the criteria to receive public defender services. The first method is an income test; the second method is a hardship test. Statute requires the process for determining client eligibility be fair and consistent statewide.

Our audit sought to determine if there are controls in place within the agency over contracting and determination of client indigence.

## Results

As a result of this audit, we determined the agency’s management has not clearly defined agency-wide expectations for many of its activities related to contract management and determination of client indigency. For those expectations which have been formalized, the agency does not monitor regional compliance. This has led to inconsistencies within the public defender system.

During our review, we noted inconsistencies related to:

- ◆ Monitoring of contractor caseloads.
- ◆ Tracking of contractor compliance with continuing legal education requirements.
- ◆ Evaluation of contractor performance.
- ◆ Frequency and methods for verifying client-reported financial information.
- ◆ Determination of indigence of “repeat” clients.
- ◆ Agency oversight of the indigency determination process.

To address these concerns and others, we make nine recommendations to the agency to improve operations related to contract management and the determination of client eligibility for services.

Recommendation Concurrence	
Concur	7
Partially Concur	2
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (11P-03) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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# FINANCIAL-COMPLIANCE AUDIT

## Department of Public Service Regulation

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

DECEMBER 2012

12-26

REPORT SUMMARY

The Department of Public Service Regulation (department) is responsible for assuring the public receives safe, adequate, and economical utility and transportation services at just and reasonable rates under the direction of the Public Service Commission.

### Context

In addition to assuring safe, adequate, and economical utility and transportation services, the department regulates certain public utilities, motor carriers, railroads, and pipelines within the state, and performs safety inspections of regulated activities under the direction of the Public Service Commission. The department's operating activity is subject to state regulation and grants received are subject to federal regulation.

The department is comprised of the Regulatory Division, Centralized Services Division, and Legal and Consumer Division. The department has 43 full-time equivalent (FTE) positions that include the five Commissioners and a Communications and Research Director. Commissioners are elected by district to serve four-year terms.

Most department funding comes from a tax on the gross operating revenue of regulated companies collected by the Department of Revenue. In fiscal year 2011 and 2012, this tax brought in \$4.2 million and \$3.5 million in revenue, respectively. The department also received federal grant funding of \$240,661 and \$184,888 in fiscal years 2011 and 2012, respectively.

### Results

We audited the fiscal years 2010-11 and 2011-12 financial schedules and tested compliance with state laws and federal regulations. No findings resulted from our audit, and we make no recommendations to the department. The previous two audits also resulted in no recommendations to the department.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (12-26) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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## Chapter V – Education

### **Disclosure Issues**

In addition to the recommendations included in audit reports for state agencies, audit reports may also include disclosure issues. Disclosure issues are items of which the Legislative Auditor believes the legislature should, but may not be, aware. They include situations where the law may not directly address the issue, where spending by state agencies might be inconsistent with what appears to be the intent of the legislature or where amounts on the state's accounting records might not be accurate. The disclosure issues listed below are included in reports for the agencies addressed in this section.

There were no disclosure issues for agencies included in this section.

## FINANCIAL-COMPLIANCE AUDIT

## Montana Arts Council

For the Two Fiscal Years Ended June 30, 2011

DECEMBER 2011

11-24

REPORT SUMMARY

Title 22, Chapter 2 of the Montana Code Annotated established the Montana Arts Council (council) as a state agency. Because the council is established by the Montana Code Annotated, unlike most state agencies established by the Montana Constitution, it is often the subject of Legislative scrutiny.

### Context

The council's primary activity involves administering grants from state and federal sources of about \$1 million each fiscal year. Interest earnings on the \$12 million balance in the Cultural Trust provide continued funding of cultural and aesthetic project grants. During the audited biennium, interest earnings fell short of the amounts allocated by the 61st Legislature. While cultural trust earnings declined, federal funding received by the council increased by at least 20 percent for the biennium.

Recommendation Concurrence	
Concur	2
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

### Results

This report contains the audited financial schedules for the two fiscal years ended June 30, 2011. Due to an error in accounting, the 2010-11 grant expenditures are inaccurate. This report contains two recommendations regarding internal controls over financial reporting and noncompliance with state laws. The council implemented the three prior audit recommendations made in 2009.

For a complete copy of the report (11-24) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>

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**FINANCIAL-COMPLIANCE AUDIT**  
**Montana School for the Deaf and Blind**  
**For the Two Fiscal Years Ended June 30, 2012**

DECEMBER 2012

12-22A

REPORT SUMMARY

The Montana School for the Deaf and Blind (school) provides services to sensory impaired infants, toddlers, and school aged children through their campus facility in Great Falls and their outreach program that works with individuals in school districts across the state.

**Context**

At the end of fiscal year 2011-12, the school was providing instruction for 61 hearing and visually impaired students through the Great Falls campus, as well as providing residential living and health services for 26 of those students. Through the school’s outreach program, they were also providing consultation and technical assistance to the families, teachers, and administrators of more than 519 sensory impaired infants, toddlers, and school aged children across the state.

Recommendation Concurrence	
Concur	1
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For fiscal year 2011-12, the school had approximately \$6.5 million of budgeted expenditures. In fiscal years 2010-11 and 2011-12, the school’s foundation provided \$189,658 and \$182,358, respectively, in support of student activities and supply purchases.

**Results**

Our audit includes one audit recommendation. The school receives federal grant funding from the Office of Public Instruction for school nutrition and special education programs. The school improperly classified the monies as direct federal revenue instead of a transfer-in.

For a complete copy of the report (12-22A) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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## FINANCIAL-COMPLIANCE AUDIT

## Montana Historical Society

For the Two Fiscal Years Ended June 30, 2012

NOVEMBER 2012

12-24

REPORT SUMMARY

The Montana Historical Society is one of the oldest institutions of its kind west of the Mississippi River, which is responsible for managing Montana historic treasures. Approximately 57,000 people visited its museum and archives facility in fiscal year 2011 and fiscal year 2012.

### Context

The Museum collection (over 50,000 artifacts) contains art and three-dimensional artifacts relating to all aspects of Montana history and culture. Of the 8,000 pieces of art represented in the collections, the best-known works are by Montana's "Cowboy Artist" Charles M. Russell. This collection (numbering over 200 pieces - 24 major oils, 33 major watercolors, 40 pen and inks, 15 original models, 60 bronzes, and 34 illustrated letters) is one of the most significant collections of Russell art anywhere. Another major art collection represents the life work of sculptor Bob Scriver (3,000 pieces).

The research center program consists of the library, archives, and photograph archives functions. The society houses approximately 30,000 linear feet of state, local government, and private records. The archive collection is constantly growing.

*Montana the Magazine of Western History* showcases the people, places, and events that shaped the state and the western region. The magazine has won numerous awards in the past two years, including the 2012 Arrington-Prucha Prize for best Western Religious History from the Western History Association.

The Montana Historical Society Press provides educational outreach for the Montana Historical Society by publishing readable and provocative books for students and adults focusing on the history and cultural resources of Montana. In 2011, *Hand Raised: The Barns of Montana* won the High Plains Book Award for Best Nonfiction.

The Montana State Historic Preservation Office works together with all Montanans to promote the preservation of our state's historic and cultural places. In 2011, the State Historic Preservation Office initiated the Montana Post World War II (1945-1965) Architectural Survey and inventory. The project identified, documented, and evaluated selected properties from Montana's post war period.

The society was supported by approximately 13,000 volunteer hours in fiscal year 2011 and fiscal year 2012. Volunteers provided school tours, helped with social functions, assisted in the museum, and performed clerical work. The Friends of the Society volunteer organization is celebrating its 40th year in 2012.

(continued on back)

## Results

We audited the fiscal year 2010-11 and fiscal year 2011-12 financial schedules and tested compliance with state laws and federal regulation. This report contains no recommendations to the society resulting in an unqualified opinion.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (12-24) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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# FINANCIAL-COMPLIANCE AUDIT

## Montana State Library Commission

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

OCTOBER 2011

11-23

REPORT SUMMARY

The Montana State Library Commission (Library) has the mission to meet the information needs of state agency management and staff, and provide all citizens with access to information created by their government. The Library also supports Montana libraries in delivering quality library content and services to their patrons, and works to strengthen local community public libraries.

### Context

To achieve its mission of strengthening local public libraries, the Library operates the Montana Shared Catalog (MSC). MSC is a cooperative project involving more than 100 libraries. The program facilitates access of library users to the collections of member libraries across the state. As administrator, the Library provides access to the shared catalog database server to member libraries on a 24 hours per day, 365 days per year basis. Member libraries pay the Library an annual fee for access to the shared catalog database, for which the Library received \$179,891 and \$239,250 in fiscal years 2011 and 2010, respectively.

Through the Broadband Technologies Opportunities Program, partially funded by the American Reinvestment and Recovery Act, the Library is collaborating with 42 of Montana's public libraries to expand access to free, high-speed internet to 86 percent of the state's population by 2013. The Library will match \$1,829,473 of federal funds primarily with a \$665,000 private donation.

### Results

We issued an unqualified opinion on the financial schedules for each of the fiscal years ended June 30, 2011 and 2010. The Library implemented the recommendation from the prior audit. The report contains no new recommendations.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (11-23) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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FINANCIAL-COMPLIANCE AUDIT  
Office of Public Instruction

For the Two Fiscal Years Ended June 30, 2011

OCTOBER 2011

11-19

REPORT SUMMARY

The Office of Public Instruction (office) distributed State and Federal funds to local school districts for support of K-12 education, in excess of \$897 million in fiscal year 2010-11 and \$879 million in fiscal year 2009-10. The office accomplished this with a staff of 185 employees while complying with a vast array of State and Federal laws.

**Context**

The Office has approximately 185 full-time equivalent employees who provide services to schools, teachers, and children, in over 420 school districts throughout the state. The Office assists in planning, implementing, and evaluating educational programs. The office also oversees Educator preparation and licensure, school accreditation, school finance, and school law. The office administers numerous federal grants under the United States Departments of Agriculture and Education.

Recommendation Concurrence	
Concur	1
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

**Results**

Our prior audit contained six recommendations of which four were implemented. Two recommendations were not implemented by June 30, 2011 and pertained to compliance with state law. The office is not complying with §20-7-201, MCA, regarding establishing and maintaining a media library and §20-7-502(9), MCA, related to conducting onsite driver education program reviews.

For a complete copy of the report (11-19) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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**FINANCIAL-COMPLIANCE AUDIT**  
**Office of the Commissioner of Higher Education**  
**For the Two Fiscal Years Ended June 30, 2011**

OCTOBER 2011

11-20

REPORT SUMMARY

The Office of the Commissioner of Higher Education transferred a total of \$189,501,181 to the Montana University System in fiscal year 2010 and \$183,296,861 in fiscal year 2011. The Montana University System is comprised of 14 campuses and enrolls more than 47,000 students.

**Context**

The Montana Constitution extends governance authority over the Montana University System (MUS) to the Montana Board of Regents (board) but leaves the power to appropriate state funds for the MUS to the legislature. The board consists of seven members appointed by the Governor, and confirmed by the Senate, to seven-year overlapping terms. The Governor, Superintendent of Public Instruction, and the Commissioner of Higher Education are ex-officio members of the board. The Constitution charges the board with hiring a Commissioner of Higher Education who serves as its executive staff. All state funds appropriated by the legislature to the board for the support of the MUS are channeled through the office.

The Office of Higher Education (Office) conducts its operations in, but is not limited to, the following programs: Administration Program, Student Assistance Program, Improving Teacher Quality Program, Educational Outreach & Diversity Program, Work Force Development Program, Guaranteed Student Loan Program, Appropriation Distribution, MUS Workers

Compensation Program, and the MUS Group Insurance Program. Other smaller programs include the Board of Regents Administration, Community College Assistance and Tribal College Assistance programs.

The Office transferred appropriations totaling \$189,501,181 to the MUS in fiscal year 2010 and \$183,296,861 in fiscal year 2011. The total includes \$18,000,000 from the 6-mill levy in fiscal year 2010 and \$17,000,000 in fiscal year 2011.

**Results**

There are no recommendations to the Office in this report.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (11-20) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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**FINANCIAL AUDIT**  
**Montana Guaranteed Student Loan Program**  
 For the Fiscal Year Ended June 30, 2012

DECEMBER 2012

11-06B

REPORT SUMMARY

Due to changes in federal regulations in fiscal year 2011, the Montana Guaranteed Student Loan Program (GSL) no longer guarantees new student loans. The GSL program will end when there are no guaranteed loan balances remaining. As of June 30, 2012, GSL had an outstanding Guaranteed Loan Balance of \$1,635,014,002.

**Context**

GSL operates under the guidance of the Board of Regents. It provides access to post secondary education through guaranteeing student loans.

As the guaranteed loan balance decreases, there will be less revenue to fund GSL's operations. When operating costs exceed revenues, GSL needs to use the assets in its operating fund to provide its required loan guarantee services. When no assets remain, another funding source will be required, because federal regulations require GSL to service all the loans it guaranteed.

House Bill 2 from the 2011 Legislative Session transferred \$5 million in scholarships and loan forgiveness from the General Fund to GSL's Federal Special Revenue Fund in the 2013 biennium. As a result, the June 30, 2013, operating fund's assets are projected to be half what they were as of June 30, 2011.

During fiscal year 2012, GSL purchased over \$25 million of student loans from financial institutions. GSL purchased these loans as a result of borrowers defaulting, filing bankruptcy, becoming disabled, or dying. This is a \$3 million decrease in loans purchased from the previous fiscal year.

GSL recovered \$7.9 million from borrowers on outstanding loans. In accordance with Federal Family Education Loan Program regulations, GSL remitted \$5.5 million of the amounts collected to the U.S. Department of Education, and retained a net \$2.4 million.

GSL's current default rate is 3.7 percent.

**Results**

We issued an unqualified opinion on GSL's financial statements. There were three prior audit recommendations. GSL implemented two and partially implemented one. This report discusses the partially implemented prior audit recommendation but contains no further recommendation.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (11-06B) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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## FINANCIAL AUDIT

## Montana Guaranteed Student Loan Program

For the Fiscal Year Ended June 30, 2011

DECEMBER 2011

11-06A

REPORT SUMMARY

In accordance with Federal Family Education Loan Program regulations, the Montana Guaranteed Student Loan Program (GSL) guarantees loans to eligible students for post-secondary education. At June 30, 2011, GSL's original principal balance of loans guaranteed was \$1,756,727,435. This is a drop of \$296 million from the previous fiscal year. GSL ceased guaranteeing any new loans in fiscal year 2011 because Congress changed the Federal Family Education Loan Program effective July 1, 2010. Therefore, GSL's original principal balance of guaranteed loans will decrease until it has no more outstanding loans.

### Context

In fiscal year 2011, GSL purchased over \$28 million of student loans from institutions, due to the borrower defaulting on a loan, filing bankruptcy, becoming disabled or dying. This is an increase of \$7 million from fiscal year 2010.

During the current fiscal year GSL collected \$8 million from borrowers on loans purchased in the current and previous years. In accordance with Federal Family Education Loan Program regulations, GSL remitted \$5.8 million of that amount to the U.S. Department of Education.

GSL's current default rate is 2.8 percent.

### Results

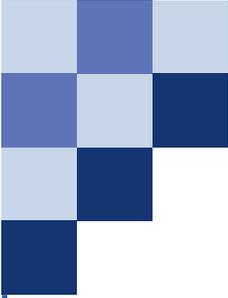
We issued an unqualified opinion on GSL's financial statements. This report contains three recommendations regarding noncompliance with the Montana Constitution and state law, an accounting error, and a financial statement preparation control deficiency. The previous report had no recommendations.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (11-06A) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>

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## FINANCIAL-RELATED AUDIT

# The University of Montana (All Campuses)

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

OCTOBER 2011

11-12

REPORT SUMMARY

During 2010-11, The University of Montana served over 19,000 students; 77 percent were residents of Montana. The University of Montana (UofM) consists of four campuses: University of Montana – Missoula, Montana Tech of The University of Montana, University of Montana – Western, and University of Montana – Helena College of Technology.

### Context

The University of Montana is one of the state's two universities; it offers one-year associate degrees and certificates, two-year associate degrees, four-year undergraduate bachelor's degrees, and master's and doctoral graduate degrees.

UofM–Missoula is considered the center of liberal arts education in the Montana University System (MUS) and operates the only law school in the MUS. Montana Tech is located in Butte and focuses on engineering and science degrees in a broad selection of disciplines. UofM–Western is located in Dillon and has a unique university-wide program called Experience One, where students take one course at a time throughout the semester. UofM–Helena College of Technology is a two-year institution offering education in occupational, technical, and training specialties. For fiscal year 2010-11, The University of Montana employed over 3,100 full-time equivalent employees.

The University of Montana is responsible for distributing federal financial aid and private scholarships to qualified students. Students are awarded federal financial aid after filing an application with the federal government; federal aid might include loans, grants, and work study. Scholarships are financed through donations gifted directly to the campuses or their respective foundations.

UofM–Missoula and Montana Tech conduct significant research and development funded by the federal government, state agencies, and private parties. Between both campuses over \$70 million worth of research and development have been expended during each of the last two years.

### Results

Our audit resulted in three recommendations. Two recommendations relate to the access allowed to The University of Montana's computer system, known as Banner. The Banner system is critical in supporting the organization's operations. In order to protect the system and data from unauthorized activity, access to Banner should be controlled. Our audit identified five different instances where Banner access was not appropriately limited.

The third recommendation relates to compliance with policies prescribed by the Board of Regents (board). The university accepted grants from state agencies where the indirect cost rate was below the amount required by board policy.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (11-12) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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FINANCIAL AUDIT

The University of Montana

For the Two Fiscal Years Ended June 30, 2011

JANUARY 2012

11-10A

REPORT SUMMARY

The University of Montana (university) is comprised of The University of Montana – Missoula, Montana Tech of The University of Montana, The University of Montana – Western, and The University of Montana – Helena College of Technology. Enrollment of full-time equivalent students between fiscal years 2010 and 2011 increased from 18,099 to 19,043. Employment of full-time equivalent workers between fiscal years 2010 and 2011 increased from 3,643 to 3,774.

**Context**

The annual financial statement audit of the university is performed to supply relevant and timely audited financial statements to interested parties. A biennial compliance audit (11-12) covering fiscal years 2011 and 2010 was released in October 2011.

During December 2010, the university issued, with Board of Regents approval, approximately \$48.4 million of taxable and tax-exempt revenue bonds. The proceeds were used to buy back all of one series of bonds and a portion of another series.

Between fiscal years 2011 and 2010, the university operating revenues and operating expenses increased \$8.7 million and \$15.2 million, respectively. The rise in operating revenue is attributable mainly to increased tuition and fees revenue resulting from higher enrollment numbers. Largely, operating expenses grew in three main classifications; compensation and employee benefits, scholarships and fellowships, and supplies and other services.

State appropriations, including American Recovery and Reinvestment Act (ARRA) appropriations, totaled \$82.5 million for fiscal year 2011, a decrease of \$0.57 million from fiscal year 2010. Federal financial aid grants and contracts increased \$6.6 million between fiscal years 2011 and 2010. State appropriations and federal financial aid are considered nonoperating revenues and are classified as such on the financial statements.

**Results**

The audit report does not contain any recommendations. We issued an unqualified opinion on the university’s financial statements. The reader can rely on the audited financial information included in our audit report.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (11-10A) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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FINANCIAL AUDIT

Montana State University

For the Two Fiscal Years Ended June 30, 2012

DECEMBER 2012

11-11B

REPORT SUMMARY

Montana State University (university) is a land grant university serving state, national, and international students and communities. The University's four campuses are located in Bozeman, Billings, Havre, and Great Falls. The Montana Agricultural Experiment Station, MSU Extension, and the Fire Services Training School are reported under the Bozeman campus. The campuses provide a diversity of undergraduate and graduate academic degrees and two-year vocational/technical programs.

**Context**

We perform annual financial audits of the university to provide timely information and accountability for operations to interested parties. During the 2011-2012 academic year, tuition and fee revenue increased approximately 2.5 percent due to increased enrollments. Total operating expenses in fiscal years 2012 and 2011 were \$476.3 million and \$458.6 million, respectively. Annualized full-time equivalent student counts reported by the Commissioner of Higher Education for fiscal year 2012 are as follows: Bozeman-12,352, Billings-4,478, Havre-1,125, and Great Falls-1,465.

In addition to financial activity of the University, the financial statements include financial activity related to Montana State University Foundation, Museum of the Rockies Incorporated, Montana State University Bobcat Club, Montana State University-Billings Foundation, and Montana State University-Northern Foundation.

The report also contains unaudited supplemental information with detailed information for each campus, the Agricultural

Experiment Station, MSU Extension, and the Fire Services Training School.

In addition to the annual financial audits, we conduct financial related audits every two years to determine compliance with contract provisions grant requirements, and selected state laws and regulations. We will conduct a financial-related audit for Montana State University covering fiscal years 2012 and 2013.

**Results**

Report readers can rely on financial information included in these audited statements for financial decisions. This report does not contain any recommendations to the university.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0

**Source: Agency audit response included in final report.**

For a complete copy of the report (11-11B) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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**FINANCIAL-RELATED AUDIT**  
**Montana State University (All Campuses)**  
**For the Two Fiscal Years Ended June 30, 2011**

OCTOBER 2011

11-13

REPORT SUMMARY

Montana State University (MSU) consists of four campuses located in Bozeman, Billings, Havre, and Great Falls. It also provides outreach and continuing education to people in the communities of Montana through its Montana Agricultural Experiment Station, MSU Extension, and Fire Services Training School. For fiscal year 2010-11, the university served just under 19,000 students, 79 percent of which were Montana residents. We identified continuing compliance deficiencies related to nonresident student tuition waivers, payment of overtime, and hiring practices.

**Context**

Montana State University (MSU) is one of two universities in the state. All campuses are accredited by the Northwest Commission on Colleges and Universities. Collectively, the campuses provide undergraduate and graduate academic and two-year vocational-technical programs to students.

MSU–Bozeman was founded as the state’s agricultural college in 1893. MSU–Bozeman managed approximately \$103 million and \$109 million in grant funds in fiscal years 2010-11 and 2009-10, respectively. MSU–Billings offers two-year certificate programs, associate degrees, and bachelor’s and master’s degrees at its two locations. MSU–Northern offers courses and associate, bachelor’s, and master’s degree programs at three locations, including Havre, Lewistown, and Great Falls. MSU–Great Falls College of Technology offers two-year degrees and certificate programs preparing students for careers in health sciences, business, and technology. For fiscal year 2010-11, MSU employed 4,371.40 full-time equivalent employees.

**Results**

Our prior audit report included six recommendations to the university. Of those, the university implemented three, partially implemented one, and did not implement two recommendations.

This audit report includes ten recommendations. Recommendations primarily relate to proper segregation of duties over cash collection and distribution functions, payment of overtime in accordance with university policy, internal controls over payroll tax withholdings, and compliance with various state laws and Board of Regents’ policies.

Recommendation Concurrence	
Concur	9
Partially Concur	1
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (11-13) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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**FINANCIAL AUDIT**  
**Montana State University**  
**For the Two Fiscal Years Ended June 30, 2011**

JANUARY 2012

11-11A

REPORT SUMMARY

Montana State University is a land grant university serving state, national, and international students and communities. The university's four campuses are located in Bozeman, Billings, Havre, and Great Falls. The Montana Agricultural Experiment Station, the MSU Extension Service, the Gallatin College Program and the Fire Services Training School are reported under the Bozeman campus. The campuses provide a diversity of undergraduate and graduate academic degrees and two-year vocational/technical programs.

**Context**

We perform annual financial audits of the university to provide timely information and accountability for operations to interested parties. Financial related audits are conducted every two years to determine compliance with contract provisions, grant requirements, and selected state laws and regulations. We issued our financial-related audit (11-13) for Montana State University covering fiscal years 2010 and 2011 in October 2011.

In addition to financial activity of the university, the financial statements include financial activity related to Montana State University Foundation, Museum of the Rockies Incorporated, Montana State University Bobcat Club, Montana State University-Billings Foundation, and Montana State University-Northern Foundation.

During the 2010-2011 academic year, tuition and fee revenue increased approximately 7.7 percent due to increased enrollments. Total operating expenses in fiscal years 2011 and 2010, were \$458.6 million and \$449.1 million, respectively. The university received a one

time state appropriation of federal stimulus funds in the amount of \$18.5 million in fiscal year 2011. Annualized full-time equivalent student counts reported by the Commissioner of Higher Education for fiscal year 2011 are as follows: Bozeman-11,820, Billings-4,555, Havre-1,155, and Great Falls-1,415.

**Results**

This report does not contain any recommendations to the university.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

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FINANCIAL AUDIT

Montana State University

For the Two Fiscal Years Ended June 30, 2012

DECEMBER 2012

11-11B

REPORT SUMMARY

Montana State University (university) is a land grant university serving state, national, and international students and communities. The University's four campuses are located in Bozeman, Billings, Havre, and Great Falls. The Montana Agricultural Experiment Station, MSU Extension, and the Fire Services Training School are reported under the Bozeman campus. The campuses provide a diversity of undergraduate and graduate academic degrees and two-year vocational/technical programs.

**Context**

We perform annual financial audits of the university to provide timely information and accountability for operations to interested parties. During the 2011-2012 academic year, tuition and fee revenue increased approximately 2.5 percent due to increased enrollments. Total operating expenses in fiscal years 2012 and 2011 were \$476.3 million and \$458.6 million, respectively. Annualized full-time equivalent student counts reported by the Commissioner of Higher Education for fiscal year 2012 are as follows: Bozeman-12,352, Billings-4,478, Havre-1,125, and Great Falls-1,465.

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The report also contains unaudited supplemental information with detailed information for each campus, the Agricultural

Experiment Station, MSU Extension, and the Fire Services Training School.

In addition to the annual financial audits, we conduct financial related audits every two years to determine compliance with contract provisions grant requirements, and selected state laws and regulations. We will conduct a financial-related audit for Montana State University covering fiscal years 2012 and 2013.

**Results**

Report readers can rely on financial information included in these audited statements for financial decisions. This report does not contain any recommendations to the university.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0

**Source: Agency audit response included in final report.**

For a complete copy of the report (11-11B) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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