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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.

(continued on back)

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

*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.

Montana Legislative Audit Division

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 (MFS) 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
Source: Agency audit response included in final report.	

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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.	

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Montana Legislative Audit Division

Financial-Compliance Audit
Department of Administration
For the Two Fiscal Years Ended June 30, 2012

October 2012 | 12-13 | Report Summary

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

Context

The department employs over 500 people and is responsible for providing the following services crucial to other state agencies: accounting and financial reporting, payroll and employee benefits, warrant writing, capitol complex maintenance, state treasury, insurance and risk management, information systems development and maintenance, construction and remodeling of state buildings, personnel management, purchasing, statewide leasing, and surplus property administration. The department accounts for activity in nearly every fund type applicable to state government. Over half of the department's revenue and expenditure activity is derived from functions accounted for in the department's Internal Service and Enterprise funds.

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

The department's Architecture and Engineering Division (A&E) administers the state's Long Range Building program. Excluding transfers activity, A&E incurred $48 million and $20 million in construction related expenditures in fiscal years 2010-11 and 2011-12, respectively

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

Results

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

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

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

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

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

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

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

Montana Legislative Audit Division

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 surplused 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

Source: Agency audit response included in final report.

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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.	

Montana Legislative Audit Division

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.

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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

Source: Agency audit response included in final report.

Montana Legislative Audit Division

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

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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
Source: Agency audit response included in final report.	

Montana Legislative Audit Division

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

Source: Agency audit response included in final report.

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Montana Legislative Audit Division

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.

Montana's Film Incentive Statistics
Calendar Years 2005-2010

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
Totals	**88**	**36**	**$508,432**

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

(continued on back)

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

Source: Agencies audit response included in final report.

Montana Legislative Audit Division

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
Source: Agency audit response included in final report.	

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Montana Legislative Audit Division

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
Source: Agency audit response included in final report.	

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Montana Legislative Audit Division

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; or check the web site at http://leg.mt.gov/audit

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Montana Legislative Audit Division

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
Source: Agency audit response included in final report.	

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; 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.

(continued on back)

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

Montana Legislative Audit Division

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.

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.

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 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.

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

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT
Department of Labor and Industry
For the Two Fiscal Years Ended June 30, 2011

OCTOBER 2011 11-15 REPORT SUMMARY

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

Context

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

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

Results

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

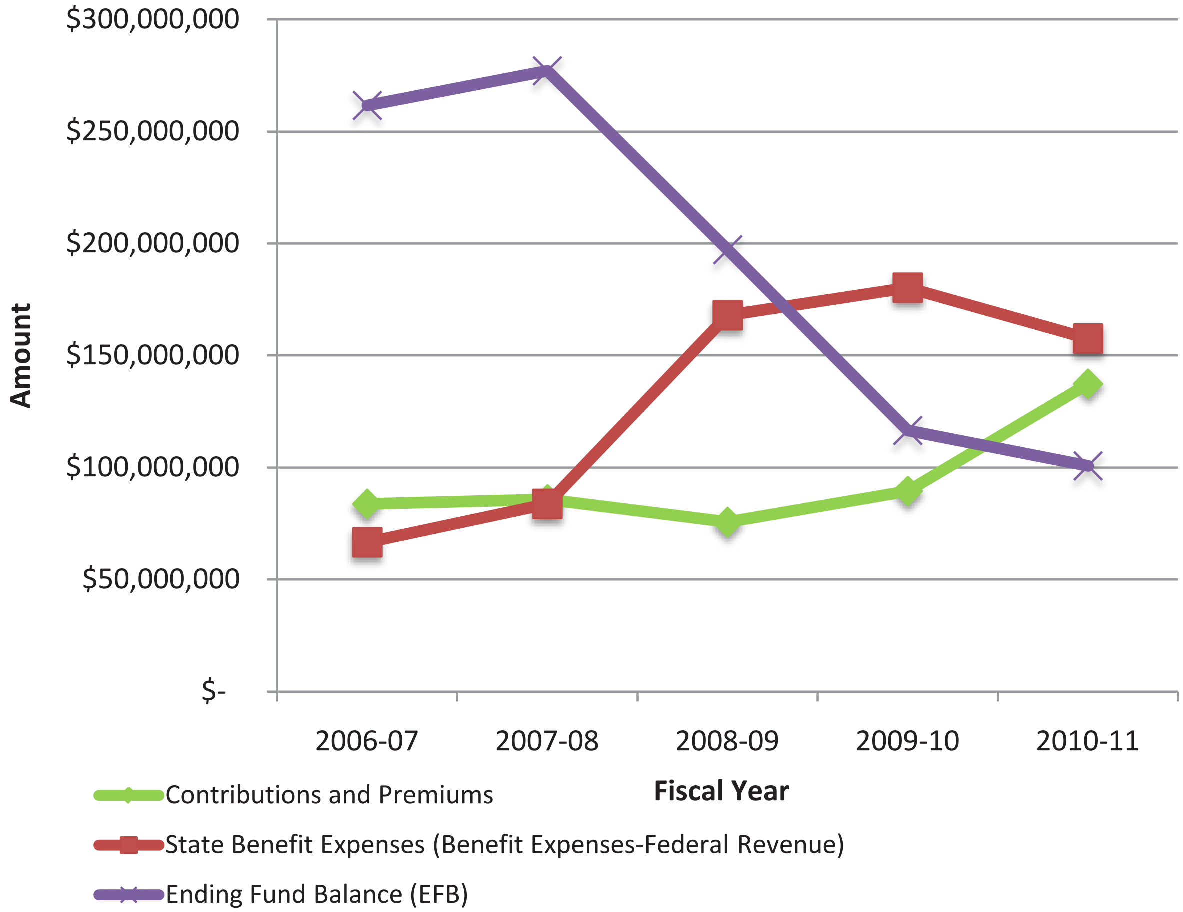
We issued an unqualified opinion on the department's financial schedules for each of the fiscal years ended June 30, 2011, and 2010.

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

(continued on back)

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).

Montana Legislative Audit Division

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.

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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
Source: Agency audit response included in final report.	

Montana Legislative Audit Division

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.

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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

Source: Agency audit response included in final report.

Montana Legislative Audit Division

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

Source: Agency audit response included in final report.

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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.

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Montana Legislative Audit Division

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

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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

Source: Agency audit response included in final report.

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Montana Legislative Audit Division

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
Source: Agency audit response included in final report.	

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Montana Legislative Audit Division

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.

Montana Legislative Audit Division

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.

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.

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

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

Montana Legislative Audit Division

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

Source: Agency audit response included in final report.

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Montana Legislative Audit Division

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.

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.

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.

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

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; or check the web site at http://leg.mt.gov/audit
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Montana Legislative Audit Division

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.

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.

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.

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

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; or check the web site at http://leg.mt.gov/audit
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Montana Legislative Audit Division

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.

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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
Source: Agency audit response included in final report.	

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; or check the web site at http://leg.mt.gov/audit
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MONTANA LEGISLATIVE AUDIT DIVISION

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

Source: Agency audit response included in final report.

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; or check the web site at http://leg.mt.gov/audit
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Montana Legislative Audit Division

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

Source: Agency audit response included in final report.

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; or check the web site at http://leg.mt.gov/audit

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Montana Legislative Audit Division

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
Source: Agency audit response included in final report.	

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; or check the web site at http://leg.mt.gov/audit
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Montana Legislative Audit Division

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

Source: Agency audit response included in final report.