A Report
to the
Montana
Legislature

All Audits

Legislative Resource Book on Audit Issues

Summaries of Issues Identified and Disclosed in All Audits Issued Between January 1, 2013 and January 1, 2015

January 2015

Legislative Audit
Division

2013-2015

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Legislative Audit Committee

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

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01/1981	Senator Matt Himsl (R)
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LEGISLATIVE AUDIT DIVISION

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Angus Maciver

January 2015

The 64th Montana State Legislature:

Welcome members of the 64th Montana State Legislature.

This document is a biennial compilation of audit report summaries, for audits issued since the 63rd Legislative Session and is divided into sections comprised of like-function agencies, similar to the legislative subcommittee structure.

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

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

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

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

Respectfully submitted,

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LEGISLATIVE AUDIT DIVISION

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

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

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

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

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

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

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Financial and Compliance Audits

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

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

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

Information Systems Audits

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

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

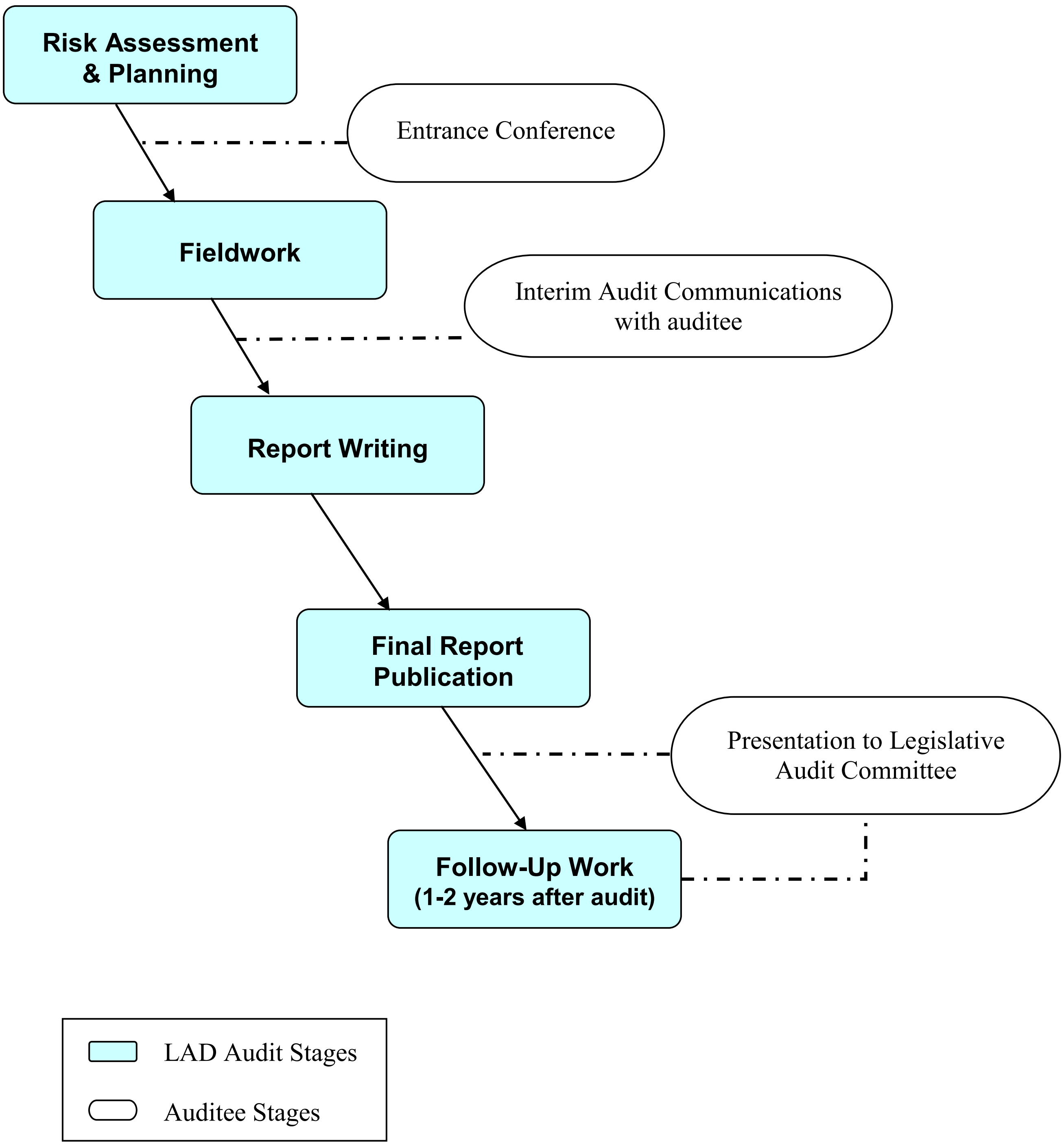
Performance Audits

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

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

Audit Process

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



Agency Groupings

GENERAL GOVERNMENT

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

HEALTH AND HUMAN SERVICES

Public Health and Human Services

NATURAL RESOURCES AND TRANSPORTATION

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

JUDICIAL BRANCH, LAW ENFORCEMENT & JUSTICE

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

EDUCATION

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

LONG-RANGE PLANNING

Environmental Quality
Natural Resources and Conservation

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.

State of Montana #13-01A

Montana Legislative Audit Division

Performance Audit
Universal System Benefits Program
Public Service Commission
Department of Revenue

May 2014 | 13P-06 | Report Summary

Between 2007 and 2012, Montana's natural gas and electric utility customers paid $149.6 million to utility providers to support the Universal System Benefits program. Oversight by the Department of Revenue and the Public Service Commission could be strengthened to improve statutory compliance by utilities and large customers. Legislative review of statutes could improve effectiveness of large customer Universal System Benefits expenditures.

Context

In 1997, the legislature deregulated Montana's electric and natural gas industries. However, there were projects being conducted by utilities at the time that were believed to have benefits for all Montanans. In order to continue funding for these projects after deregulation, the legislature created the Universal System Benefits (USB) program. The funding mechanism for USB projects is a surcharge added to each utility customer's bill. The surcharge is collected by each utility and used to fund the utility's internal USB program. The legislature assigned oversight responsibilities for these programs to both the Public Service Commission (PSC) and the Department of Revenue (DOR).

The legislature established different USB programs for natural gas and electric utilities, each with its own funding formula and differences in how the funds can be used. Under electric USB statutes, utility customers can be identified as a "large customer" and have their USB surcharges reimbursed for internal projects that meet the intent of USB programs. Reimbursement for USB project expenses are provided by their utility. In exchange for being able to participate in internal USB programs, large customers are required to report their USB activities to DOR. Reporting these internal USB activities is the first step in a process DOR manages to allow the public to review submitted reports and challenge large customer USB expenditures. However, unless the public challenges a USB expenditure, statutes limit DOR's ability to review those same expenditures.

Statutes assign PSC oversight responsibilities for all functions of natural gas USB programs, to include approving the utility's internal USB program, approving the surcharge the utility will assess its customers, and receiving reports for USB activities. For electric USB programs, PSC is responsible for approving the utility's USB program and the surcharges assessed to customers. PSC also reviews periodic evaluations of electric utility's USB programs.

Results

Audit work found PSC has not required all regulated utilities to implement USB statutes requiring USB surcharges be assessed on all utility customers. In addition, we also identified instances where a regulated utility was allowed to fund activities not authorized by USB statutes. We make recommendations

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to the PSC to require all regulated utilities assess USB surcharges to their customers. We also recommend the PSC ensure USB surcharges are only used for purposes identified in statute and provide better documentation of decisions made regarding how those surcharges are used by utilities.

Audit analysis identified large customers who are not in compliance with statutes requiring them to report USB activities to DOR. We also found there are limitations that make it difficult for DOR to identify noncompliant large customers that did not file required reports. Statutes and administrative rules make public challenges of large customer USB expenditures difficult. DOR has only had to respond to one public challenge since the USB program was implemented. Our review of large customer records found a number of instances where it appears the expenditure does not meet USB program guidelines. We make recommendations to DOR to improve identification of large customers that have not filed their required annual USB expenditure reports.

Identifying large customers who are not in compliance with USB reporting statutes and reviewing those USB expenditures is difficult because of limitations imposed by statutes implemented during deregulation. We make recommendations to the legislature to determine if large customer USB expenditures are meeting the public purpose benefits expected of other USB funded programs.

Recommendation Concurrence	
Concur	2
Partially Concur	1
Do Not Concur	0

Source: Agency audit response included in final report.

Montana Legislative Audit Division

Information Systems Audit
Public Employee Retirement Information System Development Life Cycle
Montana Public Employee Retirement Administration

September 2014 | 14DP-03 | Report Summary

The Montana Public Employee Retirement Administration is investing over $11 million to develop a new pension management information system. Improved monitoring and documentation of project management decisions will help implement the system on time and within budget.

Context

The Montana Public Employee Retirement Administration (MPERA) manages retirement plans for 71,000 members. These members include active and retired city, county, school district, and state employees. Employers and their employees rely on MPERA to calculate retirement benefits, create and maintain member activity, process claims and payments, along with other customer service activities.

Information systems are used to assist MPERA staff in these activities, but current business processes are paper driven, manual, and time intensive. These factors have impacted MPERA's customer service and ability to provide support for Montana's employers and employees.

For these reasons, MPERA initiated the MPERAtiv project. This project is multifaceted and estimated to cost $11.7 million. The major project of MPERAtiv is the implementation of a single, complete pension system, the Public Employee Retirement Information System (PERIS), that will increase usability and improve the ability to provide services to customers. This project started in 2012, and the main system is expected to be implemented in the summer of 2015. Multiple vendors have been contracted for the MPERAtiv project, including PERIS system development.

Since MPERA is spending considerable resources on the development of PERIS and PERIS manages vital information, this audit reviewed the system development processes to help ensure PERIS meets expectations as defined in the contract. If risks are not mitigated throughout system development, the system could potentially be delayed, experience cost overruns, or not function as intended. Conducting the audit while the system is being developed allows MPERA to make improvements to the process before the next phase of development and through the remainder of the project.

Results

Audit work showed the expectations of the system set out in the contract include important controls such as security, data integrity, and user access controls. Additionally, MPERA has been involving users in system development via newsletters, workshops, webinars, and established an employer advisory group. MPERA has also developed a plan that, if implemented, ensures employers impacted by the system change will be ready for the implementation.

Audit work also found established processes to manage expectations; however, controls

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to ensure each expectation is being met and documented at each stage of the process need to be established. By implementing these controls, MPERA will have better assurance that its expectations of the system are met.

MPERA established a formal change management process; however, in order to expedite changes without impact to the project schedule, an informal process is being followed. This increases the risk of a change being implemented without all involved parties knowing, without executive approval, or without formal realization and documentation of the impact to the project. By following a formal change management plan, MPERA will have better assurance that changes only occur if impact to the project is understood and all required parties have approved the change

Changes within the project that reduced the time for user acceptance testing (UAT) were also identified. UAT is done to ensure system functionality performs in business scenarios and to reduce risks to MPERA after the system is implemented. The duration of UAT needs to be sufficient in order for MPERA to complete all necessary testing to ensure the system performs as expected.

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
Property Tax Relief
Department of Revenue

August 2014 | 14P-02 | Report Summary

The Department of Revenue administers various property tax relief programs that provide approximately $20 million in annual benefits to taxpayers; we found weaknesses in the Department of Revenue procedures that resulted in some ineligible taxpayers receiving benefits, while some others received benefits in excess of statutory income and property ownership thresholds. The Department of Revenue should implement changes to ensure property tax relief benefits are administered consistently and also assess the distribution of benefits across the state.

Context

In Montana, there are four programs administered by the Department of Revenue (department) that provide residential property tax relief to individual taxpayers, including the Property Tax Assistance Program (PTAP), the Extended Property Tax Assistance Program (EPTAP), the Disabled American Veterans (DAV) Exemption, and the Elderly Home Owner/Renter Credit (elderly credit). The PTAP, EPTAP, and DAV programs target homeowners and ultimately reduce taxes through a reduction in the taxable value for properties that meet certain criterion. The elderly credit provides an income tax credit for elderly homeowners and renters based on property taxes and rent paid. According to department information, property tax relief programs provided a collective tax benefit of over $20 million to individual taxpayers in 2012. State law outlines various eligibility requirements for property tax relief programs in the state with thresholds for eligible land and improvements, including factors such as income, age, veteran's disability status, and occupancy.

Audit work examined if the department has controls in place to verify eligibility requirements, to correctly calculate relief based on statutory thresholds for property and income, and to examine how relief is used and distributed across the state. Audit work determined the department could improve how it verifies applicant eligibility requirements and ensures that relief benefits are calculated on a consistent basis. For example, we noted that it appears individual taxpayers are misreporting income as part of the determination process. Based on income misreporting, we identified approximately $23,000 in benefits claimed in error by individual taxpayers. As a part of our work, we also concluded the various property tax relief programs administered by the department could be better coordinated. We determined the department should assess their outreach efforts to examine the distribution of benefits statewide.

Results

Audit recommendations address the need for the department to improve how it verifies applicant eligibility, calculates relief benefits, and assesses relief distribution across the state. Audit work also concludes the multiple property tax relief programs administered by the department are fragmented and uncoordinated. Recommendations and conclusions include:

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- Develop and implement management tools to verify occupancy requirements.
- Develop and implement management tools to verify income requirements and investigate ways to simplify income determinations.
- Develop and implement a quality control process to ensure taxpayers only receive relief on eligible property and investigate ways to automate the property calculation process.
- Develop and implement a quality control process to ensure taxpayers only receive relief based on qualifying income and investigate ways to automate the income calculation process.
- Examine outreach efforts to assess the distribution of relief benefits statewide.

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
State Investment Management and Governance Practices
Montana Board of Investments

JANUARY 2014 12P-10 REPORT SUMMARY

The Montana Board of Investments provides effective oversight of over $15 billion in assets; strengthening the credentials and qualifications of Board of Investments members and making other changes in management and governance practices would improve the Board of Investments' ability to manage the large, complex assets under its care.

Context

In 1972, Montana voters ratified a new constitution that directed the legislature to provide for a Unified Investment Program. This program includes responsibility for investing state pension moneys and public funds. The Montana Board of Investments (board) as it exists today is a product of this constitutional mandate, which resulted in all the assets of the state's retirement systems, and those of other state and local government agencies, being invested through a single program. Today the board is responsible for management of over $15 billion in assets on behalf of the state's pension funds and state and local government agencies.

During our review, we determined the qualifications for citizens appointed by the Governor to the board have not changed since the 1980s. Meanwhile, the institutional investing arena has grown exponentially more complex over that time. Further, many states have more stringent experience and education requirements for the people with fiduciary responsibility for investing pension funds and other public money.

Results

Our audit found that board staff is following its policies and generally meeting industry best practice standards in performing due diligence on potential investments. We also found the organizational structure of the board's investment staff is appropriate for the asset mix and investment style currently mandated by the board, and the compensation policies of the board are consistent with peers within the public institutional investment industry.

Our report includes six recommendations related to the management and governance of the investing activities of the board, including recommending:

- The Montana Legislature increase the experience requirements for members of the board,
- The board enhance and require the ongoing educational activities provided to board members, and
- The board seek revisions to the Montana Procurement Act to provide an exemption for the contracting of external investment services.

Other recommendations are in the areas of asset allocation and the annual affirmation thereof; other tasks required by the charters of the board and its various committees; and the board's proxy voting program.

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Recommendation Concurrence	
Concur	4
Partially Concur	0
Do Not Concur	1

Source: Agency audit response included in final report.

For a complete copy of the report (12P-10) 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
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail **ladhotline@mt.gov**.

MONTANA LEGISLATIVE AUDIT DIVISION

PERFORMANCE AUDIT
Workers' Compensation Insurance Premium Review
Montana State Fund

JANUARY 2014 13P-05 REPORT SUMMARY

Montana State Fund issued approximately 26,000 policies which totaled $158.5 million in final premiums for policy year 2013; Montana State Fund could strengthen its controls and clearly document policyholders' premium calculations and premium returns to help ensure consistency, accuracy, and equity among policyholders.

Context

Montana State Fund (MSF) is a nonprofit, independent public corporation that is the guaranteed market for workers' compensation insurance. The MSF Board of Directors (board), comprised of seven members appointed by the Governor, is responsible for oversight of MSF. In addition to oversight, the board reviews and approves factors included in the premium calculations, premium discounts, and premium returns.

In policy year 2013, MSF issued over 26,000 policies totaling $158.5 million in final premiums. Small businesses are the majority of MSF's policyholders; however, medium and large businesses make up the majority of total premium dollars.

In 2011, the Montana Legislature passed House Bill 334 (HB 334), which made several significant changes to workers' compensation premiums and claims management. This bill was expected to reduce workers' compensation premiums paid by employers and reduce the cost of claims.

Results

Audit work examined the factors included in the premium calculations, discounts, and premium returns as well as the overall effects of HB 334 on policyholder premiums and incentive programs. While this work determined MSF generally calculates policyholders premiums and premium returns correctly, there were some exceptions. Strengthening controls and clearly documenting decisions regarding the premium calculations and returns will ensure consistency, accuracy, and equity.

Manual premium is the premium amount calculated before any discounts and/or adjustments are applied to a policy. Audit work reviewed the factors included in MSF's manual premium calculation and determined MSF correctly applies many of the factors approved by the board. However, controls could be strengthened over rate tier assignments to help ensure equitable treatment of policyholders.

The manual premium can be modified to recognize circumstances unique to individual policyholders. Based on audit work, we conclude that many of the modifiers were applied accurately to policies. This includes

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employers liability, medical deductible, and volume discounts. We were also able to conclude MSF accurately calculates the modified standard premium based on factors input on the policy holder system. Recommendations include establishing additional controls over applying the experience modifier to policyholders, strengthening controls over the construction industry credit application process, and strengthening controls over scheduled rating.

MSF operates several computer systems to calculate premium amounts, underwrite policies, and analyze policyholder data. Audit work identified needed improvements in this area including strengthening controls over the computer program used to underwrite policies to better ensure scheduled rating factors are properly documented.

MSF has programs that offer premium returns to qualified policyholders if losses are managed and kept low. Premiums can be returned to policyholders through dividends, retrospectively rated plans, and group plans. While audit work determined MSF issued and applied dividends accurately, MSF could strengthen policies and procedures over retrospectively rated and group business plans.

Premium amounts paid by policyholders were expected to decrease with the passage of HB 334, which was effective July 1, 2012. Audit work reviewed effects of this change on premiums paid by policyholders and incentive programs for private insurance agents and MSF employees. Audit work determined MSF implemented HB 334 changes related to premium calculations as approved by the board and made reasonable adjustments to its incentive programs following the implementation of HB 334 for factors relating to earned premium.

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

Montana Legislative Audit Division

Information Systems Audit
Montana Lottery Security
Montana Lottery

May 2013 13DP-01 Report Summary

Strong security controls are essential to ensure the safety and integrity of the Montana Lottery and its games, employees and contractors. Security controls are in place in the areas outlined by statute; however, we identified areas where controls can be strengthened, and where adherence to existing controls can be improved.

Context

The Montana Lottery was created in 1987. In its first quarter-century the Montana Lottery has transferred nearly $200 million to various state programs and to the general fund, where its net revenues are currently deposited. Its operations are funded by the sale of Montana Lottery tickets, which include scratch tickets; online tickets for drawing games such as Powerball and Montana Cash; and online instant-play games, a relatively new form of game for the Montana Lottery. Tickets are sold by licensed sales agents across the state, either in person as traditional retail counter transactions, or increasingly via vending-style self-service machines. These machines are typically located in supermarkets and taverns.

Montana law requires the Legislative Audit Division to perform a comprehensive security audit of the Montana Lottery every two years. Auditors reviewed the 18 security areas as defined in §23-7-411, MCA. Testing included evaluating Montana Lottery against Montana statute, Multi State Montana Lottery Association (MUSL) regulations, Montana Lottery internal security procedures, and industry best practices.

Results

Overall, security controls are in place in the areas outlined by statute; however, we identified areas where controls can be strengthened, and where adherence to existing controls can be improved. Areas for improvement include:

- Enhancing and adhering to the Montana Lottery's Employment of Relatives Policy,
- Increasing familiarity with and efficient utilization of existing security systems, and
- Collecting and analyzing data related to prize claims by licensed sales agents and their employees.

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 (13DP-01) 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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Federal Single Audit

Montana Single Audit Report

For the Two Fiscal Years Ended June 30, 2013

March 2014 12-02 Report Summary

The state of Montana spent approximately $2.8 billion in federal funds in fiscal year 2011-12 and $2.7 billion in fiscal year 2012-13. For both years combined, this is a decrease from the prior Single Audit biennium of approximately $0.5 billion. This decrease is largely due to discontinued funding from the American Recovery and Reinvestment Act (ARRA) funds for programs such as Medicaid, Supplemental Nutrition Assistance Program (SNAP), and Unemployment Insurance.

Context

The Montana Single Audit Report is compiled from the Montana Statewide Audit (12-01B and 13-01A) reports and the audits performed at each state agency. The Montana Statewide Audit reports are included in the Single Audit report without modification. In addition, results from each state agency are included as recommendations in the Single Audit report, to the extent 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 $17,940,084 during the audit period were identified as major federal programs.

The state of Montana had 29 major federal programs during the audit period; major federal programs were administered by 14 different state agencies. Of the federal funds spent during fiscal years 2011-12 and 2012-13, approximately 82 percent is related to Montana's major federal programs.

Results

Audits at state agencies resulted in 17 recommendations related to major programs or otherwise required to be reported by federal audit guidelines. Of these recommendations, three reported questioned costs totaling over $4.1 million.

Federal audit regulations specifically require the Single Audit to report whether each major federal program complied with selected federal requirements. The auditor's report identifies five major programs that did not comply with those federal requirements in all material respects.

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

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from least to most serious. The audit reported nine significant deficiencies and four material weaknesses.

Federal grantor agencies are the primary users of the Single Audit report, and the form of the audit report is designed to meet their oversight needs. Legislators and other report users may also use the Schedules of Expenditures of Federal Awards fiscal year 2012-13 and fiscal year 2011-12 included in the report.

Financial Audit
State of Montana
For the Fiscal Year Ended June 30, 2012

March 2013 | 11-01B | Report Summary

This set of financial statements provides legislators and taxpayers with a summary of the state's financial position. All operations and activities of the state are summarized in these statements. At the end of fiscal year 2011-12, Montana had approximately $451.7 million of unassigned fund balance in the General Fund. This represents an increase of $109.8 million from June 30, 2011.

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. The Health & Human Services and Education categories account for approximately 60 percent of the state's governmental expenditures.

The Schedule of Expenditures of Federal Awards reports total federal expenditures in fiscal year 2011-12 in excess of $2.8 billion.

An in-depth analysis of the state's financial position as of June 30, 2012, 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.

During fiscal year 2010-11, the General Fund became responsible for paying the Montana State Fund (MSF) workers' compensation claims incurred before July 1, 1990, (Old Fund claims) when the Old Fund resources were exhausted. During fiscal year 2011-12, payment of Old Fund claims and administrative expenses required a transfer of approximately $10 million from the General Fund. The estimated claims liability as of July 1, 2012, was approximately $59 million and is an obligation of the General Fund. In our opinion, the accompanying financial statements do not present the estimated claims liability according to Generally Accepted Accounting Principles because they are reported as part of the State Fund component unit rather than as a long-term obligation of the General Fund.

Results

In fiscal year 2011-12, 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, 2012, 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 actuarially sound.

This report also includes a recommendation related to a significant control deficiency over the financial statement preparation process.

(continued on back)

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

Montana Legislative Audit Division

Financial Audit
State of Montana
For the Fiscal Year Ended June 30, 2013

March 2014 | 13-01A | Report Summary

This set of financial statements provides legislators and taxpayers with a summary of the state's overall financial position. All operations and activities of the state government are summarized in these statements. At the end of fiscal year 2013, Montana had approximately $538 million of unassigned fund balance in the General Fund. This represents an increase of $86 million from June 30, 2012. The Schedule of Expenditures of Federal Awards summarizes the state's $2.7 billion in federal funds by grant and is also included in this report.

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 amount to approximately 80 percent of the state's governmental revenue and expenditure activity. The Health & Human Services and Education categories account for approximately 65 percent of the state's governmental expenditures.

The Schedule of Expenditures of Federal Awards reports total federal expenditures, including noncash assistance, in fiscal year 2013 in excess of $2.7 billion.

Results

In fiscal year 2013, Department of Administration management reported the Old Fund liabilities as part of Montana State Fund. However, the Old Fund liabilities have not been part of the Montana State Fund since June 2011 when the General Fund provided the resources to pay the remaining Old Fund liabilities. As a result, we issued modified opinions on the state's financial statements.

The audit report also includes a disclosure issue related to estimated Old Fund liabilities.

In fiscal year 2013, the Sheriffs', Game Wardens' and Peace Officers', and Highway Patrol Officers' retirement plans were not adequately funded. The information was disclosed in the Public Employees' Retirement System (PERS) audit and is considered material noncompliance with the Montana Constitution and state law.

This audit report also contains one recommendation related to a material weakness in internal control over the preparation of the state's Schedule of Expenditures of Federal Awards.

Recommendation Concurrence	
Concur	0
Partially Concur	1
Do Not Concur	0

Source: State audit responses included in final report.

For a complete copy of the report (13-01A) 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 Lottery
For the Two Fiscal Years Ended June 30, 2012

FEBRUARY 2013 12-30 REPORT SUMMARY

State law requires a minimum of 45 percent of the money paid for tickets or chances be paid out as prize money and net revenue earned be transferred to the General Fund. In fiscal year 2012, the Montana State Lottery transferred approximately $13 million to the General Fund, which is a $2.2 million increase from the amount transferred in fiscal year 2011.

Context

For the last 25 years, Montana has allowed lottery games in which players purchase a chance to win a prize through the Montana State Lottery. 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 the director of the Montana State Lottery who is also appointed by the Governor.

Section 23-7-410, MCA, states the Legislative Auditor shall conduct or have conducted an annual audit of the Montana State Lottery. This is the third consecutive audit of the Montana State Lottery conducted by the Legislative Auditor; all other audits since the Lottery's inception were performed by private CPA firms through contracts with the Legislative Audit Division. The previous two audits were financial-compliance audits and included six and three recommendations, respectively, to the Montana State Lottery. This audit was a financial audit, which means our work was limited to that necessary to determine if the Montana State Lottery's financial statements are fairly presented for fiscal year 2012, with comparative financial amounts for fiscal year 2011, in conformity with generally accepted accounting principles and state accounting policy. In addition, we evaluated the three recommendations included in the prior audit.

We determined the Montana State Lottery implemented one recommendation and partially implemented the other two recommendations. The two recommendations that were partially implemented relate to internal controls over financial reporting. We will review and evaluate Lottery's financial reporting controls as part of the next financial-compliance audit of the Lottery.

Results

This audit report does not include any recommendations to the Montana State Lottery.

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
Montana State Lottery
For the Fiscal Year Ended June 30, 2013

January 2014 13-30A Report Summary

In fiscal year 2013, the Montana State Lottery recorded approximately $56.80 million in lottery ticket sales revenue, and transferred approximately $13.08 million to the state's General Fund.

Context

The Montana State Lottery (Lottery) currently offers for sale a variety of lotto games, such as Powerball; scratch ticket games; EZ Play games; and the Montana Millionaire game. State law dictates that a minimum of 45 percent of the money paid to the Lottery for tickets or chances be paid out as prize money. In fiscal years 2013 and 2012, respectively, prize expense was 56.6 and 54.4 percent of ticket sales revenue.

State law also requires the Lottery to transfer the net proceeds of its operations to the state's General Fund. In fiscal year 2013, the Lottery sold approximately $56.80 million in lottery tickets and transferred $13.08 million to the state's General Fund. By comparison, in fiscal year 2012, the Lottery sold approximately $52.60 million in lottery tickets and transferred $13.06 million to the state's General Fund. As these numbers indicate, the fiscal year 2013 transfer, as a percentage of ticket sales, is less than that for fiscal year 2012. This is due in part to the Lottery receiving back unclaimed jackpot prizes of approximately $625 thousand in fiscal year 2012. When the unclaimed jackpot prizes were returned in fiscal year 2012, they increased the amount transferred to the general fund. Additionally, the Lottery incurred approximately $112 thousand in additional operating expenses in fiscal year 2013.

Results

This audit report includes one recommendation to the Lottery concerning compliance with state policy requirements governing the use of procurement cards. We reviewed 16 monthly procurement card statements from fiscal year 2013, and identified noncompliance in 12 of the 16 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-COMPLIANCE AUDIT
Montana Board of Housing
For the Fiscal Year Ended June 30, 2013

OCTOBER 2013 13-07A REPORT SUMMARY

In fiscal year 2013, the Montana Board of Housing (board) began collecting mortgage payments from borrowers. The board services approximately 325 loans, which include loans from the Veteran Loans Program.

Context

The 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 and repayment of loans.

The powers are vested in a seven member board, appointed by the Governor, subject to the confirmation of the 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 Program.

In fiscal year 2013 the board purchased 305 single-family mortgages for $38 million. The board retired $114 million in bonds payable through prepayments and regular debt service payments. However, total bond debt payable only decreased $94 million during the fiscal year due to newly issued bonds.

Results

Our audit report contains one recommendation to the board related to following review procedures over the preparation of the Statement of Cash Flows.

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
Montana State Fund
For the Fiscal Year Ended June 30, 2013

October 2013 | 12-05B | Report Summary

In spite of a decrease in the number of active policies from approximately 24,700 in fiscal year 2011-12 to under 24,400 in 2012-13, Montana State Fund (MSF) has experienced an increase in Net Earned Premium of 3.7 percent. The premiums increased from approximately $150.5 million in 2011-12 to $156.0 million in 2012-13. This increase in premiums is attributed to increased payrolls reported by the policyholders. In fiscal year 2011-12, MSF implemented a 20 percent reduction in premium rates as a result of workers' compensation legislation passed in 2011. In the year of implementation, Net Earned Premium decreased by approximately 13.3 percent.

Context

The MSF board is allocated to the Department of Administration for administrative purposes only. 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 employers in Montana.

By fiscal year-end 2010-11, the Old Fund (claims incurred prior to July 1, 1990) exhausted all of its resources and by state law, the General Fund became responsible for paying the claims. The General Fund transferred approximately $10.6 and $10.0 million in fiscal years 2012-13 and 2011-12, respectively, for payment of the Old Fund claims and operating costs.

Results

This report contains no recommendations. The previous audit included one recommendation. We found this prior audit recommendation to be fully implemented.

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
Board of Investments
For the Two Fiscal Years Ended June 30, 2013

December 2013 | 12-04B | Report Summary

The Board of Investments manages the Unified Investment Program, a constitutionally required program for the investment of public funds, public retirement system funds, and state compensation insurance fund assets. In addition, the board manages the investments of state agencies and certain investments of local governments, such as cities, counties, and school districts. The Unified Investment Program had total net asset value/investments of $14.8 billion at June 30, 2013, and $13.8 billion at June 30, 2012.

Context

To manage the Unified Investment Program, the Board of Investments (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. The board also manages the investments for state and local governments. Local government entities may only invest in the Short Term Investment Pool.

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 (Intermediate Term Capital Program) bonds which are used to provide loans to eligible Montana governments to finance capital expenditures for up to 15 years. Economic Development Bond Act programs provide access to economic development programs through issuance of conduit debt. The Conservation Reserve Enhancement Program (CRP), allow farmers to receive a lump sum payment by assigning their federal CRP contract to the board.

Results

This report does not contain any recommendations.

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
Public Employees' Retirement Board
For the Fiscal Year Ended June 30, 2012

February 2013 12-08A Report Summary

There are eight defined benefit plans and two defined contribution plans administered by PERB. As noted in the results section below, four of the defined benefit plans are actuarially unsound at June 30, 2012. For fiscal year 2012, PERB reported approximately 36,497 active members and 22,231 members receiving retirement or disability payments. In the 457 deferred compensation plan, PERB reported approximately 8,156 participating members of which 4,584 were actively contributing in fiscal year 2012.

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 accounted for in pension trust funds. The defined benefit plans 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 two defined contribution plans are the Public Employees' Retirement System-Defined Contribution Retirement Plan and the Section 457 Deferred Compensation Plan.

Fiscal year 2012 additions to plan net assets were $347.5 million in the defined benefit plans and $47.4 million in the defined contribution plans. Fiscal year 2012 deductions to plan net assets were $333.8 million in the defined benefit plans and $22.0 million in the defined contribution plans.

Results

This report contains two recommendations. One recommendation relates to the actuarial soundness of four defined benefit plans. 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 are not actuarially sound. The Montana Constitution requires public retirement systems to be funded on an actuarially sound basis.

The second recommendation relates to incomplete reconciliations in the 457 deferred compensation plan that resulted in an $18 million misstatement on the state accounting records at fiscal year-end 2012.

Recommendation Concurrence	
Concur	2
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
Public Employees' Retirement Board
For the Fiscal Year Ended June 30, 2013

MARCH 2014 12-08B REPORT SUMMARY

There are eight defined benefit plans and two defined contribution plans administered by Public Employees' Retirement Board. Three of the defined benefit plans are not actuarially sound at June 30, 2013. The Montana Constitution requires that the public employee retirement systems be funded on an actuarially sound basis. This funding situation does not affect our audit opinion on the financial statements.

Context

The Public Employees' Retirement Board (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 accounted for in pension trust funds.

The Statement of Changes in Fiduciary Net Position of the pension trust funds, on pages A-28 and A-29, reports "Total Additions" consisting primarily of contributions and investment income in the Defined Benefit plans for fiscal year 2013 of $869,736,046 and $65,304,212 in the Defined Contribution plans.

The Statement of Changes in Fiduciary Net Position of the pension trust funds (noted above) also reports "Total Deductions" primarily consisting of benefit payments, refunds, and administrative expenses in the Defined Benefit plans for fiscal year 2013 of $361,690,020 and $25,796,248 in the Defined Contribution plans.

Results

The Sheriffs' Retirement System, Game Wardens' and Peace Officers' Retirement System, and Highway Patrol Officers' Retirement System are not actuarially sound. The Montana Constitution requires public retirement systems to be funded on an actuarially sound basis.

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
Teachers' Retirement System
For the Two Fiscal Years Ended June 30, 2012

JANUARY 2013 12-09A REPORT SUMMARY

In fiscal year 2012, the Teachers' Retirement System (system) paid out $99.4 million more in benefits than it collected in contributions. During the audit period, the system's financial position decreased by $40 million because investment earnings did not cover the difference between the $152 million of contributions collected and $251 million in benefit payments.

Context

The Teachers' Retirement System is a component unit of the state of Montana. It was established in 1937. Currently 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 to be members of the system.

A six member board governs the system. The Executive Director and system personnel are responsible for the daily administration of the system. At June 30, 2012, the system had 18 full-time equivalent employees.

At July 1, 2012, the system had more than 18,300 active members and approximately 13,300 retirees or beneficiaries receiving benefits. The system had $2.9 billion of assets.

The Montana Constitution requires the Teachers' Retirement System to be funded on an actuarially sound basis. To be funded on an actuarially sound basis, the system must be able to amortize its unfunded liability in 30 years or less.

Results

The July 1, 2012, actuarial valuation indicated the system's unfunded liability does not amortize. In eight of the last nine valuations, the system's unfunded liability has not amortized within the 30 year requirement. Table 1 on page 3 shows the historic trend of the system's actuarial soundness.

We issued an unqualified opinion on the system's financial statements, and this report contains one recommendation related to 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.	

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Montana Legislative Audit Division

Financial Audit
Teachers' Retirement System
For the Fiscal Year Ended June 30, 2013

December 2013 | 12-09B | Report Summary

In fiscal year 2013, the Teachers' Retirement System had a net investment income of $373.7 million, which contributed to an increase of net position of $252.9 million. In July 2013, the actuarial evaluation indicated the system is actuarially sound and able to amortize the unfunded accrued liability within a 20-year period.

Context

The Teachers' Retirement System (system) was established in 1937. Currently 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 to be members of the system.

During fiscal year 2013 members contributed $62.8 million with total contributions totaling $154.4 million. In contrast, $268.2 million in benefits paid were paid out to approximately 13,868 members or their beneficiaries during the fiscal year.

The Montana Constitution requires the system to be funded on an actuarially sound basis. To be funded on an actuarially sound basis, the system must be able to amortize its unfunded actuarial accrued liability (UAAL) in 30 years or less. The UAAL is the excess of the actuarial accrued liability over the actuarial value of the assets, which is typically the present value of the benefits earned to date that are not covered by the system's current plan assets. At July 1, 2013, the system's UAAL was $1,524,800,000. At June 30, 2012, the system did not amortize. During the 2013 Legislative Session, three bills were passed that created significant changes to the system. The major changes were to increase the employee and employer contribution rates and decrease the guaranteed annual benefit adjustment (GABA). The July 1, 2013, actuarial evaluation indicated the system's amortization period is 20 years. There is currently a lawsuit pending regarding the decrease in GABA. However, if the parties to the lawsuit prevail, the remaining amortization period is still expected to be less than 30 years.

This audit's primary objective was to determine if the fiscal year 2013 financial statements are presented in all material respects in conformity with Generally Accepted Accounting Principles (GAAP). We performed a variety of analytical tests over the financial information to determine that the amounts presented on the financial statements were fairly presented. These tests included verifying eligibility, benefit calculations, and employer and employee contribution calculations. We also tested selected state laws that have a direct impact on the financial statements. We also verified that the financial statement presentation was in accordance with GAAP.

Results

We have no recommendations and issued an unmodified opinion on the system's financial statements for fiscal year 2013.

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 Military Affairs
For the Two Fiscal Years Ended June 30, 2014

October 2014 14-25 Report Summary

The Department of Military Affairs' operations are funded primarily by federal moneys. In fiscal year 2014, over $54 million in federal funds were received and approximately $9 million was spent towards construction of a new armory in Miles City.

Context

The Department of Military Affairs (department) is administered by the Adjutant General and his staff to provide for safety and well-being for citizens of Montana. This is accomplished through mission-ready forces for federal and state activations, emergency services as directed by the Governor, and services to Montana veterans. The department, through the Army and Air National Guard, manages a joint federal-state program to maintain trained and equipped military organizations available to the Governor, in the event of a state emergency, and the President, in the event of a national emergency. The department also manages and coordinates with state and federal agencies in providing services for veterans and their families and manages the state veterans' cemeteries. The department also administers programs such as the Montana National Guard Youth Challenge Program; the Montana Science, Technology, Academy, Reinforcing, Basic, Aviation and Space Exploration Program (STARBASE); the Montana Military Family Relief Fund; and the Montana Guard Scholarship Program.

Results

The department had three recommendations in the prior audit report of which two were implemented and one was not implemented. The recommendation not implemented, related to expenditure accruals, is also a recommendation in this report. The current audit report also contains five other recommendations to the department.

During the audit we found the department is not in compliance with state laws, administrative rules, and policy. The state law is related to determining eligibility for and providing state reenlistment bonuses to National Guard members who meet the criteria outlined in law. We also found internal controls to be insufficient to detect and correct 29 misclassifications of expenses and for reimbursements made to 20 out of 23 subrecipients without evidence of a signed agreement. Furthermore, state accounting policy was not followed when Public Assistance Grants in the amount of $6 million and $3 million was recorded.

Recommendation Concurrence	
Concur	4
Partially Concur	1
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 Commerce
For the Two Fiscal Years Ended June 30, 2013

JANUARY 2014 | 13-16 | REPORT SUMMARY

The Department of Commerce is the state agency with the responsibility for economic and community development to create, retain, and expand jobs. Statutorily, the Department of Commerce has other responsibilities including, but not limited to, housing programs, tourism promotion, and the Montana Heritage Program.

Context

During fiscal years 2012 and 2013, the Department of Commerce (department) granted funds from both state and federal sources totaling approximately $65.4 million. Significant amounts of the grant funds go to communities for: development of affordable low-income housing, infrastructure for water and sewer systems, bridges, school facility improvements, and tourism-related infrastructure. In addition, during the audit period the department paid out over $75 million, received from the U.S. Department of Housing and Urban Development, in benefits to address low-income housing needs.

Results

This report includes six recommendations to the department, four of which relate to internal controls. The control recommendations address payment authorizations, conflict of interests, federal administrative expenses, and procurement cards. The other two recommendations focus on compliance with state laws concerning travel policy and payments, and membership requirements of the Montana Heritage Commission.

In addition, we reviewed the five recommendations that were made in the prior financial-compliance audit of the department for fiscal years 2010 and 2011. We found the department implemented four of the recommendations. One recommendation was not implemented because it is no longer applicable to the department.

Recommendation Concurrence	
Concur	6
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, 2013

October 2013 13-15 Report Summary

The Department of Labor and Industry (department) exists to promote the well-being of Montana's workers, employers, and citizens. The department is responsible for licensing and regulating individuals and businesses engaged in various professions within the state. We determined only four professional and occupational licensing (POL) boards had fees commensurate with costs during both fiscal years 2012-13 and 2011-12, contrary to state law. In addition, we found the department did not actively manage or account for hundreds of employers not carrying workers' compensation insurance.

Context

The department's responsibilities are vast and include administration of the unemployment insurance program; enforcement of state and federal labor, state wage and hour, workers' compensation, discrimination, and state and federal health and safety laws. In addition, the department establishes and enforces minimum building codes; conducts research and collects employment statistics; provides job training to individuals; provides administrative support to the 36 professional and occupational licensing boards; and oversees federal and state training and apprenticeship programs.

Results

This report contains eight recommendations to the department, with one or more recommendations applicable to each of the department's five divisions. The department did not actively manage or account for hundreds of employers not carrying workers' compensation insurance. We determined that 21 of the 36 professional and occupational licensing boards administratively attached to the department charged fees that were not commensurate with costs during fiscal year 2011-12 and 26 of the 36 were not commensurate with costs in fiscal year 2012-13, which is contrary to state law.

Audit work also identified several internal control deficiencies, some of which are related to the department's:

- Administration of safety inspections and fiscal management aspects of the Elevator Licensing Program, resulting in noncompliance with state law and department administrative rule.
- Information systems programmer's having unrestricted access.
- Demotion pay rules.

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

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Montana Legislative Audit Division

Financial-Compliance Audit
State Auditor's Office
For the Two Fiscal Years Ended June 30, 2014

October 2014 14-20 Report Summary

The mission of the State Auditor's Office is to protect Montana's consumers through insurance and securities regulation.

Context

The elected Montana State Auditor serves as the Commissioner of Securities and Insurance. The State Auditor's Office (office) is organized into three divisions: Centralized Management, Insurance, and Securities.

The Insurance Division investigates insurance code and rule violations, collects taxes, resolves complaints, provides insurance licenses, reviews rates, and provides continuing education. This division also includes the Insure Montana Program that provides assistance with the cost of health insurance to small businesses.

The Securities Division is responsible for the administration and enforcement of the Securities Act of Montana. This includes registration of securities issuers, salespeople, investment advisers, brokers-dealers, investment adviser representatives, and conducting investigations.

Total revenues collected by the office were approximately $111 million and $120 million in fiscal years 2013 and 2014, respectively. Primary revenue sources include insurance premium tax, and securities and insurance licenses, permits, and fees. Approximately 60 percent or more of total revenues are deposited into the General Fund annually.

Total annual expenditures approximate $52 million. Primary office expenditures include local assistance, which represent state contributions to firefighter and police retirement systems, Insure Montana tax credits, and premium assistance.

We focused our audit effort primarily on reviewing these revenue and expenditure activities and related account balances. Throughout the audit, we reviewed and tested the office's control systems and determined compliance with selected state laws and regulations.

Results

The current audit report contains three recommendations. We identified a deficiency in access controls within the office's internally developed computer system used as the basis for recording revenues and expenditures. We also identified a control deficiency in the calculation of tax credits for the Insure Montana program. The office also does not collect all required registration documents per state law for securities issuers.

(continued on back)

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

Financial-Compliance Audit
Department of Administration
For the Two Fiscal Years Ended June 30, 2014

November 2014 14-13 Report Summary

The Department of Administration is charged with administering many centralized functions for state government, including the comprehensive insurance program. The department is using insurance program reserves to pay the cost of loss mitigation activities that directly benefit other state agencies and units of the university system. The audit report contains a recommendation regarding the department's use of funds for costs that do not meet loss mitigation objectives and a recommendation related to federal questioned costs.

Context

The Department of Administration (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 2013-14 and 2012-13, the department received revenues from Internal Service Fund operations of approximately $248.1 million and $254.1 million, respectively.

As required by statute or legislation, the department transfers funds to several other state agencies. Significant General Fund transfers authorized during the 2013 Legislative Session include $20.4 million to the natural resources projects account, $11.4 million to the long-range information technology program account, up to $21 million to the public employees' retirement system defined benefit plan trust fund, $13.5 million to various state agency operations accounts, $22.9 million to the Montana support for schools account for the purposes of funding costs of restructuring the basic entitlement to K-12 schools, and $25 million to the teachers' retirement system pension trust fund. Some transfers are required annually while others were one-time-only, and most were recorded in fiscal year 2013-14.

Results

Our report contains 13 recommendations related to loss mitigation activities, federal questioned costs, accounting errors, deficiencies in internal controls of the department, and compliance with its policies, state law, and state accounting policy.

The department has funded loss mitigation with moneys from the comprehensive insurance program. The methods used to account for these activities have resulted in unallowable costs being charged to various federal programs administered by the state.

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The department records Other Post Employment Benefit (OPEB) expenses and liabilities on behalf of all state agencies. Since fiscal year 2008-09, the department has not made a required adjustment to the calculation. The errors have accumulated to a $69.3 million overstatement in OPEB liabilities on the state's accounting records as of June 30, 2014.

The department develops accounting policies used by all state agencies. Our audit identified instances where policies do not provide adequate guidance to state agencies.

We reviewed the fund equity balances and fees charged for each Internal Service Fund as required by §17-8-101(6), MCA, and identified noncompliance for four of the department's internal service funds.

Annually, the department receives federal moneys related to harvest of timber on national forests within the boundaries of the state. These moneys 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 2013-14 and 2012-13, the department received and distributed approximately $18.6 million and $19.7 million, respectively, under this program. The department does not conduct adequate monitoring of the use of funds at the county level, as required by federal regulations.

Our prior audit report for the two fiscal years ended June 30, 2012, contained eight recommendations. The department implemented five and partially implemented three recommendations. The recommendations not implemented relate to authorization for special insurance needs, compliance with the deposit requirements specified in state law, and establishing appropriate access to funds on the state's accounting system.

Recommendation Concurrence	
Concur	11
Partially Concur	1
Do Not Concur	1

Source: Agency audit response included in final report.

For a complete copy of the report (14-13) 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 Commissioner of Political Practices

For the Two Fiscal Years Ended June 30, 2014

October 2014 14-21 Report Summary

The Office of the Commissioner of Political Practices reported issuing 75 formal decisions resolving 95 complaints in the period from June 10, 2013, to June 30, 2014. Of the 75, 53 had sufficient facts to continue investigating. Of those 53, 20 have negotiated settlements, 14 are in active district court enforcement proceedings, and 19 are in continued negotiation.

Context

The Office of the Commissioner of Political Practices (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 review of campaign and political committee expenditure reports, investigations of campaign finance and disclosure cases, registration of lobbyists and principal expenditure tracking, and formal ethics complaint proceedings.

The office is funded through General Fund appropriation and a small amount of lobbyist license revenue. Office expenditures total $910,000 and $493,000 in fiscal year 2014, and 2013, respectively. In 2014, the office expended $343,000 related to the development of an online reporting system to improve reporting for political candidates and committees.

Our audit work included review of lobbyist registration fees, office expenditures, and compliance with state law and state accounting policy. It also included reviewing the overall reasonableness of the financial schedule presentation and note disclosures.

Results

The office continues to experience difficulty in recording multi-year license revenue, which ultimately affects fund equity balances. This report contains one recommendation to the office to improve internal controls over recording revenue and other financial transactions.

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 (14-21) 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 Governor and Lieutenant Governor
For the Two Fiscal Years Ended June 30, 2014

November 2014 | 14-23 | Report Summary

The 2013 Montana Legislature authorized a General Fund transfer of $7.5 million to the Office of the Governor and Lieutenant Governor to fund operation costs of nine specific state agencies. During fiscal year 2014, approximately $1.45 million was disbursed and of that amount approximately $516,000 was transferred to agencies not referenced in the law. This matter, as well as other internal control, compliance, and accounting issues are addressed in this report.

Context

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

Fiscal year 2013 marked the last year of the State Small Business Credit Initiative federal award, which accounted for over $4.4 million in federal revenue. This federal award was subgranted to the Department of Commerce. The primary expenditures of the office results from personal services. These expenditures account for over 70 percent of the total expenditures for the office during each fiscal year audited.

In obtaining evidence for our opinion of the financial schedules of the office, we assessed risk, documented internal controls, and performed tests related to personal services, operating expenses, transfers-in, and federal revenue. We also tested compliance with 34 selected state laws.

Results

The prior audit report contained one recommendation on improving review procedures over transactions to ensure compliance with state accounting policies and state law. We determined the office did not implement this recommendation. The current audit report contains four recommendations related to strengthening internal control procedures for approval of expenditure transactions, complying with state law on use of the Governor's Operations Account, following state policy on establishing procurement cards accounts, and recording revenue estimates.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	1

Source: Agency audit response included in final report.

For a complete copy of the report (14-23) 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, 2014

October 2014 | 14-14 | Report Summary

The Montana Department of Revenue administers state tax laws, enforcing regulations for more than 30 state taxes and fees. During the audit period, the department collected approximately $1.9 billion in taxes in each fiscal year. Of this, over $216 million was distributed to local governments in fiscal year 2013, and $228 million in fiscal year 2014.

Context

In addition to tax administration, the Department of Revenue (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.

Results

The department administers the coal gross proceeds and contractor's gross receipts taxes. Both of these tax types are prescribed in law. Our audit determined interest and penalties are not assessed as required by state law on contractor's gross receipts. We also noted the form prescribed to report coal gross proceeds is not detailed enough to demonstrate the state received its required allocation.

The taxes collected by the department are primarily administered through the use of a computer system referred to as GenTax. Our audit procedures determined that access to GenTax was not restricted as required by department policy.

Finally, the internal service fund used to administer the bad debt collection program charged fees that generated revenue collections greater than the program's expenditures. This resulted in excess fund equity balance in both fiscal years 2013 and 2014.

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

Chapter II – Health and Human Services

Disclosure Issues

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

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

Montana Legislative Audit Division

Performance Audit

Childhood Immunization Program

Department of Public Health and Human Services

May 2014 13P-07 Report Summary

Montana is currently and historically ranked among the lowest states for the immunization coverage rate for children 19-35 months old. Montana's young children could be better protected against vaccine preventable diseases by aligning state immunization requirements with Centers for Disease Control and Prevention recommendations, monitoring preschool immunization activity, improving verification and reporting of immunization records for schools, and providing more statutory guidance for the use of the state's immunization registry.

Context

The Montana Immunization Program is part of the Communicable Disease Control and Prevention Bureau within the Public Health and Safety Division of the Department of Public Health and Human Services (department). Most of its $3 million annual budget is funded from federal sources. The Immunization Program has 10 FTE and affects in some way every child in every county of the state through the immunizations they and their contemporaries receive. Montana has a population of nearly 61,000 children under the age of 5. There are an additional 11,700 kindergartners and more than 66,000 elementary school attendees that are most directly affected by state immunization requirements.

Historically, Montana has ranked either last-or among the lowest-of the states in immunization coverage for 19-35 month old children.

In Montana, there are lists of age-appropriate immunizations that generally all children must receive prior to attending a Montana child care, preschool, and school located in state law and administrative rule. This audit focused on determining if the department effectively enforces child care facility, preschool, and elementary school compliance with immunization requirements.

Results

Audit work found that Montana's existing immunization requirements for various facilities do not align with current standards of care for immunizations to protect against vaccine preventable diseases.

We also found no monitoring of preschool immunization requirement compliance by the department, except for preschools that are run in combination with a licensed or registered child care.

Audit work identified that while the department does monitor child care facility compliance with immunization requirements, improvements could be made to better ensure children in these settings are protected against vaccine preventable diseases. These include following up with children reported as noncompliant with requirements and changing the selection process of child care facilities for assessment.

While the department annually collects data from schools regarding the immunization status of their students, we found improvements could be made such as more consistent compilation and verification of

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data submitted by the schools to better protect elementary school attendees.

This audit also focused on the efficient and effective use of Montana's Immunization Registry (imMTrax), which is designed to make immunization requirement tracking and related activities more efficient and effective through centralized data storage and access. We identified several issues affecting the use of imMTrax, including a lack of statutory guidance regarding the sharing of information within the system, and the need for improved controls to ensure data within the system is accurate and reliable.

Recommendation Concurrence	
Concur	9
Partially Concur	1
Do Not Concur	0

Source: Agency audit response included in final report.

Montana Legislative Audit Division

Information Systems Audit

Vital Statistics Information Management System

Department of Public Health and Human Services

January 2014 13DP-02 Report Summary

Vital records directly affect the lives and benefits of all present and former Montana residents. Failure to protect vital records information could affect federal and state services to Montana citizens. The audit team identified areas which could be strengthened to maximize the integrity of vital statistics data and records.

Context

The Vital Statistics Information Management System (VSIMS) is a web-based application used for managing vital records such as birth and death certificates. The system is operated by the Office of Vital Statistics (OVS) within the Department of Public Health and Human Services. There are approximately 2,000 users who access the system on a daily basis to enter new vital records, review existing information, and issue certified copies of certificates.

As described in §50-15-122, MCA, it is the policy of the state to protect the integrity of vital records and vital reports, to ensure their proper use, and to ensure the efficient and proper administration of the system of vital statistics. The audit focused on controls related to access including assignment, permissions, and monitoring; input validations and edits to ensure data integrity; and protection of data output.

Results

From the audit work conducted, we concluded OVS has incorporated controls within VSIMS; however, some procedures could be strengthened. The following is an overview of the areas that include recommendations for improvements:

- Six-month user review process should be updated to include all users.
- Creation and assignment of application roles – should be reviewed to ensure only required access is granted.
- User account passwords – need to ensure users reset passwords regularly.
- User monitoring – should establish a process for ongoing review of users with administrative rights.
- Release of death record data – protocol needs to be consistent with policy.
- Use of automation – should analyze processes and use automation where possible to increase efficiencies.

Recommendation Concurrence	
Concur	6
Partially Concur	0
Do Not Concur	0

Source: Agency audit response included in final report.

For a complete copy of the report (13DP-02) 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 Public Health and Human Services

For the Two Fiscal Years Ended June 30, 2013

November 2013 | 13-14 | Report Summary

The Department of Public Health and Human Services (department) operates a portfolio of medical, economic assistance, and public health programs to serve Montanans. Many of these programs are counter-cyclical, with increases in demand for services coinciding with downturns in employment, income, and state revenues. However, Medicaid and Temporary Assistance for Needy Families (TANF) enrollments increased by 7.7 and 3.03 percent, respectively, between June 2012 and June 2013. Medicaid mental health case load increased by 20.06 percent in the same period.

Context

Department expenditures during the past fiscal year included $1.254 billion in federal funds. Twelve federal programs comprised 91.8 percent of the federal expenditure total with Medicaid and Supplemental Nutrition Assistance Program (SNAP) comprising 80.5 percent of that total.

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

Results

The report includes 16 recommendations to improve internal controls, enhance compliance with federal laws and regulations, and achieve compliance with state statutes. Issues address TANF fiscal monitoring, department payments not allowable under federal law or program grant agreements, prevention of inappropriate access to computer systems, overcharge for infant formula rebate, and reallocation of alcohol tax distributions in accordance with state law.

We questioned $4,300,075 in costs charged to federal grants as a result of our audit.

The prior audit report had 15 recommendations. The department implemented 10, partially implemented four, and did not implement one.

Recommendation Concurrence	
Concur	16
Partially Concur	0
Do Not Concur	0

Source: Agency audit response included in final report.

For a complete copy of the report (13-14) 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

Detection and Resolution of Suspected Medicaid Recipient Prescription Fraud and Abuse

Department of Public Health and Human Services

May 2013 | 12P-12 | Report Summary

More than $75 million was spent during fiscal year 2012 on Medicaid prescription drugs in Montana. The Department of Public Health and Human Services should comply with federal regulations and develop a process for detecting, identifying, and resolving suspected cases of recipient prescription fraud and abuse.

Context

Authorized by state and federal law, the Montana Medicaid Program is a joint federal-state program which provides medical coverage, including prescription benefits, to eligible Montanans. The program is administered by the state Department of Public Health and Human Services (department). As part of its obligations for administering Medicaid, the department is required by federal regulation to conduct specific duties related to fraud and abuse. Our audit focused on the department's activities related to identification, investigation, and resolution of potential prescription-related fraud and abuse by Medicaid recipients.

Results

Federal regulations mandate inclusion of a fraud detection and investigation program within state Medicaid programs. Additionally, state Medicaid agencies are required to have methods and criteria for identifying suspected fraud cases. Based on audit work, we determined the department is not in compliance with federal regulations and identified weaknesses in the department's controls related to prescription-related fraud and abuse.

While we determined the department and a contractor analyze prescription claim data, we found no formal process for tracking cases identified through this analysis. In addition, we reviewed administration of a department hotline promoted as a hotline available to receive information about Medicaid recipient fraud or abuse. We determined the hotline is not an effective mechanism for identifying potential recipient fraud or abuse and improvements in its administration are needed.

We also sought to determine if the department effectively investigates and resolves cases of suspected prescription-related fraud or abuse in a manner which complies with state and federal requirements. We selected a sample of 31 potential cases to assess department efforts in this area. We found the department has a limited process for investigating these types of cases. Additionally, we determined the department has no process for referral of cases to law enforcement. In our sample, we noted allegations of illegal activity by recipients related to prescription drug diversion and "doctor-pharmacy shopping." None of the cases in our sample were referred

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to appropriate law enforcement. Additionally, we reviewed the department's internal monitoring of recipients identified as having inappropriate or excessive use of prescription services. We noted weaknesses related to how the department tracks these recipients.

To address these concerns and others, we make eight recommendations to the department to comply with federal regulations and develop a process for detecting, identifying, and resolving cases of suspected prescription fraud and abuse in the Medicaid program.

Recommendation Concurrence	
Concur	8
Partially Concur	0
Do Not Concur	0

Source: Agency audit response included in final report.

Chapter III – Natural Resources and Transportation

Disclosure Issues

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

Department of Transportation #13-17

Montana Legislative Audit Division

Performance Audit
Block Management Program
Department of Fish, Wildlife & Parks

October 2013 13P-04 Report Summary

Between 2001 and 2012, the Block Management program provided almost $2 million in compensation for public hunting access to private lands where such access already exists through department conservation easements. The program contains some Block Management Areas (BMAs) that do not allow public hunting access to adjacent federal and state trust lands. Significant control weaknesses exist for enrolling property in the program and for calculating payments to enrolled landowners.

Context

The Block Management program (program) facilitates public hunting access to private lands and isolated state and federal lands through voluntary contracts between the Department of Fish, Wildlife & Parks (FWP) and private landowners. FWP administers the program from Helena, while Regional Hunting Access Enhancement Coordinators in six of FWP's seven regional offices manage the program on the ground. Properties enrolled in the program are known as BMAs and participating landowners are known as cooperators. For the 2012 hunting season, the program consisted of 858 BMAs providing access to more than 8.16 million enrolled acres. According to FWP, the program is one of the most successful hunting access programs in the West.

The process and decisions to enroll and re-enroll properties in the program are conducted at the regional level, with involvement from field biologists, game wardens, and regional management. Regional staff is also responsible for establishing contracts with cooperators. Hunters access BMAs by completing self-administered sign-in cards or rosters (Type I BMAs) or obtaining permission slips from cooperators or FWP (Type II BMAs). At the end of the hunting season, regional staff collects and tabulates completed hunter permission documents for all BMAs in their regions in order to track hunter use. The hunter day totals gathered through regional counts are the bases for cooperator payments. Cooperators can receive up to $11 per hunter day in compensation. By statute, a cooperator may receive no more than $12,000 per year from the program. In 2012, FWP paid $4.95 million to cooperators in compensation.

Results

Audit work found the program does not consistently review properties for participation in the program against established criteria. The program also does not have a system that ensures accurate payments to cooperators. As a result, audit recommendations address the need for FWP to explore a different method to compensate cooperators and develop policies and procedures to define and establish consistency in program operations. Audit work also identified the need for FWP to address program funding shortfalls, coordinate with state and federal land management agencies, and not use program funds to compensate landowners for private properties where public hunting access already exists through FWP conservation easements.

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

Montana Legislative Audit Division

Performance Audit
Management of Oil and Gas and Commercial Leasing on State Trust Lands
Department of Natural Resources and Conservation

October 2013 13P-03 Report Summary

The Montana Department of Natural Resources and Conservation's (department) controls over the oil and gas bid process ensures that information is secure and not used to inappropriately influence the price of oil and gas leases at public auction. However, the department should more proactively identify commercial leasing opportunities on state trust land to maximize revenue for beneficiaries.

Context

The department generated over $20 million in gross revenue from approximately 6,100 oil and gas leases in fiscal year 2013. As for commercial leasing, state law outlines the various requirements of the department for commercial leasing on state trust land, including maximizing the long-term revenue accruing to the beneficiaries by issuing commercial leases on land where the chief value exists in its use for commercial purposes. Commercial leases generated approximately $5 million in gross revenue in fiscal year 2012. As of March 2013, there are 133 active commercial lease agreements on state trust land.

Audit work determined that the department has controls in place to ensure that oil and gas lease bid information is not used to inappropriately influence sale process at public auction. However, during our review, we determined the department should strengthen commercial leasing activities on state trust land by proactively identifying potential commercial leases, complying with appraisal and request for proposal (RFP) requirements, implementing policies and procedures for RFPs and lease monitoring, and documenting commercial leasing activities.

Results

Audit recommendations address the need for the department to proactively identify commercial leases on state trust land and strengthen the identification, issuance, and monitoring of commercial leasing activities on state trust land. Conclusions and recommendations include:

- Controls over the bid process for oil and gas leases protect the integrity of the lease bidding process.
- Proactively identify and develop commercial leases on state trust land.
- Set annual rates for commercial leases based on an appraised value of the land, or seek authority for alternative valuation methodologies.
- Review and approve land appraisals and document appraisal reviews for commercial lease land appraisals.
- Issue commercial leases to the highest and best bidder responding to department request for proposals.
- Develop and implement policies and procedures for request for proposals, including scope, scoring, and selection.

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- Develop and implement policies and procedures for the physical and financial monitoring of commercial leases.
- Develop and implement policies and procedures for documenting commercial leasing activities.

Recommendation Concurrence	
Concur	5
Conditionally Concur	2
Do Not Concur	0

Source: Agency audit response included in final report.

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Montana Legislative Audit Division

Financial Audit
Montana Water Pollution Control and Drinking Water State Revolving Fund Programs
For the Fiscal Year Ended June 30, 2012

February 2013 | 11-25B | Report Summary

As of June 30, 2012, the Water Pollution Control State Revolving Fund (WPCSRF) and the Drinking Water State Revolving Fund (DWSRF) programs had authorized loans to public entities of the State of Montana that in the aggregate exceeded $350.8 and $198.7 million, respectively. The net outstanding balance of these loans are approximately $192 million (WPCSRF) and $109.5 million (DWSRF).

Context

The State Revolving Fund includes the WPCSRF and the DWSRF which provide low interest loans for the planning, design, and construction of water pollution control and drinking water projects. The programs are jointly administered by the Department of Natural Resources and Conservation and the Department of Environmental Quality. The Department of Natural Resources and Conservation has requested an annual financial audit as required by the Federal Environmental Protection Agency (EPA).

The WPCSRF program works to maintain, restore, and enhance the chemical, physical, and biological integrity of the state's waters for the benefit of the overall environment and the protection of public health. The Water Pollution Control program is funded 83.33 percent by Federal EPA capitalization grants and 16.67 percent by state match.

The DWSRF program provides financial and technical assistance to help public water supplies achieve and maintain compliance with federal and state drinking water laws and standards for the protection and enhancement of Montana's public drinking water. The Drinking Water program is approximately funded 80 percent by Federal EPA capitalization grants and 20 percent by state match.

The State of Montana has issued General Obligation (GO) bonds, Revenue Anticipation Notes (RANs), and Bond Anticipation Notes (BANs) totaling approximately $33.6 million for use as state matching funds for the WPCSRF program and $22.6 million for the DWSRF program since the inception of the programs.

Results

This report contains no recommendations and an unqualified opinion. Financial statement users can rely on the information in the financial statements and notes. We would like to commend the departments for this accomplishment.

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

Montana Legislative Audit Division

Financial Audit
Montana Water Pollution Control and Drinking Water State Revolving Fund Programs

For the Fiscal Year Ended June 30, 2013

March 2014 | 13-25A | Report Summary

State Revolving Fund capitalization grants provide Montana with a long term source of financing for drinking water infrastructure and water quality management activities. The grants, received from the Environmental Protection Agency, are loaned to local Montana communities for eligible projects, and loan repayments are used to make new loans. The Environmental Protection Agency requires an annual audit of the programs.

Context

The State Revolving Fund programs include the Water Pollution Control State Revolving Fund (WPCSRF) and the Drinking Water State Revolving Fund (DWSRF). These programs provide low interest loans for the planning, design, and construction of water pollution control and drinking water projects. The programs are jointly administered by the Department of Environmental Quality (DEQ) and the Department of Natural Resources and Conservation (DNRC).

Through June 30, 2013, the WPCSRF and the DWSRF programs authorized loans to public entities, in the aggregate, in excess of $374.2 million and $216.2 million, respectively. At June 30, 2013, the net outstanding loan balances were approximately $184.5 million in the WPCSRF and $123.6 million in the DWSRF.

The WPCSRF program works to maintain, restore, and enhance the chemical, physical, and biological integrity of the state's waters for the benefit of the overall environment and the protection of public health. The WPCSRF program is funded 83.33 percent by federal Environmental Protection Agency (EPA) capitalization grants and 16.67 percent by state match.

The DWSRF program provides financial and technical assistance to help public water supplies achieve and maintain compliance with federal and state drinking water laws and standards for the protection and enhancement of Montana's public drinking water. The DWSRF program is funded 80 percent by federal EPA capitalization grants and 20 percent by state match.

Results

We focused our audit effort on reviewing the financial statements and notes. This included reviewing the financial statement preparation process, comparing the activity on the financial statements to previous years, and reviewing the notes for consistency with the financial statements and supporting documentation. We confirmed selected loan balances with loan recipients and reviewed documentation

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related to the Revenue Anticipation Note issuance. We also verified program financial information reconciled to statements provided by the program's trustee bank and determined program compliance with selected, applicable state and federal laws and regulations. Our audit did not result in any recommendations. We issued an unmodified opinion on the financial statements and notes.

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

Montana Department of Transportation

For the Two Fiscal Years Ended June 30, 2013

October 2013 13-17 Report Summary

The Montana Department of Transportation (department) spent over $300 million each fiscal year for planning, designing, constructing, and maintaining approximately 25,000 lane miles of roadways. The department is one of the largest employing agencies in state government with 2,242 authorized employees in fiscal year 2012-13. In addition to areas for improvement, the report contains a disclosure issue related to changes in employee position numbers when no change in job duties occurred.

Context

The department's primary funding sources are federal highway planning and construction funds and state motor fuel tax revenues. In fiscal year 2012-13, the department received approximately $782 million in total revenues. Federal special revenues accounted for over $435 million, or 55 percent of department revenues, while state special revenues exceeded $294 million, or 37 percent of department revenues.

Expenditures in the Highways & Engineering and Maintenance programs accounted for over $486 million and $134 million, respectively, in fiscal year 2012-13. The department spent approximately $370 million on highway construction and improvement projects during this time.

Results

The current audit report contains seven recommendations. Three recommendations relate to ways the department can improve internal controls, and four recommendations relate to compliance with state law and department and state policies.

One internal control weakness resulted in infrastructure re-allocation errors totaling $213.7 and $25.9 million in fiscal years 2012-13 and 2011-12, respectively. These errors resulted in a qualified opinion on the department's financial schedules for fiscal year 2012-13.

The audit report for the two fiscal years ended June 30, 2011, contained ten recommendations. The department implemented eight recommendations and did not implement two recommendations. The two recommendations not implemented are discussed in the current report.

Recommendation Concurrence	
Concur	6
Partially Concur	1
Do Not Concur	0

Source: Agency audit response included in final report.

For a complete copy of the report (13-17) 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 Agriculture
For the Two Fiscal Years Ended June 30, 2013

March 2014 13-21 Report Summary

The Department of Agriculture paid out approximately $14 million of hail insurance claims for the 2013 hail year, which includes months June through August. Claims related to the current hail year will be reflected in the 2014 financial schedules. This is an increase of 260 percent over the previous hail year and has resulted in a depletion of the hail insurance reserves.

Context

The Department of Agriculture, (department) has 123.5 employees and is organized under three divisions, Agricultural Sciences Division, Agricultural Development Division and Central Services Division. For fiscal years 2012 and 2013, approximately 55 percent of the department's financial activity is recorded in the State Special Revenue Fund, which is comprised of numerous accounts for various agricultural programs. Wheat and Barley, Noxious Weeds, and Pesticide programs account for a significant amount of this activity. General Fund expenditures account for less than 10 percent of total expenditures.

The Hail Insurance Program recorded in the Enterprise Fund historically accounts for approximately 30 percent of the financial activity for the department. The benefits paid out during this audit period, which includes the 2011 and 2012 hail years, were $4.8 and $3.9 million, respectively. The benefits paid out for the 2013 hail year discussed previously are recorded in fiscal year 2014, so are not reflected on the financial schedules included in this report.

Results

During the course of our audit, we reviewed the internal control procedures and tested selected transactions related to the revenues generated from licensing and permitting of various commodities, wheat and barley taxes, noxious weed transfers, and hail insurance premiums. We also reviewed grant expenditures, hail insurance benefits and claims, and refunds. There are no recommendations resulting from our audit.

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
Department of Fish, Wildlife & Parks
For the Two Fiscal Years Ended June 30, 2013

December 2013 13-18 Report Summary

The Department of Fish, Wildlife & Parks defines its mission as providing for the stewardship of the fish, wildlife, parks, and recreational resources of Montana, while contributing to the quality of life for present and future generations. The main sources of funding for department activities are licenses, permits, and federal awards. Historically, the department does not receive General Fund appropriations. However, in fiscal years 2012 and 2013, the department received approximately $200,000 in General Fund appropriations each year to combat aquatic invasive species.

Context

The Department of Fish, Wildlife & Parks (department) controls 336 fishing access sites and 54 state parks; issues hunting and fishing licenses; and oversees fish and wildlife preservation programs, enforcement activities, land acquisitions, and community education programs. The five-member Fish, Wildlife and Parks Commission sets fish and wildlife regulations, approves property acquisitions, and approves certain rules and activities of the department as provided by statute. Commission members are appointed by the Governor and confirmed by the Senate. There are seven regional offices throughout the state. The department's headquarters is in Helena. The department's organization chart appears on page iv of the report.

In the 2012 license year the department issued licenses listed below:

- Resident Fishing - 147,310
- Nonresident Fishing - 168,909
- Resident Hunting – 393,949
- Nonresident Hunting – 21,687
- Resident Hunting Combo – 48,034
- Nonresident Hunting Combo – 25,635

For selected licenses we performed testing to gain assurance that the issuance of certain licenses and subsequent allocations of funds were in accordance with state law.

Results

Recommendations in the report relate to unrecorded liabilities at fiscal year-end for construction projects, and overstated revenue estimate in the Federal Special Revenue Fund in fiscal year 2013.

The department implemented the five recommendations contained in our prior audit report.

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 (13-18) 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 Livestock
For the Two Fiscal Years Ended June 30, 2013

May 2014 13-22 Report Summary

The audit identified a conflict of interest at the Board of Horse Racing, as well as a material weakness in internal controls over simulcast revenues. Chapter 402, Laws of 2013, transferred the Board of Horse Racing from the Department of Livestock to the Department of Commerce, effective July 1, 2013. This report contains recommendations to both departments related to these issues.

Context

State law tasks the Department of Livestock (department) with controlling and eradicating animal diseases, preventing the transmission of such diseases to humans, protecting livestock from predatory animals, regulating producer pricing of the milk industry, and performing meat, milk, and egg inspections.

The department's operations are funded primarily by collections made in the state special revenue fund, including brand license fees, per capita livestock taxes, and various charges for services. The department also receives federal grant awards and general fund appropriations. The department expended approximately $18.23 million through the state special revenue fund, $3.58 million through the federal special revenue fund, and $2.25 million through the general fund, during fiscal years 2012 and 2013 combined.

Results

The report contains two recommendations to the Department of Livestock and the Department of Commerce, related to a conflict of interest at the Board of Horse Racing and a material weakness in internal controls over verification of simulcast wagering information for the Board of Horse Racing. As a result of these issues, we were unable to obtain sufficient, appropriate audit evidence on the accuracy and completeness of simulcast revenues during the audit period, which resulted in modified opinions on four of the six financial schedules included in this report.

The report also contains three recommendations to the Department of Livestock concerning compliance with state laws related to issuing payments only upon an appropriation made by law, setting livestock per capita fees, and using deferred revenues to fund current year operations.

Recommendation Concurrence	
Concur	4
Partially Concur	1
Do Not Concur	0

Source: Agency audit response included in final report.

For a complete copy of the report (13-22) 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 Environmental Quality
For the Two Fiscal Years Ended June 30, 2014

October 2014 | 14-16 | Report Summary

The Department of Environmental Quality administers environmental protection and enforcement efforts of the state of Montana. The department ensures remediation of environmental damage in Montana and enforces the state's environmental laws. We determined accounts receivables in the Leaking Underground Storage Tanks cleanup program are overstated by $5.4 million. In addition, we found the department did not comply with requirements of their relocation policy and state policy related to computer password security.

Context

The Department of Environmental Quality (department) promotes environmental quality through programs to promote air quality; improve water supply, wastewater, and solid waste disposal infrastructure; regulate the discharge of pollutants; enforce the environmental laws of the state; and ensure remediation and reclamation at the sites of past natural resource damages.

Results

During the course of the audit, we reviewed the internal control procedures and tested selected transactions related to the revenues generated from licensing and permitting and the State Revolving Fund. We also reviewed expenditures related to personal services, other services and transfers out. The report contains five recommendations. Two recommendations related to accounting misstatements involve accounts receivables and account classification. Three other recommendations address noncompliance with the Federal Transparency Act, the moving and relocation policy, and the computer password security policy.

Our prior audit report for the two fiscal years ended June 30, 2012, contained four recommendations. The department implemented all four recommendations.

Recommendation Concurrence	
Concur	5
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 Natural Resources and Conservation
For the Two Fiscal Years Ended June 30, 2014

October 2014 14-17 Report Summary

Our audit identified areas where the Department of Natural Resources and Conservation can improve compliance with state accounting policy for expenditure abatements.

Context

For fiscal years 2013-14 and 2012-13, the Department of Natural Resources and Conservation (department) generated distributable revenues of $130,088,600 through its management of state lands for 12 separate land trusts, of which $117,452,368 benefited the Common Schools Trust.

We tested 75 laws related to department operations, statutes authorizing the issuance of renewable resource bonds, and selected laws governing the State Revolving Fund programs.

We focused audit effort on personal services; other expenses; transfers-out; transfers-in; investment earnings; rentals; leases and royalties; timber sales; and federal revenue to support our opinion on the financial schedules.

The department has $20,437,142 in accounts receivable from federal agencies at June 30, 2014, for fire-fighting costs incurred in previous years. In the Fire Suppression account in the state special revenue fund, the department had a fund equity balance of $42,502,103 at June 30, 2014.

Results

The current report contains a recommendation concerning improper reductions in expenditures when receipts occur rather than recording revenue as required by state policy.

The readers can rely on the financial schedules presented for fiscal years 2013-14 and 2012-13.

The prior audit report for the two fiscal years ended June 30, 2012, contained six recommendations to the department. The department implemented all six of the prior recommendations.

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 (14-17) 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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Chapter IV – Judicial Branch, Law Enforcement & Justice

Disclosure Issues

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

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

Montana Legislative Audit Division

Performance Audit
Universal System Benefits Program
Public Service Commission
Department of Revenue

May 2014 13P-06 Report Summary

Between 2007 and 2012, Montana's natural gas and electric utility customers paid $149.6 million to utility providers to support the Universal System Benefits program. Oversight by the Department of Revenue and the Public Service Commission could be strengthened to improve statutory compliance by utilities and large customers. Legislative review of statutes could improve effectiveness of large customer Universal System Benefits expenditures.

Context

In 1997, the legislature deregulated Montana's electric and natural gas industries. However, there were projects being conducted by utilities at the time that were believed to have benefits for all Montanans. In order to continue funding for these projects after deregulation, the legislature created the Universal System Benefits (USB) program. The funding mechanism for USB projects is a surcharge added to each utility customer's bill. The surcharge is collected by each utility and used to fund the utility's internal USB program. The legislature assigned oversight responsibilities for these programs to both the Public Service Commission (PSC) and the Department of Revenue (DOR).

The legislature established different USB programs for natural gas and electric utilities, each with its own funding formula and differences in how the funds can be used. Under electric USB statutes, utility customers can be identified as a "large customer" and have their USB surcharges reimbursed for internal projects that meet the intent of USB programs. Reimbursement for USB project expenses are provided by their utility. In exchange for being able to participate in internal USB programs, large customers are required to report their USB activities to DOR. Reporting these internal USB activities is the first step in a process DOR manages to allow the public to review submitted reports and challenge large customer USB expenditures. However, unless the public challenges a USB expenditure, statutes limit DOR's ability to review those same expenditures.

Statutes assign PSC oversight responsibilities for all functions of natural gas USB programs, to include approving the utility's internal USB program, approving the surcharge the utility will assess its customers, and receiving reports for USB activities. For electric USB programs, PSC is responsible for approving the utility's USB program and the surcharges assessed to customers. PSC also reviews periodic evaluations of electric utility's USB programs.

Results

Audit work found PSC has not required all regulated utilities to implement USB statutes requiring USB surcharges be assessed on all utility customers. In addition, we also identified instances where a regulated utility was allowed to fund activities not authorized by USB statutes. We make recommendations

(continued on back)

to the PSC to require all regulated utilities assess USB surcharges to their customers. We also recommend the PSC ensure USB surcharges are only used for purposes identified in statute and provide better documentation of decisions made regarding how those surcharges are used by utilities.

Audit analysis identified large customers who are not in compliance with statutes requiring them to report USB activities to DOR. We also found there are limitations that make it difficult for DOR to identify noncompliant large customers that did not file required reports. Statutes and administrative rules make public challenges of large customer USB expenditures difficult. DOR has only had to respond to one public challenge since the USB program was implemented. Our review of large customer records found a number of instances where it appears the expenditure does not meet USB program guidelines. We make recommendations to DOR to improve identification of large customers that have not filed their required annual USB expenditure reports.

Identifying large customers who are not in compliance with USB reporting statutes and reviewing those USB expenditures is difficult because of limitations imposed by statutes implemented during deregulation. We make recommendations to the legislature to determine if large customer USB expenditures are meeting the public purpose benefits expected of other USB funded programs.

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

Montana Legislative Audit Division

Information Systems Audit
Offender Management Information System
Department of Corrections

August 2014 | 13DP-04 | Report Summary

The Department of Corrections provides administration, programs, and services for about 13,000 adult male and female offenders in various facilities, programs, and community settings. The Department of Corrections could improve supervision and management of adult offenders by strengthening its recordkeeping methods and the controls surrounding its Offender Management Information System.

Context

The Department of Corrections (department) is responsible for supervision and management of about 13,000 adult offenders. The department maintains two types of offender records, including hardcopy documentation and an electronic information system. This audit reviewed data integrity within the department's electronic information system called the Offender Management Information System (OMIS).

A magnitude of information and data is compiled over the course of an offender's supervision. Offender data is created and maintained by numerous individuals responsible for various aspects of supervision and management. This data is used by a number of entities to make decisions regarding the type, location, and length of an offender's incarceration and/or supervision. As a result, it is important for the data to be accurate, complete, and timely, as well as being secured.

Results

Our audit noted that, while the department has established controls within OMIS, strengthening those controls could help enhance data integrity. The department's use of two methods of recordkeeping impacts data integrity, so the audit recommends establishing OMIS as the official record and minimizing the use of hardcopy documentation. In conjunction, the audit recommends the department establish policy to have the creator of documentation enter the data into OMIS, as well as using OMIS to calculate the sentence terms for offenders. A system can be more effective in controlling access to and increasing consistency of offender data.

In addition, the department should provide users with training and reference manuals to assist with OMIS operations. The department has established a process for assigning users access to OMIS, but this process could be improved by further defining and limiting access rights, and creating a new process for reassignment of access. Finally, the department needs to formalize its backup and recovery procedures to ensure offender data is available to users.

Recommendation Concurrence	
Concur	6
Partially Concur	0
Do Not Concur	0

Source: Agency audit response included in final report.

For a complete copy of the report (13DP-04) 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
Universal System Benefits Program
Public Service Commission
Department of Revenue

May 2014 | 13P-06 | Report Summary

Between 2007 and 2012, Montana's natural gas and electric utility customers paid $149.6 million to utility providers to support the Universal System Benefits program. Oversight by the Department of Revenue and the Public Service Commission could be strengthened to improve statutory compliance by utilities and large customers. Legislative review of statutes could improve effectiveness of large customer Universal System Benefits expenditures.

Context

In 1997, the legislature deregulated Montana's electric and natural gas industries. However, there were projects being conducted by utilities at the time that were believed to have benefits for all Montanans. In order to continue funding for these projects after deregulation, the legislature created the Universal System Benefits (USB) program. The funding mechanism for USB projects is a surcharge added to each utility customer's bill. The surcharge is collected by each utility and used to fund the utility's internal USB program. The legislature assigned oversight responsibilities for these programs to both the Public Service Commission (PSC) and the Department of Revenue (DOR).

The legislature established different USB programs for natural gas and electric utilities, each with its own funding formula and differences in how the funds can be used. Under electric USB statutes, utility customers can be identified as a "large customer" and have their USB surcharges reimbursed for internal projects that meet the intent of USB programs. Reimbursement for USB project expenses are provided by their utility. In exchange for being able to participate in internal USB programs, large customers are required to report their USB activities to DOR. Reporting these internal USB activities is the first step in a process DOR manages to allow the public to review submitted reports and challenge large customer USB expenditures. However, unless the public challenges a USB expenditure, statutes limit DOR's ability to review those same expenditures.

Statutes assign PSC oversight responsibilities for all functions of natural gas USB programs, to include approving the utility's internal USB program, approving the surcharge the utility will assess its customers, and receiving reports for USB activities. For electric USB programs, PSC is responsible for approving the utility's USB program and the surcharges assessed to customers. PSC also reviews periodic evaluations of electric utility's USB programs.

Results

Audit work found PSC has not required all regulated utilities to implement USB statutes requiring USB surcharges be assessed on all utility customers. In addition, we also identified instances where a regulated utility was allowed to fund activities not authorized by USB statutes. We make recommendations

(continued on back)

to the PSC to require all regulated utilities assess USB surcharges to their customers. We also recommend the PSC ensure USB surcharges are only used for purposes identified in statute and provide better documentation of decisions made regarding how those surcharges are used by utilities.

Audit analysis identified large customers who are not in compliance with statutes requiring them to report USB activities to DOR. We also found there are limitations that make it difficult for DOR to identify noncompliant large customers that did not file required reports. Statutes and administrative rules make public challenges of large customer USB expenditures difficult. DOR has only had to respond to one public challenge since the USB program was implemented. Our review of large customer records found a number of instances where it appears the expenditure does not meet USB program guidelines. We make recommendations to DOR to improve identification of large customers that have not filed their required annual USB expenditure reports.

Identifying large customers who are not in compliance with USB reporting statutes and reviewing those USB expenditures is difficult because of limitations imposed by statutes implemented during deregulation. We make recommendations to the legislature to determine if large customer USB expenditures are meeting the public purpose benefits expected of other USB funded programs.

Recommendation Concurrence	
Concur	2
Partially Concur	1
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 Justice
For the Two Fiscal Years Ended June 30, 2014

November 2014 | 14-18 | Report Summary

The Natural Resource Damage Program (NRDP) exists within the Department of Justice's Legal Services Division and was created in 1990 to prepare the state's lawsuit against the Atlantic Richfield Co. for injuries to the natural resources in the Upper Clark Fork River Basin (UCFRB). The program is responsible for administering approximately $265 million resulting from settlement agreements occurring from 1999 through 2009. In December, 2012, a final UCFRB plan was adopted describing the State of Montana's proposed restoration actions for aquatic and terrestrial resources of the UCFRB. In fiscal year 2013, the department overestimated the associated pollution remediation liability.

Context

The Attorney General is an elected official that heads the department, whose operations include the Montana Highway Patrol, the Montana Law Enforcement Academy, Agency Legal Services which provides legal services to other state agencies, the State Forensic Lab, driver and vehicle licensing and registration, and oversight of gambling within the state. Department operations provide revenues of approximately $160 million to the General Fund and $34 million to the State Special Revenue Fund for each fiscal year through their Motor Vehicle and Gambling Control Divisions. The department's program expenditures of approximately $124 million per year, are primarily funded by the State Special Revenue Fund (60 percent) and the General Fund (30 percent).

Our Independent Auditor's Report is based on a combination of audit procedures including reviews of the department's internal control procedures, transaction testing, and analytical procedures over significant revenue and expenditure cycles as well as the larger account balances. Revenue testing focused on the Motor Vehicle Division license and permits revenues and the Gambling Control Division tax revenues. Testing of expenditures included the personal services, operating, and grant expenditure cycles. The department is responsible for the management of large settlement agreements, so our audit also performed testing over the fund equity balances and investment revenues for those related funds as well as reviewing the department's compliance with selected state and federal laws and state policies.

Results

There are four recommendations in this report. Our audit found the department paid out funds from the state treasury for the purchase of three vehicles without charging an appropriation which is contrary to the state constitution and state law. We identified an internal control deficiency related to segregation of duties. The pollution remediation liability recorded for fiscal year 2013 was in error. We also identified noncompliance with state laws governing

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distribution of fees collected by the Motor Vehicle Division, rules related to the approval of ignition interlock devices, and expenditures for the Montana Highway Patrol.

Recommendation Concurrence	
Concur	3
Partially Concur	1
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 Public Service Regulation
For the Two Fiscal Years Ended June 30, 2014

October 2014 14-26 Report Summary

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

Context

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

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

Most department funding comes from a tax on the gross operating revenue of regulated companies collected by the Department of Revenue. In fiscal years 2012-13 and 2013-14, this tax generated $2.5 million and $4.3 million in revenue, respectively. The department also received federal grant funding for the National Gas Pipeline Safety Program of $105,113 and $162,302 in fiscal years 2012-13 and 2013-14, respectively.

Results

We audited the fiscal years 2012-13 and 2013-14 financial schedules and tested compliance with state laws and federal regulations. We reviewed federal transactions, revenues received for charges for services, and expenditures disbursed for personal services. We evaluated expenditures and revenues for the State Special Revenue Funds and the Federal Special Revenue Funds to determine whether activity was recorded in the proper fund. No findings resulted from our audit, and we make no recommendations to the department. The previous three audits also resulted in no recommendations to the department.

For a complete copy of the report (14-26) 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 State Public Defender
For the Two Fiscal Years Ended June 30, 2014

NOVEMBER 2014 14-28 REPORT SUMMARY

The Office of the State Public Defender provides legal defense services to low income Montanans. In fiscal years 2013 and 2014 combined, the office spent approximately $55.9 million dollars to provide these services.

Context

The Office of the State Public Defender (office) is divided into three programs: the Public Defender Program provides non-appellate representation to qualifying individuals, including criminal defense, child abuse or neglect, and involuntary commitment services; the Appellate Defender Program provides appellate representation to qualifying individuals; and the Conflict Coordinator Office provides appellate and non-appellate representation to qualifying individuals in circumstances where a conflict of interest prohibits the other programs from representing the defendant.

The office's operations are funded primarily by the state's General Fund, although the office also collects public defender fees in the State Special Revenue Fund. Additionally, in fiscal year 2014, the office received a $625,000 allocation from the Governor's Operations Account established in the 2013 Legislative Session. Of the $55.9 million spent in fiscal years 2013 and 2014 combined, $54.6 million was charged to the General Fund.

Results

The current audit report contains four recommendations to the office. The first two recommendations relate to compliance with state law and state accounting policy requirements governing the financial management and collection of public defender fees. We determined the office does not have procedures in place to manage and collect unpaid public defender fees. These unpaid fees approximated $2.4 million as of June 30, 2014.

The third recommendation is related to establishing internal controls over payments received by mail. We determined the office's procedures were not adequate to ensure all payments received by mail are deposited.

The final recommendation is related to properly accounting for reimbursements received. Based on our review, the office improperly accounted for approximately $90,000 of reimbursements received during fiscal years 2013 and 2014, combined.

Recommendation Concurrence	
Concur	3
Partially Concur	1
Do Not Concur	0

Source: Agency audit response included in final report.

Montana Legislative Audit Division

Financial-Compliance Audit
Judicial Branch
For the Two Fiscal Years Ended June 30, 2014

October 2014 | 14-27 | Report Summary

The Judicial Branch's main operations consist of the Supreme Court and district courts. The Supreme Court has general supervisory control over all other courts in the state. We analyzed financial transactions supporting the branch's financial schedules, tested compliance with state laws, and evaluated the status of prior audit recommendations.

Context

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

The branch expended General Fund resources of $37,128,224 and $35,429,872 in fiscal years 2013-14 and 2012-13, respectively.

Of the $6,297,911 fund equity balance in the State Special Revenue Fund at June 30, 2014, $5,911,460 is earmarked for the Juvenile Delinquency Intervention Program.

The branch spent $254,654 and $290,803 in fiscal years 2013-14 and 2012-13, respectively, from the Capital Project Fund for long range information technology projects. At June 30, 2014, $1,210,372 in fund equity remained from resources appropriated for these projects in prior fiscal years.

Results

Readers can rely on the amounts on the financial schedules of the branch.

The branch implemented the five recommendations from the previous report. This report contains no recommendations.

For a complete copy of the report (14-27) 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 Corrections
For the Two Fiscal Years Ended June 30, 2014

October 2014 | 14-15 | Report Summary

The Department of Corrections manages approximately 13,000 male and female offenders through various facilities. In fiscal years 2013 and 2014, approximately 88 percent of the department's funding is from the General Fund. In fiscal year 2014, this equates to approximately $181 million in expenditures; which is roughly 8 percent of the total state General Fund expenditures.

Context

The Department of Corrections (department) supervises offenders through five prisons, three youth facilities, seven treatment programs, three assessment and sanction centers, and six prerelease centers. Offenders may engage in various skill development programs at the prisons. Some of these programs include furniture, a print and sign shop, dog training program, ranching, dairy operations, lumber processing, firefighting, motor vehicle maintenance, and cooking.

We reviewed the department's internal controls. In addition, we performed tests over transactions related to personal services and contract bed expenditures, agency fund activity, and various revenues. We also tested the department's compliance with various state laws and policies.

Results

This audit contains four recommendations. During the audit, we identified internal control deficiencies. For example, the department does not have adequate controls in place to prevent, or detect and correct, procard transaction errors or inappropriate procard use. The department also does not have procedures in place to ensure the revenue submitted by the vendor responsible for processing online payments to inmate trust accounts on behalf of the department is complete.

Audit work also identified non-implementation of a prior audit recommendation pertaining to the License Plate Internal Service Fund. We determined license plate fees are not commensurate with costs and the ending fund equity is not reasonable. In addition, we identified instances of noncompliance with state laws.

Recommendation Concurrence	
Concur	4
Partially Concur	0
Do Not Concur	0

Source: Agency audit response included in final report.

For a complete copy of the report (14-15) 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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Chapter V – Education

Disclosure Issues

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

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

Montana Legislative Audit Division

Performance Audit

School Transportation Funding and Safety

Office of Public Instruction
Board of Public Education

May 2013 | 13P-01 | Report Summary

The state spends over $17 million each year to fund school district transportation services and provides oversight of safety requirements for over 2,000 buses and bus drivers; the state's ability to verify reimbursement claims has been limited and improved controls could increase safety of bus operations.

Context

Public school students are eligible for transportation services if the student resides at least three miles from the nearest public school. A school district may provide transportation in the form of district- or contractor-operated bus routes or through the use of individual transportation contracts, which are agreements to reimburse a student's parents or guardians for providing transportation. In 2012, 331 of Montana's 419 school districts sought reimbursement for bus routes. To be eligible for reimbursement these routes must be operated in compliance with standards set forth by the Board of Public Education (BPE) and the Office of Public Instruction (OPI). The costs for pupil transportation are split between the state, counties, and district or local sources. The total cost of pupil transportation in Montana exceeds $74 million annually and the state's portion is over $17 million.

Results

The actual provision of student transportation is a responsibility of local schools, though state laws and rules provide guidance and specific requirements. Our audit work focused on the controls in place to ensure student transportation is provided safely and in a cost-effective manner. We found many controls operate at the local or county level, with little state involvement. In some areas this appears to work well, however, we have identified several areas in which the state could take a more proactive role to help ensure the accuracy of state reimbursements and improve the safety of bus operations.

Reimbursement Issues

Schools providing transportation are required to report certain information before receiving reimbursement for the state's share of costs. School districts are reimbursed based on a per-mile rate according to bus capacity. Individual transportation contract holders receive a per-mile reimbursement for each day transportation is provided. OPI is responsible for establishing the validity of claims but generally relies on its local and county partners to provide accurate information.

OPI should improve its ability to verify the accuracy of reimbursement claims by strengthening controls over the claims process.

Some school districts are beginning to use global positioning systems to enhance route design and track bus location. These systems have the potential to provide accurate, reliable data for reimbursement purposes. It is likely that these systems will become increasingly common over time. We recommend that OPI plan to develop the ability to track pupil transportation information via a GPS-based system. Doing so could improve claim

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accuracy, increase student safety, reduce required paperwork, and provide other benefits.

Finally, the current state reimbursement schedule provides an incentive for school districts to purchase large buses because the state reimbursement is substantially greater for large buses than for small ones. Large buses do not cost substantially more to purchase or operate. The average Montana bus has increased in capacity by about 11 percent over the past 10 years, while eligible ridership has actually decreased. Due to the size increase, the total state and county reimbursement increased by nearly $2 million for the 2011-12 school year. We recommend the legislature consider whether the state's reimbursement plan has produced the intended effect.

Safety Issues

Transportation via a school bus is often cited as the safest method for getting students to and from school. We reviewed the Highway Patrol inspection forms for selected buses and boarded 52 buses at selected school districts. The buses themselves appeared to be in good condition and generally received inspections in a timely fashion.

Bus drivers are required to hold a specially-endorsed commercial driver's license, are subject to random drug and alcohol testing, and must meet other requirements including that they are of "good moral character." Of the 1,435 drivers who were named on reimbursement claims during the second semester of 2011-12, almost all did appear to meet these requirements. However, we did identify eight individuals who had criminal histories that would appear to violate the moral conduct code in place for teachers and another individual with an active arrest warrant. Setting criteria for moral character, requiring the consistent use of background checks, and conducting periodic scans related to criminal activity would enhance student safety while onboard buses.

Recommendation Concurrence	
Concur	3
Partially Concur	1
Do Not Concur	1

Source: Agency audit response included in final report.

For a complete copy of the report (13P-01) 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 University
For the Fiscal Year Ended June 30, 2013

December 2013 13-11A Report Summary

Montana State University includes campuses located in Bozeman, Billings, Havre, and Great Falls. For fiscal year 2013, the MSU Bozeman campus experienced a 4.6 percent increase in full-time equivalent (FTE) enrollment from 12,019 students in 2012 to 12,577 in 2013. MSU Northern experienced a slight increase in enrollment during this time period, while the other campuses saw overall decreases. Total FTE enrollment for all campuses increased by 2.1 percent to 19,824 students in 2013.

Context

Montana State University (university) serves state, national, and international students with a diversity of undergraduate and graduate academic degrees as well as two-year vocational and technical programs.

Anticipating continued growth for the university, in November 2013, the Board of Regents approved the issuance of up to $70 million in debt to construct a new residence hall, upgrade dining facilities, and other construction projects.

In addition to financial activity of the University, the financial statements include financial activity related to foundations for the Bozeman, Billings and Havre campuses, the Museum of the Rockies Incorporated and the Bozeman Bobcat Club.

The report also contains unaudited supplemental information with detailed information for each campus, the Agricultural Experiment Station, Montana State University Extension Service, and the Fire Services Training School.

Results

We issued an unmodified opinion over the university's financial statements. Readers of this report can rely on the financial statements to be a fair representation of the university's operations for fiscal year 2013 and financial position as of June 30, 2013. This report does not contain any findings or recommendations.

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 (13-11A) 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-RELATED AUDIT
Montana State University
For the Two Fiscal Years Ended June 30, 2013

OCTOBER 2013 13-13 REPORT SUMMARY

Montana State University (university) consists of four campuses located in Bozeman, Billings, Havre, and Great Falls. For fiscal year 2012-13, the university served just under 20,000 students, 76 percent of which were Montana residents.

Context

The university consists of campuses located in Bozeman (MSU-Bozeman), Billings (MSU-Billings and City College), Havre (MSU-Northern), and Great Falls (Great Falls College-MSU). During the course of our audit we visited MSU-Bozeman, MSU-Billings, MSU-Northern and the Great Falls College-MSU.

The university receives a variety of federal funding. During the audit, we examined the university's compliance with federal regulation over the Student Financial Assistance (SFA) and Research and Development (R&D) programs. The university had approximately $100 million in R&D expenditures in fiscal years 2012 and 2013, 99 percent of which were at MSU-Bozeman. The university had approximately $132 million of SFA expenditures in fiscal years 2012 and 2013, of which 87 percent were at MSU-Bozeman and MSU-Billings. As a result, we concentrated our audit efforts for programs at the MSU-Bozeman and MSU-Billings campuses.

In addition we tested compliance with selected state laws and Board of Regent polices at the campuses we visited including the Agriculture Experiment Station and Fire Services which are affiliated with the MSU-Bozeman campus.

Results

Our prior audit report included ten recommendations to the university. Of those, the university implemented eight and partially implemented two.

This audit report includes two recommendations relating to nonresident fee waivers in excess of limits in state law, and segregation of university and foundation assets.

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

For a complete copy of the report (13-13) 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

University of Montana

For the Fiscal Year Ended June 30, 2013

December 2013 13-10 Report Summary

The University of Montana is comprised of University of Montana–Missoula, Montana Tech of the University of Montana, University of Montana–Western, and Helena College University of Montana. Enrollment of full-time equivalent students continued to decline in fiscal year 2013 to 17,877 from 18,709 and 19,039 in fiscal year 2012, and fiscal year 2011, respectively, resulting in a continued decrease in tuition and fees revenue.

Context

The annual financial statement audit of the University of Montana (university) is performed to supply relevant and timely audited financial statements to interested parties. Financial audits provide an independent assessment of whether the university's financial statements reliably represent the financial position of university as of June 30, 2013.

The financial statements in this report also contain information regarding the financial activity of the university-related foundations supporting the Missoula, Montana Tech, Western, and Helena College campuses and the Grizzly Scholarship Association. These component units had net assets of $230 million at June 30, 2013.

Between fiscal years 2013 and 2012, the university incurred an $8.5 million decline in net position. The fall in net position reflects the continued decrease in the number of full-time equivalent students.

There were no new bond issues for fiscal year 2013. As such, long-term debt obligations declined by approximately $5.6 million between fiscal years 2013 and 2012.

Results

We issued an unmodified opinion on the university's financial statements and the combined financial statements of the university's component units.

Readers of this report can rely on financial information included in our report as a basis for financial decisions. The audit report does not contain any findings or recommendations.

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 (13-10) 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-Related Audit
University of Montana
For the Two Fiscal Years Ended June 30, 2013

October 2013 | 13-12 | Report Summary

During fiscal years 2012 and 2013, the University of Montana (university) offered certificate, one-year associate, two-year associate, four-year undergraduate bachelor, master, and doctoral degree programs to approximately 18,000 students each year; 77 percent were residents of Montana.

Context

The university consists of four primary campuses: University of Montana-Missoula, Montana Tech of University of Montana, University of Montana-Western, and the Helena College University of Montana. The four campuses provide a diversity of undergraduate and graduate academic degrees. The university also includes several two-year colleges: the Missoula College, Bitterroot College, and Highlands College.

The university receives federal funding for a variety of reasons such as to conduct research and development projects and provide financial assistance to eligible students attending institutions of postsecondary education. During the audit, we examined the university's compliance with federal regulations over the Student Financial Assistance (SFA) and Research and Development (R&D) programs. The university expended over $70 million of federal funds in support of research and development projects during the past two fiscal years, primarily at the Missoula campus. The university distributed approximately $117 million and $108 million in financial aid such as loans, grants, and work study to qualified students in fiscal years 2011-12 and 2012-13, respectively.

In addition, we tested compliance with selected state laws and Board of Regent polices at each campus affiliated with the University of Montana.

Results

Our audit resulted in five recommendations. These recommendations relate to access to Banner, the university's main computer system, lack of internal controls over federal financial aid reporting requirements, internal control deficiencies over compliance with federal grant agreements, inadequate segregation of duties at the Bitterroot College, and noncompliance with nonresident fee waiver limitations.

Recommendation Concurrence	
Concur	2
Partially Concur	1
Do Not Concur	2

Source: Agency audit response included in final report.

For a complete copy of the report (13-12) 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 Commissioner of Higher Education
For the Two Fiscal Years Ended June 30, 2013

December 2013 13-20 Report Summary

The Office of the Commissioner of Higher Education is the central administrative unit of the Montana University System and the Board of Regents (board). The office annually manages a budget of over $361 million; over half is distributed to the universities, community, and tribal colleges.

Context

The Montana Constitution extends governance authority over the Montana University System (MUS) to the board but leaves the power to appropriate state funds for the MUS to the legislature. The Constitution charges the board, made up of seven appointed and confirmed members plus three ex-officio members, with hiring a Commissioner of Higher Education who serves as its executive staff. All state funds appropriated by the legislature to the board for the support of the MUS are channeled through the office.

The MUS provides post-secondary education to over 44,000 students (resident and nonresident) at eight campus locations in Montana. There are 3,000 students (resident and nonresident) at three community colleges. Additionally, the state supports nontribal Montana resident students attending the seven tribal colleges.

In addition to distributions for the support of the MUS, the Office of the Commissioner of Higher Education (office) also administers the federal Guaranteed Student Loan Program, the MUS Group Insurance Program, and the Montana Family Education Savings Program.

Results

During our audit, we focused our audit effort primarily on reviewing financial transactions related to premium payments and claims in the MUS Insurance Program; evaluating balances related to the College Savings Plan; determining whether funds were distributed to the universities as directed by legislative appropriations; and assessing the related control systems. We also tested compliance with federal regulations related to the Family Education Savings Act and various state laws and Board of Regents policies.

Our audit resulted in one recommendation to the office and an unmodified opinion.

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 (13-20) 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
Office of Public Instruction
For the Two Fiscal Years Ended June 30, 2013

January 2014 13-19 Report Summary

The Office of Public Instruction distributed state and federal funds to local school districts for support of K-12 education in excess of $898 million in fiscal year 2012-13 and $880 million in fiscal year 2011-12. The office accomplished this with a staff of 190 employees while complying with numerous state and federal laws.

Context

The Office of Public Instruction (office) has approximately 190 full-time equivalent employees who provide services to schools, teachers, and children, in over 410 school districts throughout the state. The office assists in planning, implementing, and evaluating educational programs. In addition, the office oversees educator preparation and licensure, school accreditation, school finance, and school law.

The office also administers over 30 federal programs, expending $173.6 million and $162.2 million in fiscal years 2011-12 and 2012-13, respectively.

Results

The prior audit contained one recommendation related to conducting on-site driver's education program reviews. The recommendation was implemented.

The current audit contains five recommendations. Three recommendations relate to internal control deficiencies which contributed to noncompliance with federal programs. The remaining recommendations pertain to noncompliance with federal regulations and with state accounting policy, which resulted in misstatements in the office's accounting records.

Recommendation Concurrence	
Concur	5
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 Historical Society
For the Two Fiscal Years Ended June 30, 2012

November 2012 12-24 Report Summary

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

Context

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

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

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

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

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

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

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Results

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

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

Montana Legislative Audit Division

Financial-Compliance Audit
Montana Arts Council
For the Two Fiscal Years Ended June 30, 2013

April 2014 13-24 Report Summary

The Montana Arts Council is charged with governance, management, and control of staff hired to perform its mission to receive and distribute funds made available by the National Endowment for the Arts and to administer Cultural Trust interest earnings and funds appropriated by the legislature.

Context

The Montana Arts Council (council) is an agency of state government established to develop the creative potential of all Montanans, advance education, spur economic vibrancy, and revitalize communities through involvement in the arts. In promoting the state's arts industry, the council works with arts educators, arts organizations, and artists around the state. The council consists of 15 members appointed by the Governor and confirmed by the Senate to serve staggered five year terms. The council has seven full-time equivalent positions to conduct their operations.

As of June 30, 2013, there was approximately \$13 million in the Cultural Trust. The trust provides interest earnings that are appropriated by the Legislature to award grants for authorized cultural and aesthetic projects. The Legislature appropriated \$666,299 of the interest earnings to the council for the biennium ending June 30, 2013.

The council also receives an annual partnership grant from the National Endowment for the Arts (NEA) in order to fund their State Arts Plan, Arts Education, and Arts in Underserved Communities programs. The council was awarded \$814,500 and \$769,300 in fiscal years 2012 and 2013, respectively. The federal funds received must be matched on a one-to-one basis with state funds.

We focused our audit effort on the review of Cultural Trust fund investment revenues and transfers-out, council personal services expenditures, and the administration of cultural and aesthetic grants authorized by the Montana Legislature and the NEA federal grant funds. Throughout the audit, we reviewed and tested the department's control systems and determined compliance with selected state and federal laws and regulations.

Results

Our current report contains one recommendation related to weaknesses identified in transaction and internal control reviews. We issued unmodified opinions on the financial schedules for each of the two fiscal years ended June 30, 2013.

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 (13-24) 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
Montana Guaranteed Student Loan Program
For the Fiscal Year Ended June 30, 2013

December 2013 | 13-06 | Report Summary

At the end of fiscal year 2013, the Guaranteed Student Loan Program had an outstanding guaranteed loan balance of $1.5 billion. Since a change in federal regulations resulted in no further guarantees as of fiscal year 2011, the program will end when no guaranteed loan balances remain outstanding.

Context

Guaranteed Student Loan Program (GSL) operates under the guidance of the Board of Regents. It provides access to post-secondary education through guaranteed student loans.

As the guaranteed loan balances decrease, there will be less revenue to fund GSL's operations. When operating costs exceed revenues, GSL needs to use the assets in its operating fund to provide its required loan guarantee services. During fiscal years 2012 and 2013, the legislature funded over $5 million in scholarships out of the GSL operating fund. As a result, the asset balance in the operating fund was $4.3 million at June 30, 2013, as compared to $8.8 million at June 30, 2011. When no assets remain, another funding source will be required, because federal regulations require GSL to service all the loans it guaranteed.

GSL purchases loans as a result of borrowers defaulting, filing bankruptcy, becoming disabled, or dying. During fiscal year 2013, GSL purchased over $26 million of these guaranteed student loans from the financial institutions. This is about a $1.6 million increase in loans purchased from the previous year.

In the same time period, GSL recovered $7.3 million from borrowers on outstanding loans. In accordance with Federal Family Education Loan Program regulations, GSL remitted $5.4 million of the amounts collected to the U.S. Department of Education, and retained net revenue of $1.9 million.

Results

During our audit we tested compliance with federal regulations governing the GSL. We also focused our audit effort on financial activity related to payments from the federal government, claims paid to lenders, and cost of loan collections and the related control systems. Our audit did not result in any recommendations. We issue an unmodified opinion on the GSL financial statements.

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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 (13-06) 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 Library Commission
For the Two Fiscal Years Ended June 30, 2013

January 2014 | 13-23 | Report Summary

The Montana State Library Commission provides assistance and advice to all tax-supported or public libraries in the state; maintains and operates the state library; and provides library services for the blind and for individuals with physical disabilities. The Montana State Library Commission, through the state library, manages state government, geographic, and natural resources information for all Montana citizens.

Context

Fiscal year 2013 marked the closing of two programs for the Montana State Library Commission (Library), the professional library development grant and the Broadband Technology Opportunity Program (BTOP) grant. The professional library development grant, known as SWIM (South Dakota, Wyoming, Idaho and Montana) ended as of June 30, 2013. In over a span of four years, the Library administered the $850,000 grant that helped provide funding for 83 individuals to earn a Masters of Library Science or a School Library Media Endorsement. The BTOP grant was a three year grant that provided over $2.7 million in funding to increase Internet speed, increase the total number of computer workstations at participating libraries, and provide library resources to rural Montana using a mobile computer lab.

The 2013 Legislature revised §90-1-404, MCA, the Montana Land Information Act, and permanently transferred the duties related to collecting, maintaining, and disseminating information about the land characteristics of Montana from the Department of Administration to the Library beginning July 1, 2013. This program is referred to as the Base Map Service Center (BMSC). The BMSC manages the geographic information for the state of Montana and provides the data to all levels of government and the public. Prior to fiscal year 2014, the Library operated BMSC under contract with the Department of Administration.

During the audit, we analyzed the financial schedules and performed a variety of analytical tests over the financial information to determine that the financial schedules present fairly the financial position and results of operations. Also, we tested selected state laws and determined compliance during the audit period.

Results

This report contains no recommendations.

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 (13-23) 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 School for the Deaf and Blind
For the Two Fiscal Years Ended June 30, 2014

November 2014 14-22B Report Summary

The Montana School for the Deaf and the Blind promotes and provides free and appropriate educational opportunities statewide for children ages birth to twenty-one who are deaf, hard of hearing, blind, low vision, and deaf-blind.

Context

The Montana School for the Deaf and the Blind (MSDB) has developed two different ways to meet the educational needs of Montana's deaf and blind children of all ages. On the Great Falls campus, MSDB provides specialized instruction and an education for deaf and blind students with the goal to prepare students for independent, successful lives. In addition, MSDB serves as a statewide resource center for parents of children with vision or hearing loss and for school districts that serve deaf and blind students. Upon request, MSDB assists school districts, ensuring that services and programs for their deaf and blind students are appropriate. MSDB consultants also provide early intervention services in the homes of infants and toddlers with vision or hearing loss. MSDB is governed by the Montana Board of Public Education, which sets requirements for public education in the state.

Total revenues collected by MSDB were approximately $535,000 and $480,000 in fiscal years 2013 and 2014, respectively. Primary revenues sources include transfers-in comprised of the school's permanent fund earnings from the Department of Natural Resources and Conservation and federal subawards from the Office of Public Instruction.

In fiscal years 2013 and 2014, total annual expenditures approximated $6.3 million and $7 million, respectively. Approximately 85 percent of the school's annual expenditures are composed of personal services. State funding is supplemented by funding from the Montana School for the Deaf & Blind Foundation.

Results

We focused our audit effort primarily on reviewing these revenue and expenditure activities. We also reviewed the additions and reductions to property held in trust in the agency fund which represents student funds that can be withdrawn throughout the year for miscellaneous purchases. Throughout the audit, we reviewed and tested the department's control systems and determined compliance with selected state laws and regulations. There are no recommendations resulting from our audit.

For a complete copy of the report (14-22B) 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 Public Education
For the Two Fiscal Years Ended June 30, 2014

November 2014 14-22A Report Summary

The Board of Public Education was created by the Montana Constitution to supervise, serve, maintain, and strengthen the public school system, which is comprised of more than 400 school districts and includes the Montana School for the Deaf and Blind.

Context

As part of providing supervision over the public school system, the Board of Public Education (board) is responsible for establishing policies for:

- School accreditation
- Teacher certification
- Teacher and administrator training
- State equalization aid
- Special education
- School bus standards
- Various other education related activities

The board is supported by General Fund appropriations and the yearly teacher license fee of $6 collected and deposited by the Office of Public Instruction. The teacher license fee is used to support the activities of the board and the Certification Standards and Practices Advisory Council. The board had approximately $283,000 and $286,000 of expenditures in fiscal years 2013 and 2014, respectively.

We focused our audit effort on the review of travel and personal services expenditures. Throughout the audit, the board's control systems were reviewed and we evaluated compliance with selected state laws and regulations.

Results

The current audit report contains two recommendations. We identified several transactions that were not recorded in accordance with state accounting policy. These errors are attributed to a lack of understanding of how to appropriately record the transactions. We determined that the board is spending General Fund money before appropriated Non-General Fund money contrary to state law. This is a prior audit recommendation that was not implemented by the board.

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 (14-22A) 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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Chapter V – Long-Range Planning

Disclosure Issues

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

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

Montana Legislative Audit Division

Financial-Compliance Audit

Department of Natural Resources and Conservation
For the Two Fiscal Years Ended June 30, 2014

October 2014 | 14-17 | Report Summary

Our audit identified areas where the Department of Natural Resources and Conservation can improve compliance with state accounting policy for expenditure abatements.

Context

For fiscal years 2013-14 and 2012-13, the Department of Natural Resources and Conservation (department) generated distributable revenues of $130,088,600 through its management of state lands for 12 separate land trusts, of which $117,452,368 benefited the Common Schools Trust.

We tested 75 laws related to department operations, statutes authorizing the issuance of renewable resource bonds, and selected laws governing the State Revolving Fund programs.

We focused audit effort on personal services; other expenses; transfers-out; transfers-in; investment earnings; rentals; leases and royalties; timber sales; and federal revenue to support our opinion on the financial schedules.

The department has $20,437,142 in accounts receivable from federal agencies at June 30, 2014, for fire-fighting costs incurred in previous years. In the Fire Suppression account in the state special revenue fund, the department had a fund equity balance of $42,502,103 at June 30, 2014.

Results

The current report contains a recommendation concerning improper reductions in expenditures when receipts occur rather than recording revenue as required by state policy.

The readers can rely on the financial schedules presented for fiscal years 2013-14 and 2012-13.

The prior audit report for the two fiscal years ended June 30, 2012, contained six recommendations to the department. The department implemented all six of the prior recommendations.

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 (14-17) 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 Environmental Quality
For the Two Fiscal Years Ended June 30, 2014

October 2014 | 14-16 | Report Summary

The Department of Environmental Quality administers environmental protection and enforcement efforts of the state of Montana. The department ensures remediation of environmental damage in Montana and enforces the state's environmental laws. We determined accounts receivables in the Leaking Underground Storage Tanks cleanup program are overstated by $5.4 million. In addition, we found the department did not comply with requirements of their relocation policy and state policy related to computer password security.

Context

The Department of Environmental Quality (department) promotes environmental quality through programs to promote air quality; improve water supply, wastewater, and solid waste disposal infrastructure; regulate the discharge of pollutants; enforce the environmental laws of the state; and ensure remediation and reclamation at the sites of past natural resource damages.

Results

During the course of the audit, we reviewed the internal control procedures and tested selected transactions related to the revenues generated from licensing and permitting and the State Revolving Fund. We also reviewed expenditures related to personal services, other services and transfers out. The report contains five recommendations. Two recommendations related to accounting misstatements involve accounts receivables and account classification. Three other recommendations address noncompliance with the Federal Transparency Act, the moving and relocation policy, and the computer password security policy.

Our prior audit report for the two fiscal years ended June 30, 2012, contained four recommendations. The department implemented all four recommendations.

Recommendation Concurrence	
Concur	5
Partially Concur	0
Do Not Concur	0

Source: Agency audit response included in final report.

For a complete copy of the report (14-16) 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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