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Chapter I – General Government

Disclosure Issues

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

State of Montana #13-01A

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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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.

For a complete copy of the report (12-02) 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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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.

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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 (11-01B) 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
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.

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Montana Legislative Audit Division

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
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.

For a complete copy of the report (13-16) 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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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.

For a complete copy of the report (13-07A) 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
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.	

For a complete copy of the report (12-04B) 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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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.

(continued on back)

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**
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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 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.

For a complete copy of the report (13-15) 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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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.

For a complete copy of the report (14-25) 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.

For a complete copy of the report (12-30) 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-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.

For a complete copy of the report (13-30A) 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

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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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
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.

For a complete copy of the report (12-08A) 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
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.

For a complete copy of the report (12-08B) 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

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

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.

For a complete copy of the report (12-09A) 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
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.

For a complete copy of the report (12-09B) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to **lad@mt.gov**; or check the web site at **http://leg.mt.gov/audit**
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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.

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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.

For a complete copy of the report (13P-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

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:

(continued on back)

- 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.

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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.

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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 (14-20) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to **lad@mt.gov**; or check the web site at **http://leg.mt.gov/audit**
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Montana Legislative Audit Division

Financial-Compliance Audit
Montana State Fund
For the 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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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.

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