

PERFORMANCE AUDIT

Montana State Fund Corporate Governance Practices

Montana State Fund

FEBRUARY 2009

08P-08

REPORT SUMMARY

Montana State Fund meets many standards for effective corporate governance; revisions to policies and practices could strengthen governance oversight and accountability.

**Context**

The Montana State Fund (MSF) operates as an independent nonprofit public corporation providing workers' compensation insurance coverage for the state's employers. Management and control of MSF is vested solely in its Board of Directors (the board), which is appointed by the Governor. The board must operate the fund as a self-sustaining business. To this end, MSF has adopted many management practices of private, for-profit businesses. Due in part to its unique mission, and the large degree of autonomy and flexibility accorded to MSF and its board, we focused audit work to address issues relating to corporate governance. Corporate governance

information; compensation policies; and communication with stakeholders.

Our audit addressed the composition and structure of the board. We reviewed board structures for competitive workers' compensation insurance funds in other states. This comparison showed the structure of the MSF board is broadly similar to peer businesses and meets minimum corporate governance standards. One area of difference between Montana and other state funds is the degree to which MSF is subject to regulatory supervision through the office of the Insurance Commissioner. We also identified use of board committee structures as an applicable best practice for corporate boards.

We addressed the role of the board in risk management and the MSF business planning process. The MSF board can provide effective oversight of risk management activities, but could benefit from a more direct reporting relationship with the MSF Internal Audit function. The MSF business planning process functions as an effective means of ensuring executive management is accountable for business performance. One opportunity for improvement in business planning relates to reporting operational performance data.

Our review showed MSF compensation policies have generally been developed in accordance with best practices and are consistent with its corporate identity. Although average salaries at MSF are comparable with state agencies with similar personnel needs, executive compensation levels tend to be higher. MSF compensation policies could be strengthened by addressing executive pay disclosures and the role of compensation consultants. We also addressed MSF executive and employee incentive

<b>MSF Information 2008</b>	
Policyholders	32,400
Claims	15,100
Employees	298
Total Assets	\$1.2 billion
Total Liabilities	\$973 million
Net Assets	\$225 million

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

encompasses certain issues, which include the composition, structure and duties of an independent board of directors; accountability and oversight roles designated to the board and executive management; auditing and disclosure of financial and operational

programs. MSF has established these programs to annually provide employees with an opportunity to earn a performance-based incentive payment, in addition to their regular salary. Overall, we found MSF incentive programs have been designed in accordance with best practices and are subject to appropriate controls. These programs could be strengthened by including clawback provisions, which are becoming a prevalent practice in the private sector and allow for recovery of incentive payments made in error.

## Results

Audit recommendations address improvements in corporate governance policies or practices to strengthen accountability and promote transparency in MSF operations. Six recommendations are made to MSF in conjunction with its board and address the following issues:

- Using board committee structures to provide in-depth review of the business.
- Establishing a direct reporting relationship between the MSF Internal Auditor and the board.
- Identifying metrics and expectations regarding qualitative measures of business performance.
- Making annual public disclosures of total compensation for the five highest-paid MSF executives.
- Separating compensation consulting contracts for CEO compensation.
- Developing clawback policies to improve the ability of MSF to collect incentive payments made in error.

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