

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.

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

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](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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