

FINANCIAL-COMPLIANCE AUDIT

Montana State Fund

For the 6-Month Period Ended December 31, 2015

MAY 2016

15-05

REPORT SUMMARY

Montana State Fund issued financial statements for the 6-month period ending December 31, 2015, to transition to a calendar fiscal year-end. Pursuant to Chapter 320, Session Laws of 2015, effective January 1, 2016, MSF is under the regulatory authority of the State Auditor's Office Insurance Commissioner and operates on a calendar-year basis. Under this legislative change, MSF is subject to additional reporting requirements and the commissioner is to review the rates set by MSF to determine if they are excessive, inadequate, or unfairly discriminatory.

Context

Montana State Fund (MSF) is established by Title 39, Chapter 71 of the Montana Code Annotated. MSF is governed by a seven-member board of directors appointed by the Governor. The MSF board of directors appoints the President/CEO who oversees MSF's day-to-day operations.

Effective January 1, 2016, MSF is also under the regulatory authority of the Insurance Commissioner (commissioner). However, the commissioner does not have any authority over claims occurring before July 1, 1990, referred to as the old fund claims as they were excluded from Chapter 320, Session Laws of 2015. While these claims are administered by MSF, old fund claims are an obligation of the primary government and are therefore reflected on the state of Montana's financial statements.

Operating as a nonprofit, independent public corporation, MSF provides a system of workers' compensation insurance. MSF functions like a private insurance carrier in a competitive marketplace which guarantees coverage to all employers in Montana.

MSF does not receive funding from the General Fund. Instead, revenue for MSF comes primarily from insurance premiums

and investment income. Revenues from insurance premiums and investment income were \$88.5 million and \$12.5 million, respectively for the 6-month period ended December 31, 2015. Expenses for MSF are primarily for injured workers' claims. Benefits and claims expenses for the same period were \$67.4 million.

Results

We performed work over MSF internal controls and business processes related to the payment of claim expenses and the reserves for future claims, the collection of insurance premium revenue, investment activity, reinsurance activity, and compliance with selected laws and regulations. Our audit included an in depth review of fiscal year-end transactions and policies and procedures to determine the completeness and accuracy of closing the books at December 31, 2015, for the first time. We also considered the overall reasonableness of the financial statement presentation.

We issued an unmodified opinion on the financial statements and this report does not contain any recommendations. The prior report also did not contain recommendations to MSF.

For a complete copy of the report (15-05) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at

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