

FINANCIAL AUDIT

State of Montana

For the Fiscal Year Ended June 30, 2017

FEBRUARY 2018

17-01A

REPORT SUMMARY

From fiscal year 2016 to fiscal year 2017, the fund equity balance in the General Fund decreased from \$271.3 million to \$66.9 million. Of the \$66.9 million, Montana had approximately \$47.9 million of unassigned fund balance, which is the amount not already intended for a specific use. This represents a decrease of \$78.5 million in the unassigned amount from June 30, 2016. Overall, total General Fund tax revenues slightly increased but Individual income taxes and Other taxes decreased. Increased General Fund expenditures primarily occurred in the areas of Health and human services and Education. This, and other information relevant to understanding the state's financial health, are contained in this audit report.

## Context

This set of financial statements provides legislators and taxpayers with a summary of the state's overall financial position as of June 30, 2017, as well as financial information on all operations and activities of state government for the fiscal year then ended. The General Fund is used to account for all governmental financial resources except those required to be accounted for in another fund. The General Fund and Federal Special Revenue Fund account for approximately 82 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 Department of Administration (department) prepares the basic financial statements by consolidating every state agency's financial data into an annual financial report. The financial data is derived from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) with adjustments. Adjustments are made to present the financial activity in accordance with generally accepted accounting principles

and include some of the following: correcting errors identified in agency audits, preparing the notes to the financial statements, and eliminating internal balances that roll together for presentation purposes.

The financial section of this report consists of the basic financial statements, along with note disclosures that contain a good deal of information to help the reader understand the financial statements. There is a subsequent event disclosure which provides information related to the special session and other events that occurred after the date of the financial statements.

The Governor's Office of Budget and Program Planning prepares the Schedule of Expenditures of Federal Awards (SEFA). The SEFA reports total federal grant expenditures of approximately \$3.9 billion. Federal assistance transferred from a state agency or university to a nonstate agency, such as a city, county, tribal government, or nonprofit organization, is identified in the Amount to Sub-recipients column shown on the SEFA.

## Results

Our audit work included obtaining and evaluating the results of completed agency audits. We also analyzed financial data, including testing adjustments and corrections to the accounting records, and reviewed the financial statements and notes to determine whether they are supported by the accounting records. We determined whether the SEFA was reasonable in relation to the amounts presented in the basic financial statements. There were no prior audit recommendations, and this report contains no current audit recommendations.

The state continues to experience funding issues related to its retirement systems. In fiscal year 2017, the Highway Patrol Officers' and Game Wardens' and Peace Officers' retirement systems were not actuarially sound. The information was disclosed in the Public Employee's Retirement Board audit report (16-08B) and is considered material noncompliance with the Montana Constitution, which requires plans to be funded on an actuarially sound basis, and state law, which requires the plans to amortize within 30 years. This noncompliance is included in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, and is further addressed in the Independent Auditor's Report.

This report also includes a material weakness related to financial statement preparation at the Board of Investments' associated with the Economic Development Bonds major fund, the portion of the Business-Type Activities attributed to this activity, and related note disclosures. It also includes a significant deficiency related to the Board of Investments' control deficiency with the portion of the Remaining Fund Information attributed to Investment Trust Fund Activity.

For a complete copy of the report (17-01A) 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>  
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).