

MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT Montana State Fund For the Calendar Year Ended December 31, 2016

AUGUST 2017

17-05A

REPORT SUMMARY

Effective January 1, 2016, Montana State Fund is under the regulatory authority of the Insurance Commissioner at the State Auditor's Office and operates on a calendar year. As part of our work, we considered the transactions and activities to convert operations to a calendar year. Under this change MSF is also subject to additional reporting requirements and must submit the rates they set for review and approval by the Insurance Commissioner.

Context

Montana State Fund (MSF) is established by Title 39, Chapter 71 of the Montana Code Annotated. Operating as a nonprofit, independent public corporation, MSF functions like a private insurance carrier in a competitive marketplace to guarantee coverage to all employers in Montana. MSF is governed by a seven-member board of directors appointed by the Governor. The board of directors appoints the President/CEO who oversees MSF's day-to-day operations.

In accordance with state law MSF is under the regulatory authority of the Insurance Commissioner at the State Auditor's Office (commissioner) for claims occurring after July 1, 1990. The commissioner does not have any authority over claims occurring before July 1, 1990, referred to as the old fund claims, which are an obligation of the primary government and are reflected on the state of Montana's financial statements.

MSF does not receive funding from the General Fund. Revenue from insurance premiums and investments income support operations. In

calendar year 2016 insurance premium revenue and investment income totaled \$170 million and \$50 million, respectively. Expenses are primarily the payment of injured workers' claims which totaled \$131 million in calendar year 2016. The calendar year 2016 financial statements present the first full calendar year of operations.

Results

We performed work over MSF internal controls and business processes related to the payment of claim expenses, reserves for future claims, collection of insurance premium revenue, investment activity, reinsurance activity, and compliance with selected laws and regulations. We also considered the overall reasonableness of the financial statement presentation.

We issued an unmodified opinion on the financial statement's, meaning the reader can rely on the information presented, 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 (17-05A) 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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