

LEGISLATIVE AUDIT COMMITTEE

MINUTES SUMMARY

March 22, 2011

Please note: These are summary minutes. The minutes are also accompanied by an audio recording. For each action listed, the minutes indicate the approximate amount of time in hours, minutes, and seconds that has elapsed since the start of the meeting. This time may be used to locate the activity on the audio recording.

An electronic copy of these minutes and the audio recording may be accessed from the Legislative Audit Division homepage at http://www.leg.mt.gov/audit/meeting_info.asp.

*To view the minutes, locate the meeting date and click on **Minutes**. To hear the audio recording, click on the date link at **Listen**. Note: You must have Real Player installed to listen to the audio recording.*

<u>Members Present</u>	Present	Travel Voucher
Sen. Debby Barrett	x	
Sen. Gary Branae	x	
Sen. Edward Buttrey	x	
Sen. Mitch Tropila	x	
Rep. Tom Burnett	x	
Rep. Rob Cook	x	
Rep. Betsy Hands	x	
Rep. Mary McNally	x	
Rep. Carolyn Pease-Lopez	x	
Rep. Wayne Stahl	x	

Members Absent

Sen. Taylor Brown
Sen. Cliff Larsen

Staff Present

Tori Hunthausen, Legislative Auditor
Cindy Jorgenson, Deputy Legislative Auditor
Angie Lang, Training & Development Supervisor

00:00:08 The Legislative Audit Committee met, March 22, 2011, in Room 172 of the State Capitol. Chairman, Senator Mitch Tropila called the meeting to order at 5:15 p.m., noting the presence of a quorum.

AUDIT REPORTS

STATE OF MONTANA (10-01)

00:06:21 **Report presented by:** Cindy Jorgenson, Deputy Financial-Compliance Audits

Present from the agency: Janet R. Kelly, Director

Paul Christofferson, Administrator, State Accounting Division
Mark Bruno, Single Audit Coordinator, OBPP

Agency response presented by: Janet Kelly, Director, Department of Administration
Mark Bruno, Single Audit Coordinator, Office of Budget
and Program Planning
Paul Christofferson, State Accounting Division
Administrator, Department of Administration

Handouts: Requires supplemental information pension plan information (one page included in printed report contained an error)

Concerns/Discussion topics: Committee questioned who made the decision to change the expenditure functional categories. The auditor explained that it was the State Accounting Division's decision. It was reviewed by the Audit Division's staff, who agreed that it would be beneficial to readers.

The committee asked why it takes nearly six months for the report to be published when the state's accounting system closes at the end of June. The auditor explained that the accounting system doesn't actually close until around July 20, after which the auditors can finish their work auditing the financial statements. The auditors also have to wait until the draft CAFR is finished to determine whether the statements are properly compiled and ensure any identified misstatements have been corrected.

The four retirement systems that were not adequately funded as of July 1, 2010, were the Public Employees' Retirement System—Defined Benefit Plan, the Teachers' Retirement System, the Sheriffs' Retirement System, and the Game Wardens' and Peace Officers' Retirement System.

Committee wanted to know where to get information about federal awards, specifically the Indian Education and Higher Education Grant Program, because they thought that it went to individuals rather than an agency. The legislative auditor explained for the state to receive federal grants the federal government prefers for the grant money to go to a specific state agency, then it can potentially be distributed to the individuals. For any additional questions on specific federal awards the audit division can perform a legislative request to answer them.

The committee asked if they were the final check on the audit reports since there is not an independent auditor outside of the state government that reviews the financial statements of the agencies. The legislative auditor explained that the Legislative Audit Division is considered independent because we do not compile the financial statements that are being reviewed and because there are strict regulations that are followed to ensure that we are considered independent auditors. The committee is the accountability arm for the audit reports presented to them.

Committee requests: none

Public Comment: none

Actions taken: none

Motion: Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Representative Pease-Lopez ; **motion carried.**

THE UNIVERSITY OF MONTANA, FINANCIAL AUDIT (09-10B)

00:36:29 **Report presented by:** Pearl Allen, Financial-Compliance Audit Manager

Present from the agency: Sheila Stearns, Commissioner of Higher Education (Absent)
Mick Robinson, Deputy Commissioner for Fiscal Affairs

Agency response presented by: Mick Robinson, Deputy Commissioner for Fiscal Affairs

Handouts: none

Concerns/Discussion topics: The auditors were made aware of the former University of Montana employee's suspected embezzlement in July 2010. The University did notify the Legislative Audit Division and the Attorney General's Office in writing as required by state law. Auditors and Legal Counsel worked with the University regarding the embezzlement throughout the audit, but with it being an ongoing investigation the auditor could not comment any further.

The Legislative Audit Division does not have any authority to audit the University's foundations; they are audited by private CPA firms.

Committee requests: none

Public Comment: none

Actions taken: none

Motion: Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Rep. Stahl; **motion carried.**

MONTANA STATE UNIVERSITY, FINANCIAL AUDIT (09-11B)

00:47:45 **Report presented by:** Paul O'Loughlin, Financial-Compliance Senior Auditor

Present from the agency: Sheila Stearns, Commissioner of Higher Education (Absent)
Mick Robinson, Deputy Commissioner for Fiscal Affairs

Agency response presented by: Mick Robinson, Deputy Commissioner for Fiscal Affairs

Handouts: none

Concerns/Discussion topics: Montana State University is moving toward and encouraging more credit card transactions to limit the amount of cash handled in the university. The committee questioned how the auditors investigate possible relationships between vendors and purchasing agents. The auditor explained that they look at controls in the purchasing

environment, with respect to how vendors are authorized and whether or not specific procurements with a particular vendor are done according to state and university policy, and auditors ask about employee relationships with vendors and whether there is a conflict of interest.

The new Bobcat stadium has been approved by the board of regents at a cost of \$10 million with only up to \$4 million being financed by the university. The other \$6 million minimum will be raised through donations. The university is currently in the process of finalizing an intercap loan with the Board of Investments for the \$4 million and it will have a variable interest rate that will be set at 1.35 percent for the next year. The repayment of the loan is expected to come from future athletic revenues.

Committee requests: none

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Public Comment: none

Actions taken: none

Motion: Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Rep. Stahl; **motion carried.**

MONTANA WATER POLLUTION CONTROL AND DRINKING WATER STATE REVOLVING FUND PROGRAMS, FINANCIAL AUDIT (10-29B)

00:57:16 **Report presented by:** Chris Darragh, Financial-Compliance Audit Manager

Present from the agency: Department of Environmental Quality
Richard Opper, Director
Dean Rude, Chief Financial Officer
Todd Teegarden, Technical & Financial Assistance Bureau Chief
Department of Natural Resources and Conservation
Mary Sexton, Director
Anna Miller, Bureau Chief, Conservation & Resource Development Division
Tricia Schiltz, Administrator, Centralized Services Division
Mo Leo, Fiscal Officer, Centralized Services Division

Agency response presented by: Richard Opper, Director, DEQ, questions deferred to Dean Rude, DEQ; Mary Sexton, Director, DNRC, question asked to Anna Miller, DNRC

Handouts: none

Concerns/Discussion topics: Chairman Tropila asked about the agency's progress on the three recommendations from the Department of Environmental Quality's 2010 financial compliance audit. Chairman Tropila decided to follow-up at the next audit committee meeting since he did not have a copy of the report in front of him..

The committee asked DNRC if there had been any defaults or late payments on the outstanding loan principle of \$287 million. The agency stated that they have had no defaults, and only a few late payments because people forgot to send checks.

With this program (AARA Funds) they had to have all of the \$36 million committed (projects done and bid) by February 1, 2010. They did meet that goal. They had a total of \$100 million in construction in water and sewer. The program benefits local governments and individuals by encouraging people to do the right thing by giving them low cost loans and grants. The project is financed with grants from the federal government and matched by DEQ and DNRC.

Committee requests: none

Public Comment: none

Actions taken: none

Motion: Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Rep. Pease-Lopez; **motion carried.**

OTHER BUSINESS:

01:13:57 Presented by Angie Lang

Flathead Valley Community College (10C-07) standard motion by Rep. Pease-Lopez
Miles community College (10C-08) standard motion by Rep. Stahl

The next meeting of the Legislative Audit Committee will be at the call of the chair following the legislative session.

There being no further business, the meeting was adjourned at 6:44:00 p.m.

Signed: _____