



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Department of
Administration*

*For the Two Fiscal Years Ended
June 30, 2020*

NOVEMBER 2020

LEGISLATIVE AUDIT
DIVISION

20-13

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2019, was issued March 30, 2020. The Single Audit Report for the two fiscal years ended June 30, 2021, will be issued by March 31, 2022.

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November 2020

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report of the Department of Administration for the two fiscal years ended June 30, 2020. This report contains two recommendations to the department, related to internal controls over contract payments and noncompliance with state accounting policy. The report contains unmodified opinions on the financial schedules for fiscal years 2019 and 2020.

The department's written response to the audit recommendations is included in the audit report on page C-1. We thank the Director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

Department of Administration

John Lewis, Director

Mike Manion, Deputy Director and Chief Legal Counsel

Cheryl Grey, CPA, Administrator, State Financial Services Division

Russ Katherman, Administrator, Architecture and Engineering Division

Stephen Baiamonte, Administrator, General Services Division

Amy Jenks, Acting Administrator, Health Care and Benefits Division
(through December 2018 and also effective May 2020)

Duane Preshinger, Administrator, Health Care and Benefits Division
(January 2019 through April 2020)

Tim Bottenfield, Chief Information Officer, State Information Technology
Services Division

Melanie Griggs Hall, Commissioner, Banking and Financial Institutions
Division

Brett Dahl, Administrator, Risk Management and Tort Defense Division

Angela Wong, Director, Montana State Lottery

Anjette Schafer, Administrator, State Human Resources Division

Dave McAlpin, Chair, Montana Tax Appeal Board

The Public Employees' Retirement Administration, the Teachers' Retirement System, and the Montana State Fund, which are allocated to the department, are audited separately and financial information is not included in the department's financial schedules.

For additional information concerning the Department of Administration, contact:

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MONTANA LEGISLATIVE AUDIT DIVISION

Department of Administration

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2020

BACKGROUND

The Department of Administration (department) employs over 500 employees and is responsible for providing key services to other state agencies, including those related to: accounting and financial reporting, warrant writing, and state treasury functions; payroll, employee benefits, and human resources; Capitol complex maintenance and the maintenance, construction, and remodeling of state buildings; information systems development and maintenance; insurance and risk management; and statewide leasing, purchasing, and surplus property administration.

Through the long-range building program, the department expended approximately \$106 million for building construction costs during the audit period.

Additionally, the department administers the state's General Fund. During the audit period, the department transferred-out approximately \$316.7 million from the General Fund to fund other programs or functions of state government during the audit period.

The Department of Administration provides services to state government agencies in a variety of areas. Many of these services are managed through the department's Internal Service Funds. The department generated revenues from Internal Service Fund operations of approximately \$702.9 million during the audit period. Significant expenditure activity of the department included approximately \$374.4 million in benefit and claims expenditures associated with the State of Montana Benefit Plan and \$93.7 million for statutorily required contributions to the state's retirement systems during the audit period. The department received approximately \$25.7 million in CARES Act funds during the audit period. The majority of CARES Act funds were distributed to local governments. This report contains two recommendations to the department, related to internal controls over contract payments and noncompliance with state accounting policy.

AUDITOR'S OPINION (PAGE A-1): UNMODIFIED

We found the department's financial schedules presented fairly the activity of the department in all material respects and issued an unmodified opinion on the regulatory basis of accounting under which the financial schedules are presented. This means a reader can rely on the information presented and the underlying financial records.

For the full context of the department's financial activity, see the financial schedules and notes beginning on page A-4.

RECOMMENDATIONS:

In this report, we issued the following recommendations:

To the department: 2

To the legislature: 0

In this report, we determined the implementation status of recommendations in the prior audit:

Fully Implemented: 5

Partially Implemented: 1

Not Implemented: 1

In addition, we determined the implementation status of recommendations from the 16-13 audit of the department:

Fully Implemented: 3

Partially Implemented: 1

Not Implemented: 0

(continued on back)

For the full report or more information, contact the Legislative Audit Division.

leg.mt.gov/lad

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RECOMMENDATION #1 (page 10):

State Compliance, Internal Control

Local Government Services does not have policies in place to write off uncollectible accounts from local governments.

Department response: **Concur**

RECOMMENDATION #2 (page 12):

Contract Management, Internal Control

The department should enhance internal controls to ensure contract payments were in compliance with contract requirements.

Department response: **Concur**

REPORT ON INTERNAL CONTROL AND COMPLIANCE

(page B-1):

In this report, we identified the following:
Material Weaknesses in Internal Control: 0
Significant Deficiencies in Internal Control: 0
Material Non-Compliance: 0
Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

Chapter I – Introduction and Background

Introduction

We performed a financial-compliance audit of the Montana Department of Administration (department) for the two fiscal years ended June 30, 2020. The objectives of the audit were to:

1. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.
2. Determine if the department's financial schedules present fairly the results of operations for each of the fiscal years ended June 30, 2020, and 2019, and property held in trust for the fiscal year ended June 30, 2019.
3. Determine if the department complied with selected state and federal laws and regulations during the audit period.
4. Determine the implementation status of prior audit recommendations.

Our audit efforts focused primarily on the department's activity related to: transfers-in and transfers-out; inter-entity loans issued from the General Fund; Long Range Building Program construction expenditures; lottery revenues and expenses; State of Montana Benefit Plan employer, employee, and retiree contribution revenues and benefit expenses; personal services expenditures; State Information Technology Services Division charges for services revenues; and local government retirement contribution support. Our work included gaining an understanding of internal controls and reviewing and testing compliance with state laws.

In accordance with §17-8-101(6), MCA, we reviewed the fees charged and the fund equity balances of the department's internal service funds. The results of this testing are discussed beginning on page 5.

During fiscal year 2020, the department received approximately \$25.7 million in federal CARES Act funds distributed by the Governor's Office. The Director's Office distributed approximately \$580,000 for reimbursements internal to the department. The State Financial Services Division distributed approximately \$22.6 million to local governments for reimbursements. The remaining funds were expended by the State Information Technology Division for a contract for COVID-19 response tools. For additional information about CARES Act funds received and distributed by the department, see Note 4 to the financial schedules on page A-14.

The report contains two recommendations related to deficiencies in the department's internal controls and compliance with state accounting policy and contract requirements.

Department Organization and Functions

The department provides services to other state agencies in the areas of accounting and financial reporting, payroll and employee benefits, warrant writing, Capitol complex maintenance, state treasury services, insurance and risk management, information systems development, construction and remodeling of state buildings, human resources, purchasing, statewide leasing, and surplus property administration. The department is organized into eight divisions under the Director's Office. Activity related to the Montana State Lottery and Montana Tax Appeal Board are reported in the department's financial information.

The following paragraphs describe the department's primary functions and list the authorized full-time equivalent (FTE) positions for fiscal year 2020.

Office of the Director (30.01 FTE): Responsible for the overall supervision and coordination of department programs and allocated boards and agencies. The office also provides management support (accounting, budgeting, payroll, personnel management, and legal services) to the department and supports the Board of Examiners. The Office of State Continuity and Emergency Management and the Office of Labor Relations are within this program.

State Financial Services Division (60.25 FTE): The State Financial Services Division performs many centralized functions and administers state and federal programs to state agencies, local government entities, and Montana citizens and businesses. The division consists of four bureaus and the State Social Security Administrator. The division prepares and publishes the state's Comprehensive Annual Financial Report (CAFR), maintains a statewide accounting structure with related policies and procedures, processes all state agency payments, and performs bank reconciliations. The division provides system support of the state's enterprise accounting and budgeting systems as well as the Montana Acquisition and Contracting System (eMACS). The division is responsible for administering—including providing technical assistance and training—the State Procurement Act, Montana Single Audit Act, the State's procurement card programs, and the State Social Security Program.

Architecture and Engineering (A&E) Division (17.50 FTE): Assists agencies and citizens of Montana in the design and construction of facilities, repairs and alterations of existing facilities, and planning for governmental and university system needs. The

Long-Range Building Program (LRBP) is administered by A&E. It provides funding for construction, alteration, repair, and maintenance of state-owned buildings and grounds. The LRBP activity is shown in the Corrections, Department & Agencies, DPHHS, and University System programs listed on the Schedules of Expenditures.

Banking and Financial Institutions Division (34.00 FTE): Regulates many of the state's banks and financial institutions to provide Montanans with a system of state chartered financial institutions.

General Services Division (72.35 FTE): Manages facilities' operations, security, grounds, and maintenance for the Capitol Complex (approximately 40 state-owned buildings within a ten-mile radius of Helena); manages building leases for state agencies throughout the state; provides centralized mail services to state agencies located in the Helena area; provides centralized printing design, development, and distribution for state agencies; manages surplus property and recycling; and manages the Federal Surplus Program for government agencies within Montana.

Health Care and Benefits Division (HCBD) (21.87 FTE): Manages the State of Montana Benefit Plan (State Plan) which provides benefits to state of Montana employees, retirees, legislators, survivors, and their covered dependents. The State Plan provides group medical, dental, prescription drug, and vision benefits through self-funded vendor contracts with Third Party Administrators (TPAs). The State Plan offers fully insured life insurance and long-term disability insurance. HCBD is also responsible for administering the State Plan's flexible spending accounts (FSAs), the state of Montana's direct grant and sick leave funds, and the State of Montana Voluntary Employees Beneficiary Association Health Reimbursement Arrangement (Montana VEBA HRA). HCBD's Workers' Compensation Management Bureau performs workers' compensation oversight via its workplace safety and return to work programs.

State Information Technology Services Division (SITSD) (189.49 FTE): SITSD establishes and enforces statewide information technology policies and standards and provides disaster recovery capabilities. It implements shared information technology platforms and services such as the state network, state data centers, servers and storage, and enterprise custom and commercial applications.

Risk Management and Tort Defense (17.00 FTE): Provides loss prevention services, insurance coverage, claims adjudication, and tort litigation representation to state agencies, universities, boards, councils, and commissions that serve the citizens of Montana. It evaluates and resolves property/casualty claims including auto, aviation,

property, and tort liability. Settlements, legal fees, and other expenses are paid from the state self-insurance fund.

State Human Resources Division (39.00 FTE): Provides state agencies with human resource management services including training, position classification and pay, and employee relations. Additionally, the division publishes state rules, standards, and policies relating to recruitment and selection, discipline, grievances, performance appraisals, leave, and other HR matters. The division administers the state's human resources modules within the Statewide Accounting, Budgeting, and Human Resources System (SABHRS), supplying payroll and other human resource information systems for state government.

Montana State Lottery (35.00 FTE): The Montana Lottery is operated by a five-member commission that has the power to operate a state lottery and sports wagering, determine the types and forms of lottery games and sports wagering, set the ticket prices, number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games in conjunction with other lottery states and countries, and prepare financial reports. The Montana Lottery is allocated to the department for administrative purposes. As required by law, the Legislative Audit Division performs biennial audits of lottery security, and annual audits of the Lottery's financial activity.

Montana Tax Appeal Board (5.50 FTE): The board is a court of fact whose work is mandated by Article VIII, Section 7 of the Montana Constitution "to provide independent appeal procedures for taxpayer grievances about appraisals, assessments, equalization, and taxes." The board resolves tax appeals concerning real and personal property, income, corporate, natural resource, centrally assessed property, and new industry taxes. The three-member board and its staff are administratively attached to the department.

Prior Audit Recommendations

The prior audit report for the fiscal years ended June 30, 2018, contained seven recommendations to the department. The department fully implemented five recommendations, partially implemented one recommendation, and did not implement one recommendation. The fully implemented recommendations include items related to property held in trust misstatements, risk management expenditure accruals, GenTax expenditure misclassification, timing of transfers, and violations of temporary worker contract provisions.

In addition, the prior audit report also outlined four recommendations from the audit report for the two fiscal years ended June 30, 2016, that were not fully implemented.

We determined the department fully implemented three of these recommendations and partially implemented one recommendation. The fully implemented recommendations include items related to transfer support from other agencies, internal controls over construction work in process, and timing of transfers. More information on all recommendations not fully implemented is included below:

Internal Service Funds

(16-13 Recommendation #2):

We recommended the department adjust rates to ensure fees were commensurate with costs for several of its internal service funds, as required by state law. As discussed in greater detail on page 6, we performed an analysis of the department's internal service fund fees and fund equity balances for fiscal years 2019 and 2020 as part of the current audit. Through this work, we identified multiple funds with either fees not commensurate with costs or for which fund equity balance were not reasonable. We continue to acknowledge the department has procedures in place to monitor the fees charged, working capital, and fund equity balances of its internal service funds. However, the department is still not in compliance with state law for six internal service funds. More information on each internal service fund is summarized on page 6. As such, we continue to consider the recommendation to be partially implemented and we make no further recommendation to the department at this time. We will continue to test the reasonableness of the fees charged and fund equity balances of all of the department's internal services fund in the next audit of the department.

State Employee Benefit Plan Wellness Incentives Discounts

(18-13 Recommendation #3):

We recommended the department comply with state accounting policy and Generally Accepted Accounting Principles by not recording revenues and expenses for contribution discounts at Health Care Benefits Division. The department did not concur with our recommendation and did not change their process or procedure during the audit period. As a result, the recommendation was not implemented. Department personnel indicated they do not agree with our interpretation of accounting principles and will not be implementing the recommendation. Although we do not make a further recommendation in this report, the finding is still applicable to the department.

Information Technology Capital Projects

(16-13 Recommendation #5, 18-13 Recommendation #5):

We recommended the department follow the established internal control procedures to ensure money appropriated for long-range information technology capital projects is spent only on approved projects. Through our work we determined the department has implemented processes to obtain a variety of support for long-range information

technology capital projects. However, the support received by the department was not in sufficient detail to determine if the funds were spent on the approved projects and not for other purposes. Based on the information obtained during the audit, we conclude the department partially implemented the recommendation as they continue to improve their processes.

Internal Service Funds

In accordance with §17-8-101(6), MCA, we reviewed the reasonableness of fees charged and fund equity balances in the department's internal service funds. The internal service fund type is used to account for the financing of goods or services provided by one department to other departments of state government or to other governmental entities on a cost reimbursement basis. The department maintains 12 internal service funds to account for services provided both internally and externally to the department.

In our analysis, we generally considered fees to be reasonable and commensurate with costs if a fund's working capital was positive and did not exceed 60 days of expense activity for the fund. The only exception to this was for the State Information Technology Services Division fund. For this fund, the legislature allows a 30-day working capital, so we used 30 days instead of 60 in our analysis. State accounting policy defines working capital as the amount of cash that would remain if all the current assets were converted, and all the current liabilities paid, at their book value. We considered fund equity to be reasonable if, once adjusted for noncurrent liabilities and non-cash liabilities for pension and Other Post-Employment benefits, the fund equity balance not associated with capitalized assets was positive and also did not exceed the 60-day limit for working capital.

In the two prior audits, we concluded fees to not be commensurate with costs or fund equity to not be reasonable for at least seven internal service funds. In the current audit, we reviewed all of the department's internal service funds and determined fees were not commensurate with costs or fund equity was not reasonable for six funds during the audit period as discussed below.

Statewide Accounting, Budgeting, and Human Resources System:

This fund provides for the financial and budgeting portion of the Statewide Accounting, Budgeting, and Human Resources System. Working capital was 74 days at fiscal year-end 2019 and 118 days at fiscal year-end 2020. Accordingly, fees were not commensurate with costs for either year. Additionally, the portion of fund equity not associated with capital assets exceeded 60 days of working capital for both fiscal years. As such, we do not consider fund equity to be reasonable for fiscal years 2019 or fiscal year 2020.

State Information Technology Services Division:

This fund manages information technology services for state government. Working capital was negative at the end of fiscal year 2019 and 2020. As a result, we consider fees to not be commensurate with costs for either year. The fund reported negative fund equity in both years, indicating resources in the fund are not adequate to meet its obligations. As such, we do not consider fund equity to be reasonable for fiscal year 2019 or fiscal year 2020.

Intergovernmental Training:

This fund provides a variety of training products and facilitation services to state agencies. The fund had a positive working capital that did not exceed 60 days at fiscal year-end 2019. Accordingly, we consider fees to be commensurate with costs for fiscal year 2019. Fund equity also did not exceed the allowable 60 days working capital in fiscal year 2019. As such, we consider fund equity to be reasonable for fiscal year 2019. At fiscal year-end 2020, working capital was 66 days. We consider fees to not be commensurate with costs for fiscal year 2020. Fund equity in fiscal year 2020 exceeded the allowable 60 days working capital, so we do not consider fund equity to be reasonable for fiscal year 2020.

Print and Mail:

This fund provides graphic design, scanning, printing, mailing, and delivery services to state agencies. Working capital was 69 days at fiscal year-end 2019 and 79 days at fiscal year-end 2020. Accordingly, fees were not commensurate with costs for either year. Fund equity exceeded the allowable 60 days working capital in both fiscal years. As such, we do not consider fund equity to be reasonable for fiscal year 2019 or fiscal year 2020.

Management Services:

This fund provides centralized budget preparation, submission, and monitoring procedures for the department. The fund also provides for centralized legal and human resources services for the department. Working capital was 81 days at fiscal year-end 2019, but only 52 days at fiscal year-end 2020. Accordingly, we consider fees to be commensurate with costs for fiscal year 2020, but not for fiscal year 2019. Fund equity exceeded the allowable 60 days working capital in fiscal year 2019, but not fiscal year 2020. As such, we consider fund equity to be reasonable for fiscal year 2020, but not for fiscal year 2019.

Warrant Writing:

This fund provides the warrant writer program to most state agencies for check writing and automatic deposit capabilities. Working capital was 89 days at fiscal year-end

2019 and 81 days at fiscal year-end 2020. Accordingly, fees were not commensurate with costs for either year. Additionally, the portion of fund equity not associated with capital assets exceeded 60 days of working capital for both fiscal years. As such, we do not consider fund equity to be reasonable for fiscal years 2019 or fiscal year 2020.

Summary:

Based on responses from the department, staff continues to take steps to monitor the funds and adjust rates. Additionally, some of the issues identified during the audit period were the result of positions left vacant, upcoming large equipment purchases, and an ITSD rate reduction credit applicable in fiscal year 2019. As a result, we currently make no additional recommendation to the department. The next financial-compliance audit of the department will determine the reasonableness of fees charged and fund equity balances in the department's internal service funds for fiscal years 2021 and 2022, as required by state law.

Chapter II – Findings and Recommendations

Local Government Services Accounts Receivable

Local Government Services does not write off uncollectible accounts from local governments.

The Department of Administration's (department) Local Government Services Bureau works with local governments to ensure uniform financial accountability, and to assist the local governments in complying with their statutory financial and budgetary reporting requirements, including provisions of the Montana Single Audit Act and the local Government Budget Act.

Local governments entities are required to file an annual financial report with Local Government Services. Entities with annual revenues greater than \$750,000 are also required to pay a filing fee. If the payment has not been received within 60 days of the report being filed, a 10 percent penalty is assessed monthly until the payment is received. A penalty is also assessed if the entity does not file the report at all. Entities receive monthly statements that show the outstanding fees and penalties due. State law also allows the department to stop payment of any state financial assistance to the local government instead of charging the late payment penalty. Withholding assistance is only done at the discretion of the department's Director's Office.

State law allows the department to stop payment for any financial assistance to the local government entity instead of charging the late payment penalty, but this option is only used as a last resort. Additionally, state law allows the department to waive fines, fees, and penalties if the entity shows good cause or demonstrates their failure to comply was not within their control.

Local Government Services records an accounts receivable for fees and penalties not yet received. Additionally, they record an allowance for doubtful accounts for what they believe is uncollectible. Each year-end, the department adjusts the allowance for doubtful accounts balance based on what is believed to be uncollectible. The department still assesses penalties and adds to the account receivable for entities, even if it has previously determined the full balance of the receivable is uncollectible. The department continues to assess penalties for reports from as far back as fiscal year 2010.

At fiscal year-end 2019 and 2020, Local Government Services had \$172,157 and \$192,448 in accounts receivable for 65 and 90 local governments, respectively. These receivables include amounts due for filing fees as well as late penalty fees. The

corresponding allowance for doubtful accounts balances were \$107,550 for 6 local governments and \$154,109 for 9 local governments at each fiscal year-end 2019 and 2020, respectively. The percentage of total accounts receivable that has been determined to be uncollectible is over 60 percent in each year. The only way receivables are removed from the state's accounting records is if the entity pays them off, or they are waived by the department, which is only done after the department has received the report causing the penalty to be assessed.

State accounting policy requires state agencies to write off receivables that are deemed to be uncollectible. Additionally, policy requires agencies to transfer accounts receivable deemed uncollectible to the Department of Revenue or an outside collection agency. The department's policies and procedures do not direct employees to comply with state policy regarding writing off and transferring uncollectible accounts. No write-offs of uncollectible accounts have occurred since the allowance account was established in fiscal year 2016. Additionally, no receivables have been transferred to the Department of Revenue or a collection agency. The department currently does not have adequate policies and procedures to determine when accounts are uncollectible and when uncollectible accounts should be written off or transferred. Based on our observations, the department has not complied with state accounting policy.

RECOMMENDATION #1

We recommend the Department of Administration:

- A. *Comply with state accounting policy for writing off and transferring uncollectible accounts from local governments.*
 - B. *Implement policies and procedures for determining when receivables are uncollectible and when to write off or transfer uncollectible accounts.*
-

Incorrect Contract Payments

The department can enhance internal controls to ensure contract payments are in compliance with contract requirements.

The department manages a large number of contracts for services provided to the state. Specifically, contracts paid by General Services Division can cover multiple locations and services provided to a variety of state agencies. The contracts provide for payment requirements and schedules that the department is required to follow. The department is obligated to pay the total contract price. Other Services expenditures paid by the

division during the audit period totaled approximately \$8 million. During the audit we reviewed payments to six vendors totaling approximately \$5 million. The contracts were all for services at multiple locations that are billed monthly. We identified payment issues for two of the six vendors:

- ◆ One contract provides facility improvement services to over 50 state buildings. During the audit period, there were two buildings that were not invoiced for the correct amount. An amendment to the contract reduced the allowable charge for the buildings, but the payment amount was not reduced, resulting in overpayments. These overpayments occurred for 26 months and totaled approximately \$12,100. Additionally, for one building, a contract amendment raised the amount to be paid for the building, but for two months, the old rate was paid resulting in an underpayment of \$1,890. Per information from staff, pricing sheets were not updated with the contract amendments and staff did not timely identify the incorrect payments.
- ◆ The second contract is to provide cleaning services for 8 state buildings. There were multiple instances during the audit period where the vendor failed to claim certain allowable line items, resulting in the state being invoiced for less than the contract total. This resulted in the state underpaying on the contract amount in both fiscal years by approximately \$13,600. Additionally, there was a separate contract that covered one building that expired at the end of fiscal year 2019. At that time, a different vendor signed a contract to service the building. However, the original vendor invoiced the department in October 2019 for \$1,127 after their contract had terminated. The state paid this invoice, although the vendor provided no services. This invoice was the result of a computer system issue at the vendor; however, the department staff did not catch the error.

As a result of the issues documented above, there were overpayments and underpayments in both fiscal years. The department worked with the vendors and have since addressed and corrected the payment errors summarized in Table 1.

The department can enhance internal controls to ensure correct payments are made per contract requirements. Overall, staff attributed the contract issues they experienced to the fact that there has been significant turnover in accounting and with contract managers. Additionally, the department experienced timing issues related to contract change orders and amendments. The new staff overseeing these contracts have since spent time organizing and cleaning up the contract files to address billing issues. Staff working with contracted vendors were also registered for contract management and procurement classes provided by the state. While the department represents it is taking steps to address staff education

Table 1
Contract Payment Errors

	FY2019	FY2020
Over Payments	\$ 6,132	\$ 7,199
Under Payments	(\$ 7,753)	(\$ 7,784)
TOTAL	(\$ 1,621)	(\$ 585)

Source: Compiled by the Legislative Audit Division.

and improve organization of contract files, the department should also enhance its internal control over contracting going forward. We only reviewed a small portion of the contracts the department manages. The department should be aware that payment issues could have occurred with other contracts.

RECOMMENDATION #2

We recommend the Department of Administration enhance review procedures to ensure contract payments are complete and accurate and in accordance with contract provisions.

Independent Auditor's Report and Department Financial Schedules

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2019, of the Department of Administration, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the department's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

effectiveness of the department's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, deferred outflows of resources, liabilities, deferred inflows of resources and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the department as of June 30, 2020, and June 30, 2019, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held In Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2019, present fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Department of Administration, in conformity with the basis of accounting described in Note 1.

Emphasis of Matters

As discussed in Note 1 – Basis of Presentation, the financial schedule format was adopted by the Legislative Audit Committee. On June 16, 2020, the Committee approved a change in format to remove the presentation of revenue estimates from the Schedule of Total Revenues & Transfers-In. Our opinion is not modified with respect to this matter.

In fiscal year 2020, the state adopted Governmental Accounting Standards Board Statement No. 84–Fiduciary Activities. Implementation of the standard necessitated elimination of the presentation of property held in trust, and its additions and reductions, on the Schedule of Changes in Fund Equity. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2020, on our consideration of the Department of Administration’s control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

October 28, 2020

DEPARTMENT OF ADMINISTRATION
 SCHEDULE OF CHANGES IN FUND EQUITY
 FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Pension Trust Fund	Unexpended Plant Fund	Renewal & Replacement Fund
FUND EQUITY: July 1, 2019	\$ 490,124,924	\$ 87,206,273	\$ (115,629)	\$ 38,910	\$ 33,222,901	\$ 1,003,138	\$ 88,230,105	\$ 374,442	\$ 11,586,253	\$ (2,338,303)	\$ (773,921)
ADDITIONS											
Budgeted Revenues & Transfers-In	41,568,777	75,585,047	39,724,101		26,627,646	69,879,766	361,684,122				
Nonbudgeted Revenues & Transfers-In	3,466,914	60,167,649	1	8,150,356	3,132,212	30,211	2,643,256	2,091,477	4,379,340		
Prior Year Revenues & Transfers-In Adjustments	4,920	1,357,507	(892,448)		366,455	(372)	864,637				
Direct Entries to Fund Equity	186,156,409	23,144,379	5,753,425		7,433,497	164,778	1,938,776		531,324	9,440,959	5,325,760
Total Additions	<u>231,197,019</u>	<u>160,254,583</u>	<u>44,585,079</u>	<u>8,150,356</u>	<u>37,559,809</u>	<u>70,074,383</u>	<u>367,130,791</u>	<u>2,091,477</u>	<u>4,910,664</u>	<u>9,440,959</u>	<u>5,325,760</u>
REDUCTIONS											
Budgeted Expenditures & Transfers-Out	100,322,917	64,995,348	45,805,576		37,808,062	59,624,601	293,932,951		541,409	10,356,832	4,655,423
Nonbudgeted Expenditures & Transfers-Out	122,370,525	9,569,189	113,718	8,189,266	2,474,116	9,828,517	40,243,129	1,992,797	3,373,112		
Prior Year Expenditures & Transfers-Out Adjustments	(8)	608,413	(1,000)		495,655	681	(105,903)				
Total Reductions	<u>222,693,434</u>	<u>75,172,950</u>	<u>45,918,294</u>	<u>8,189,266</u>	<u>40,777,834</u>	<u>69,453,798</u>	<u>334,070,177</u>	<u>1,992,797</u>	<u>3,914,521</u>	<u>10,356,832</u>	<u>4,655,423</u>
FUND EQUITY: June 30, 2020	<u>\$ 498,628,509</u>	<u>\$ 172,287,906</u>	<u>\$ (1,448,844)</u>	<u>\$ 0</u>	<u>\$ 30,004,877</u>	<u>\$ 1,623,723</u>	<u>\$ 121,290,719</u>	<u>\$ 473,122</u>	<u>\$ 12,582,396</u>	<u>\$ (3,254,176)</u>	<u>\$ (103,584)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund	Pension Trust Fund	Unexpended Plant Fund	Renewal & Replacement Fund
FUND EQUITY: July 1, 2018	\$ 314,950,995	\$ 22,389,063	\$ (264,728)	\$ 22,581	\$ 35,387,038	\$ 1,130,580	\$ 51,955,440	\$ 0	\$ 532,315	\$ 10,702,822	\$ (6,233,697)	\$ (626,993)
PROPERTY HELD IN TRUST: July 1, 2018								\$ 18,950,461				
ADDITIONS												
Budgeted Revenues & Transfers-In	48,656,907	20,574,866	15,372,673		6,984,921	69,502,413	336,976,807					
Nonbudgeted Revenues & Transfers-In	46,776,251	74,162,055	1	9,330,928	202,532	72,498	982,776		2,356,864	4,020,685		
Prior Year Revenues & Transfers-In Adjustments	20,054	1,026,586	21,499		3,035	1,977	(272,236)		435			166,259
Direct Entries to Fund Equity	287,043,322	26,934,744	1,183,273		7,599,838	(372)	547,072		(102,650)	(4,479)	37,989,703	3,519,208
Additions to Property Held in Trust								1,027,820,492				
Total Additions	<u>382,496,534</u>	<u>122,698,252</u>	<u>16,577,445</u>	<u>9,330,928</u>	<u>14,790,327</u>	<u>69,576,516</u>	<u>338,234,419</u>	<u>1,027,820,492</u>	<u>2,254,649</u>	<u>4,016,206</u>	<u>37,989,703</u>	<u>3,685,467</u>
REDUCTIONS												
Budgeted Expenditures & Transfers-Out	98,196,568	39,762,499	16,301,327		15,217,960	56,608,271	301,740,129				34,094,309	3,666,136
Nonbudgeted Expenditures & Transfers-Out	109,020,109	17,992,647	127,019	9,314,599	1,734,612	13,101,012	9,003,401		2,412,523	3,132,775		
Prior Year Expenditures & Transfers-Out Adjustments	105,929	125,897			1,892	(5,325)	(8,783,776)					166,259
Reductions in Property Held in Trust								1,041,766,912				
Total Reductions	<u>207,322,606</u>	<u>57,881,042</u>	<u>16,428,346</u>	<u>9,314,599</u>	<u>16,954,463</u>	<u>69,703,958</u>	<u>301,959,754</u>	<u>1,041,766,912</u>	<u>2,412,523</u>	<u>3,132,775</u>	<u>34,094,309</u>	<u>3,832,395</u>
FUND EQUITY: June 30, 2019	\$ 490,124,924	\$ 87,206,273	\$ (115,629)	\$ 38,910	\$ 33,222,901	\$ 1,003,138	\$ 88,230,105	\$ 0	\$ 374,442	\$ 11,586,253	\$ (2,338,303)	\$ (773,921)
PROPERTY HELD IN TRUST: June 30, 2019								\$ 5,004,042				

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DEPARTMENT OF ADMINISTRATION
 SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
 FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Pension Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS										
Licenses and Permits		\$ 2,137,110				\$ 28,945				\$ 2,166,055
Charges for Services	\$ 9,372,966	3,615,513			\$ 77,261	8,874,148	\$ 311,495,972		\$ 181,712	333,617,572
Investment Earnings	20,237,259	185,978	\$ 60		385,390	47,571	3,424,228		345,841	24,626,327
Fines and Forfeits	3,462,051					50,524	44,486			3,557,061
Capital Contributions						927,061				927,061
Sale of Documents, Merchandise and Property		205,385				59,854,653	18,990			60,079,027
Rentals, Leases and Royalties							90			90
Contributions and Premiums									3,851,137	3,851,137
Grants, Contracts, and Donations		34,349						\$ 2,091,477	650	2,126,476
Transfers-in	11,490,997	61,768,615	25,732,738	\$ 8,150,356	29,025,899	100,000	34,471,920			170,740,524
Bond Proceeds		33,260,830								33,260,830
Capital Asset Sale Proceeds	10,492									10,492
Inception of Lease/Installment Contract	8,817	10,122								18,939
Miscellaneous	142,039	35,892,302			637,763	26,703	10,235,589			46,934,397
Federal	315,990		13,098,856				5,500,740			18,915,586
Total Revenues & Transfers-In	45,040,611	137,110,204	38,831,654	8,150,356	30,126,313	69,909,605	365,192,015	2,091,477	4,379,340	700,831,574
Less: Nonbudgeted Revenues & Transfers-In	3,466,914	60,167,649	1	8,150,356	3,132,212	30,211	2,643,256	2,091,477	4,379,340	84,061,417
Prior Year Revenues & Transfers-In Adjustments	4,920	1,357,507	(892,448)		366,455	(372)	864,637			1,700,699
Actual Budgeted Revenues & Transfers-In	\$ 41,568,777	\$ 75,585,047	\$ 39,724,101	\$ 0	\$ 26,627,646	\$ 69,879,766	\$ 361,684,122	\$ 0	\$ 0	\$ 615,069,459

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DEPARTMENT OF ADMINISTRATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Pension Trust Fund	Renewal & Replacement Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS											
Licenses and Permits		\$ 1,092,445				\$ 10,784					\$ 1,103,229
Charges for Services	\$ 8,383,166	4,212,193			162,499	8,600,205	\$ 309,625,137				330,983,201
Investment Earnings	23,724,116	158,206	\$ 29		413,039	63,927	3,438,877		\$ 592,220		28,390,412
Fines and Forfeits	3,868,663					87,623					3,956,286
Capital Contributions						490,293	(178,950)			\$ 166,259	477,602
Sale of Documents, Merchandise and Property		211,011				60,254,123	12,368				60,477,502
Rentals, Leases and Royalties							90				90
Contributions and Premiums									3,428,465		3,428,465
Grants, Contracts, and Donations	21,746	41,339						\$ 2,357,299			2,420,384
Transfers-in	58,971,658	75,765,887	21,929	\$ 9,330,928	\$ 6,614,951	68,546	12,706,371				163,480,270
Capital Asset Sale Proceeds	29,477										29,477
Miscellaneous	155,881	14,282,427				1,387	8,703,390				23,143,085
Federal	298,506		15,372,214				3,380,064				19,050,784
Total Revenues & Transfers-In	95,453,212	95,763,508	15,394,172	9,330,928	7,190,488	69,576,888	337,687,347	2,357,299	4,020,685	166,259	636,940,788
Less: Nonbudgeted Revenues & Transfers-In	46,776,251	74,162,055	1	9,330,928	202,532	72,498	982,776	2,356,864	4,020,685		137,904,591
Prior Year Revenues & Transfers-In Adjustments	20,054	1,026,586	21,499		3,035	1,977	(272,236)	435		166,259	967,609
Actual Budgeted Revenues & Transfers-In	48,656,907	20,574,866	15,372,673	0	6,984,921	69,502,413	336,976,807	0	0	0	498,068,588
Estimated Revenues & Transfers-In	42,323,973	23,933,281	14,537,817		40,246,293	65,561,844	330,948,905				517,552,112
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 6,332,934	\$ (3,358,415)	\$ 834,856	\$ 0	\$ (33,261,371)	\$ 3,940,569	\$ 6,027,902	\$ 0	\$ 0	\$ 0	\$ (19,483,524)

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DEPARTMENT OF ADMINISTRATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Table with columns for various departments (Architecture & Engineering, Corrections, etc.) and rows for different expenditure categories (Personal Services, Operating Expenses, etc.). Includes sub-totals for Total Expenditures & Transfers-Out and Unspent Budget Authority.

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Architecture & Engineering Division	Corrections	Departments & Agencies	Director's Office	Division of Banking & Financial Ins	DPHHS	General Services Division	Health Care & Benefit Division	Montana State Lottery	Montana Tax Appeal Board	Risk Management & Tort Defense Division	State Financial Services Division	State Human Resources Division	State IT Services Division	University System	Total
Personal Services																
Salaries	\$ 1,098,394			\$ 1,895,840	\$ 2,320,414		\$ 3,594,512	\$ 1,249,362	\$ 1,597,969	\$ 319,456	\$ 1,194,597	\$ 3,597,526	\$ 2,727,487	\$ 12,847,082		\$ 32,442,637
Other Compensation				1,000			600	4,230								5,830
Employee Benefits	377,395			521,153	812,696		1,348,802	358,586	545,021	114,561	313,264	1,179,029	797,599	3,419,973		9,788,077
Personal Services-Other				6,569			47,193	37,732	11,311		(595)	(23,071)	6,415	33,665		119,219
Total	1,475,788			2,424,562	3,133,110		4,990,506	1,645,680	2,154,901	438,246	1,507,266	4,753,484	3,531,501	16,300,720		42,355,764
Operating Expenses																
Other Services	249,452			316,416	160,085		4,260,109	13,872,676	9,099,355	26,133	7,447,766	630,823	609,073	2,234,126		38,906,014
Supplies & Materials	15,552			49,048	61,740		454,140	50,444	213,829	9,520	38,598	168,362	162,629	(7,395,710)		(6,171,849)
Communications	22,692			41,079	48,872		4,303,037	65,683	594,466	10,499	21,486	331,889	43,262	5,805,411		11,288,375
Travel	32,487			18,326	263,954		14,454	13,382	26,556	2,233	18,459	45,292	24,287	196,578		656,008
Rent	68,518			93,040	170,042		298,879	429,408	222,036	47,439	91,787	140,927	152,406	936,701		2,651,183
Utilities							2,002,448	16,954						104,509		2,123,911
Repair & Maintenance	5,033			552			1,048,978	16,441		60	1,089	1,418,031	781,132	14,194,622		17,465,938
Other Expenses	98,426	(178,950)	19,500	211,455	147,574		1,708,899	782,313	34,878,775	17,721	285,420	3,425,427	158,200	5,848,665	179,394	47,582,819
Goods Purchased For Resale							3,381,730		919,887							4,301,617
Total	492,159	(178,950)	19,500	729,916	852,266		17,472,675	15,213,906	45,988,299	113,605	7,904,604	6,160,751	1,930,990	21,924,902	179,394	118,804,016
Equipment & Intangible Assets																
Equipment			3,995		72,158		69,672							10,095	2,622,103	2,778,023
Total			3,995		72,158		69,672							10,095	2,622,103	2,778,023
Capital Outlay																
Buildings		3,996,467	8,613,981			3,515,224	119,500					(37,472)			37,073,545	53,281,245
Other Improvements							(119,500)									(119,500)
Total		3,996,467	8,613,981			3,515,224	0					(37,472)			37,073,545	53,161,745
Local Assistance																
From State Sources				46,610,607							806					46,611,413
From Federal Sources				21,126,125												21,126,125
Total				67,736,732							806					67,737,539
Grants																
From State Sources														9,398,420		9,398,420
Grant To Governmental Entities														178,031		178,031
Total														9,398,420		9,576,451
Benefits & Claims																
To Individuals								1,141,587								1,141,587
From State Sources								190,447,191					225,170			190,672,361
Insurance Payments								1,177,527								16,582,064
Total								192,766,305								208,396,012
Transfers-out																
Fund transfers	1,750,000	381,271	3,143,629	146,438,593		1,142,258	228,546		12,214,709					12,310,519	6,158	195,450,015
Intra-Entity Expense				10,000,000												10,000,000
Total	1,750,000	381,271	3,143,629	156,438,593		1,142,258	228,546		12,214,709					12,310,519	6,158	205,450,015
Debt Service																
Bonds				9,318,049												9,318,049
Loans							31,447						830,308			861,755
Capital Leases							11,299						238,452			249,752
Total				9,318,049			42,746						1,068,760			10,429,555
Post Employment Benefits																
Other Post Employment Benefits				6,662			21,956	5,822	8,784		4,743	7,836	6,790	48,163		110,756
Employer Pension Expense				225,121			916,224	157,485	230,059		255,221	62,531	233,241	2,157,016		4,236,896
Total				231,783			938,179	163,306	238,843		259,964	70,368	240,031	2,205,178		4,347,652
Total Expenditures & Transfers-Out	\$ 3,717,948	\$ 4,198,789	\$ 11,781,105	\$ 236,879,634	\$ 4,057,533	\$ 4,657,483	\$ 23,742,324	\$ 209,789,198	\$ 60,596,751	\$ 552,658	\$ 37,894,373	\$ 16,141,491	\$ 5,927,692	\$ 63,218,594	\$ 39,881,198	\$ 723,036,771

EXPENDITURES & TRANSFERS-OUT BY FUND

General Fund		350,000		\$ 199,315,416					\$ 552,658			\$ 5,104,769	\$ 1,608,792	\$ 390,970		\$ 207,322,606
State Special Revenue Fund	\$ 1,967,948	\$ 31,271	\$ 2,894,164	\$ 11,073,191	\$ 4,057,533	\$ 227,280	\$ 85,000		\$ 173,633		\$ 12,639,971	\$ 2,393,166	\$ 450	\$ 22,331,277	\$ 6,158	\$ 57,881,042
Federal Special Revenue Fund			1,011,376	14,433,482		936,786						2,376		44,326		16,428,346
Debt Service Fund				9,314,599												9,314,599
Capital Projects Fund	1,750,000	2,064,627	7,875,565			3,493,417									1,770,854	16,954,463
Enterprise Fund		117,541					1,388,724	\$ 7,267,042	60,423,118			507,534				69,703,958
Internal Service Fund		1,635,349		2,742,945			22,268,600	199,389,381			25,254,402	5,721,122	4,318,450	40,452,021	177,483	301,959,754
Private Purpose Trust Fund												2,412,523				2,412,523
Pension Trust Fund								3,132,775								3,132,775
Unexpended Plant Fund															34,094,309	34,094,309
Renewal & Replacement Fund															3,832,395	3,832,395
Total Expenditures & Transfers-Out	3,717,948	4,198,789	11,781,105	236,879,634	4,057,533	4,657,483	23,742,324	209,789,198	60,596,751	552,658	37,894,373	16,141,491	5,927,692	63,218,594	39,881,198	723,036,771
Less: Nonbudgeted Expenditures & Transfers-Out	1,750,000	1,720,742	9,045	122,844,787			1,404,500	4,506,751	12,338,807		1,279,094	5,647,478	110,454	14,227,040		165,838,697
Prior Year Expenditures & Transfers-Out Adjustments	7	8,414	(20,056)	86,970		3,784	(25,187)	(37,992)	(12,838)	74	(207,575)	350	(2,360)	(8,348,974)	166,259	(8,389,124)
Actual Budgeted Expenditures & Transfers-Out	1,967,941	2,469,632	11,792,116	113,947,876	4,057,533	4,653,699	22,363,011	205,320,439	48,270,782	552,584	36,822,854	10,493,664	5,819,598	57,340,529	39,714,939	565,587,199
Budget Authority	2,247,015	7,785,106	152,782,838	120,233,437	4,190,356	55,729,213	22,835,780	208,188,085	50,149,789	613,927	40,166,653	11,531,488	6,088,872	131,835,449	158,673,486	973,051,493
Unspent Budget Authority	\$ 279,074	\$ 5,315,474	\$ 140,990,722	\$ 6,285,561	\$ 132,822	\$ 51,075,514	\$ 472,769	\$ 2,867,646	\$ 1,879,006	\$ 61,343	\$ 3,343,798	\$ 1,037,824	\$ 269,274	\$ 74,494,920	\$ 118,958,546	\$ 407,464,295

UNSPENT BUDGET AUTHORITY BY FUND

General Fund				\$ 859,637					\$ 61,343			\$ 218,200	\$ 13,882	\$ 56,503		\$ 1,209,566
State Special Revenue Fund	\$ 279,074	\$ 330,372	\$ 49,618,564	\$ 1,367,338	\$ 132,822	15,572,206			\$ 26,367		\$ 560,029	19,740		20,228,400	740,856	88,875,767
Federal Special Revenue Fund		1,000,000	28,631,182	3,847,344		9,698,621						216		45,295,647	2,216,926	90,689,936
Capital Projects Fund		2,925,218	62,738,773			25,804,687								8,176,326	14,091,041	113,736,046
Enterprise Fund		426,883					7,811	\$ 697,787	1,852,640			29,288				3,014,408
Internal Service Fund		633,000	2,203	211,243			464,958	2,169,859			2,783,770	770,381	255,392	738,044	25,567	8,054,416
Unexpended Plant Fund															85,035,818	85,035,818
Renewal & Replacement Fund															16,848,338	16,848,338
Unspent Budget Authority	\$ 279,074	\$ 5,315,474	\$ 140,990,722	\$ 6,285,561	\$ 132,822	\$ 51,075,514	\$ 472,769	\$ 2,867,646	\$ 1,879,006	\$ 61,343	\$ 3,343,798	\$ 1,037,824	\$ 269,274	\$ 74,494,920	\$ 118,958,546	\$ 407,464,295

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Department of Administration
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2020

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Capital Projects, Debt Service). In applying the modified accrual basis, the department records:

- ◆ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ◆ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Private-Purpose Trust, Pension and Other Employee Benefit Trust, Agency/Custodial) and Plant (Unexpended and Renewal & Replacement) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee (LAC). The financial schedules were prepared from the transactions posted to the state's accounting system without adjustment.

To reflect the total department operations, the financial schedules present the combined operations of two separate business units, Department of Administration and Long-Range Building, identified on the state's accounting system.

At the June 16, 2020 LAC meeting, the LAC approved two changes to the content of the regulatory basis special purpose framework for agency financial schedules.

- ◆ **Schedule of Changes in Fund Equity:**

The LAC voted to exclude property held in trust activity from the Schedule of Changes in Fund Equity beginning in fiscal year 2020. This change was necessary to facilitate implementation of GASB Statement 84 – Fiduciary Activities at the agency financial schedule level.

- ◆ **Schedule of Total Revenues and Transfers-In:**

The LAC voted to exclude revenue estimate activity from the Schedule of Total Revenues and Transfers-In effective for the 2020 audit cycle.

As a result of these two changes:

Beginning with the fiscal year 2020 financial schedules, the Schedule of Changes in Fund Equity will no longer report property held in trust line items. Additionally, the schedule title will no longer include property held in trust in its name.

Beginning with the fiscal year 2019 and fiscal year 2020 financial schedules opined on in the 2020 cycle, the Schedule of Total Revenues and Transfers-In will no longer report revenue estimate information.

The department uses the following funds:

Governmental Fund Category

- ◆ **General Fund** – to account for all financial resources except those required to be accounted for in another fund. Department General Fund include the Office of Labor Relations, State Procurement Bureau, State Accounting Principles and Financial Section, the Human Resources Policy and Programs Bureau and the Montana Tax Appeal Board.
- ◆ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include Architecture and Engineering Construction, Banking and Financial Institutions Division, 911 Telecommunications Program, and Mineral Impact.
- ◆ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include Federal Forest Reserve and Taylor Grazing Act funds.
- ◆ **Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses this fund primarily for the Long-Range Building Program.
- ◆ **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those

financed by proprietary funds or trust funds. The department uses this fund to account for activity in the Long-Range Building Program and for Long-Range Information Technology projects.

Proprietary Fund Category

- ◆ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The department administers thirteen Internal Service Funds, the three largest of which are State Information Technology Services Division, Group Benefits, and Agency Insurance.
- ◆ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Department Enterprise Funds include Flexible Spending, Local Government Services, State Lottery, and Surplus Property.

Fiduciary Fund Category

- ◆ **Pension and Other Employee Benefit Trust Funds** – to account for resources required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other employee benefit plans. Department pension trust funds include the Voluntary Employee Beneficiary Association Trust.
- ◆ **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. Department private-purpose trust funds include Stale-Dated Warrants.
- ◆ **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the State) clearing account activity, but these must have a zero balance at fiscal year-end. Central Payroll is a department agency fund in FY 2019. This activity is shown on the Schedule of Changes in Fund Equity & Property Held in Trust.

Beginning in FY 2020, the State of Montana implemented GASB Statement 84. Central Payroll is now a clearing account, with no balances in equity, revenue or expenditures at year end. This activity is no longer reported on the Schedule of Changes in Fund Equity.

Plant Fund Category

- ◆ **Plant Funds** – to account for transactions related to construction of university properties. Because the Architecture and Engineering Division expends funds for university construction projects, the department records activity in the following sub-funds:
 - ◆ Unexpended Plant Funds – comprised of amounts which have been appropriated or designated for construction or purchase of university improvements, buildings, and equipment.
 - ◆ Renewal and Replacement Funds – provide resources for the remodeling or replacement of university properties.

2. General Fund Equity Balance

The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department's total assets placed in the fund exceed outstanding liabilities, resulting in positive ending fund equity balances for each of the fiscal years ended June 30, 2019, and June 30, 2020. As stated in note 3, the department is the administrator of the General Fund. As a result, the cash balances in the General Fund at fiscal year-end for all other state agencies are closed and recorded on the department's accounting records.

3. Direct Entries to Fund Equity

Direct entries to fund equity include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. Also, direct entries can be correction of certain errors.

Though the department is the administrator of the General Fund, it is not the only agency making entries to the General Fund. The direct entry to fund equity in the amount of \$287,043,322 in FY 2019 and \$186,156,409 in FY 2020 reflects the department closing cash balances of other agencies sharing the General Fund. The General Fund's fund equity balances shown on the Schedule of Changes in Fund Equity and Property Held in Trust in FY 2019, and the Schedule of Changes in Fund Equity in FY 2020, reflect only the department's activity and closing cash balances from other agencies, and not the total fund equity of the state's General Fund.

4. Governor's Office Coronavirus Aid, Relief, and Economic Security Act (CARES Act)

At the end of FY 2020, the Department received a total of \$25,658,450 in federal CARES funding from administrative appropriations from the Governor's Office for the COVID 19 event.

The Director's Office expended \$586,361 for internal reimbursement costs related to the event.

The State Financial Services Division distributed \$288,463 to local governments for primary mail ballot postage costs, and \$22,320,940 for local government COVID 19 reimbursements.

The State Information Technology Division expended \$2,462,685 for a contract with ServiceNow for COVID 19 response tools.

In FY 2021, the Department has received \$234,529,251 of CARES Act funds from the Governor's Office for the COVID 19 event. Through October 27, 2020, the Department has disbursed \$71,143,478 to schools (K-12), and \$55,469,466 to local governments for costs related to this event.

5. Unspent Budget Authority

The Schedule of Total Expenditures and Transfers Out for FY 2019 and FY 2020 reflects that Corrections, Departments & Agencies, DPHHS, and University System have material unspent budget authority related to active projects administered by the Long-Range Building Program. The entire estimated cost of a project is encumbered when the project is started, although many projects are not completed in one fiscal year, resulting in unspent budget authority amounts on the schedule. The unspent budget amounts represent estimated costs to complete all projects.

17-7-212, MCA states that the remaining balances on capital projects previously approved by the legislature, are re-appropriated for the purposes of the original appropriation until the projects are completed.

There are some capital building projects where budget authority will be reported twice. For example, where authority is necessary for the fund transfer from one fund into another fund, and authority is also necessary for the expenditure of those funds received. The department follows M.O.M. 302XV for these projects costing more than \$500,000.

Similarly, the State Information Technology Services Division (SITSD) had material unspent budget authority in both years for Long-Range Information Technology Projects (LRITP) which were not completed. Much of this spending authority will be transferred to the administering agency when the LRITP is approved by SISTD.

2-17-560, MCA allows for the re-appropriation of LRITP until completion of the projects.

Material unspent federal budget authority on the FY 2020 Schedule of Total Expenditures & Transfers Out for State Financial Services Division was related to the original estimate of the first round of reimbursement for local governments under the CARES Act. These federal funds are available until December 30, 2020.

Material unspent budget authority in FY 2019 and FY 2020 for the Director's Office is primarily due to reduced Federal funding for the Secure Rural Schools (Forest Reserve) program.

Material unspent budget authority in FY 2019 and FY 2020 for Risk Management Tort Defense is due to an anticipated settlement that was not finalized until the next year.

Material unspent budget authority in FY 2019 and FY 2020 for Healthcare and Benefits Division is due to cost savings in both the medical and pharmacy plans.

6. Transfer Activity

As the State Treasurer, the Department statutorily transfers a significant amount of money from, and to, the General Fund. These transfers involve other funds within state government.

Transfers-Out

The General Fund transfers out activity includes moving funds to the Department's debt service funds for general obligation bonds; state contributions to the Montana Public Employees Retirement System, the Teachers Retirement System, budget stabilization fund, Department of Natural Resource and Conservation's fire, water adjudication and sage grouse stewardship funds; motor vehicle revenue to various state agencies; and the Old Fund administered by the Montana State Fund.

The total transfers-out in the Director's Office were \$156,438,593 in FY 2019 and \$171,400,684 in FY 2020. General Fund transfers-out totaled \$152,040,055 in FY2019 and \$164,630,697 in FY 2020. Contributing to this increase, from FY 2019 to FY 2020, was the \$9.0 million one-time transfer to the long-range building program for HB 652 from the 2019 session, and the increase by \$8.8 million in the transfer to the Fire Suppression fund.

Transfers-In

The General Fund Transfers-in were \$58,971,658 in FY 2019 and \$11,490,977 in FY 2020. The significant decrease between the two years is that HB 6 from the November 2017 Special Legislative Session, required multiple one-time transfers from various funds into the General Fund for FY 2018 and FY 2019. In FY 2019, these special session transfers-in included \$8,000,000 in highway revenue, and \$28,552,282 from the Fire Suppression Fund.

The Montana Lottery, which is attached to the Department of Administration, transfers net profits to the General Fund and, as required, to the Office of Commissioner of Higher Education (OCHE) for STEM scholarships. The transfer amounts for FY 2019 was \$12,214,709 to the General Fund and \$0 to OCHE. For FY 2020, the transfer amounts were \$8,073,079 to the General Fund and \$500,000 to OCHE.

7. Reorganization

There were no significant reorganizations during the audit period.

8. University System Funds

The Unexpended Plant Fund and Renewal & Replacement Fund categories show negative ending fund balances for the department in the FY 2019 Schedule of Changes in Fund Equity and Property Held in Trust and FY 2020 Schedule of Changes in Fund Equity due to the sharing of the related funds with the University System. The negative balance reflects only the department's activity, and not the total fund equity or activity for these shared funds.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2019, of the Department of Administration, and the related notes to the financial schedules, and have issued our report thereon dated October 28, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the department's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material

weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the department's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

October 28, 2020

DEPARTMENT OF
ADMINISTRATION

DEPARTMENT RESPONSE



**MONTANA
DEPARTMENT OF
ADMINISTRATION**

Director's Office
Steve Bullock, Governor
John Lewis, Director

November 23, 2020

RECEIVED
NOV 23 2020
LEGISLATIVE AUDIT DIV.

Mr. Angus Maciver, Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, MT 59620

RE: Financial Compliance Audit #20-13: Department of Administration for the Two Fiscal Years Ended June 30, 2020

Dear Mr. Maciver,

The Department of Administration (DOA) has reviewed the Financial Compliance Audit for the two fiscal years ending June 30, 2020.

DOA wants to recognize and thank you and your staff for your work during this audit. We look upon the audit process as an opportunity to improve the department's operation and performance.

Our responses to the recommendations appear below.

Recommendation #1

We recommend the Department of Administration:

- A. Comply with state accounting policy for writing off and transferring uncollectable accounts from local governments.
- B. Implement policies and procedures for determining when receivables are uncollectable and when to write off or transfer uncollectable accounts.

Department Response: Concur with A and B

Local Government Services Bureau will develop and document a process related to local government entity accounts receivables.

125 North Roberts, Rm 155, Mitchell Building
P.O. Box 200101
Helena, MT 59620-0101
406-444-2032
doadirector@mt.gov
doa.mt.gov

Recommendation #2

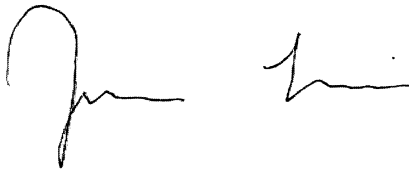
We recommend the Department of Administration enhance review procedures to ensure contract payments are complete and accurate and in accordance with contract provisions.

Department Response: Concur

Contract Managers and Accounting Staff are working to create contract invoice summaries for accounting. This will assist with invoice verification and quality control reviews. Staff are also working with contract vendors to further itemize invoices/services.

We look forward to acting on the recommendations and appreciate your consideration of my comments.

Sincerely,

A handwritten signature in black ink, appearing to read 'John Lewis', with a stylized flourish at the end.

John Lewis, Director
Department of Administration

c: Steve Baiamonte, Administrator, General Services Division
Kristen Reynolds, Local Government Bureau Chief, State Financial Services Division

Enclosure: Corrective Action Plan (CAP)

Department of Administration
 Corrective Action Plan (CAP): Audit Report #20-13
 Financial Compliance Audit for the Two Fiscal Years Ended June 30, 2020

Agency	Recommendation #	Does this affect a federal program?	CFDA # (if previous YES)	Management View	CAP – Corrective Action Plan	Person responsible for CAP	Target Date
61010	<p>Recommendation #1</p> <p>We recommend the Department of Administration:</p> <p>A. Comply with state accounting policy for writing off and transferring uncollectable accounts from local governments.</p> <p>B. Implement policies and procedures for determining when receivables are uncollectable and when to write off or transfer uncollectable accounts.</p>	No	N/A	<p>A. Concur</p> <p>B. Concur</p>	<p>Local Government Services Bureau will develop and document a process related to local government entity accounts receivables.</p>	<p>Kristin Reynolds, Local Government Services Bureau Chief, State Financial Services Division</p>	7/1/21

Department of Administration
 Corrective Action Plan (CAP): Audit Report #20-13
 Financial Compliance Audit for the Two Fiscal Years Ended June 30, 2020

Agency	Recommendation #	Does this affect a federal program?	CFDA # (if previous YES)	Management View	CAP – Corrective Action Plan	Person responsible for CAP	Target Date
61010	Recommendation #2 We recommend the Department of Administration enhance review procedures to ensure contract payments are complete and accurate and in accordance with contract provisions.	No	N/A	Concur	Contract Managers and Accounting Staff are working to create contract invoice summaries for accounting. This will assist with invoice verification and quality control reviews. Staff are also working with contract vendors to further itemize invoices/services.	Steve Baiamonte, Administrator, General Services Division	12/31/20