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LEGISLATIVE AUDIT COMMITTEE

66th Montana Legislature

SENATE MEMBERS

Dee Brown
Terry Gauthier
Bob Keenan
Margaret (Margie) MacDonald
Mary McNally, Chair
Gene Vuckovich

HOUSE MEMBERS

Kim Abbott
Dan Bartel
Tom Burnett, Vice Chair
Denise Hayman
Emma Kerr-Carpenter
Matt Regier

COMMITTEE STAFF

Angus Maciver - Legislative Auditor
Deborah F. Butler - Legal Counsel
Joe Murray - Deputy Legislative Auditor
Cindy Jorgenson - Deputy Legislative Auditor
Candace Radovich - Administrative Assistant

DRAFT MINUTES LOG

February 6, 2019
Room 335, Capitol Building
Helena, MT

Please note: This document is a Minutes Log and provides annotation of the time elapsed between the beginning of the meeting and the time at which the item was presented or discussed, a motion was made, or a vote was taken. The narrative presented here is provided only as a guide to the audio or video recording of the meeting. The official discussion, motion, or vote is available on the audio or video archive of this meeting. The Legislature does not prepare a transcript of the meeting activities. The time designation may be used to locate the referenced discussion on the audio or video recording of this meeting.

Access to an electronic copy of these minutes and the audio or video recording is provided from the Legislative Branch home page at <http://legmt.gov>. On the left-side menu of the home page, select Committees, then Interim. Once on the page for Interim Committees, scroll down to the appropriate committee. The written Minutes Log, along with the audio and video recordings, is listed by meeting date on the interim committee's web page. Each of the "Exhibits" is linked and can be viewed by clicking on the Exhibit of interest. All Exhibits are public information and may be printed.

Please contact the Legislative Audit Division at 406-444-3122 for more information.

COMMITTEE MEMBERS PRESENT:

Sen. Mary McNally, Chair (D)
Rep. Tom Burnett, Vice Chair (R)
Rep. Kim Abbott (D)
Rep. Dan Bartel (R)
Sen. Dee Brown (R)
Sen. Terry Gauthier (R)
Rep. Denise Hayman (D)
Sen. Bob Keenan (R)

Rep. Emma Kerr-Carpenter (D)
Sen. Margaret (Margie) MacDonald (D)
Rep. Matt Regier (R)
Sen. Gene Vuckovich (D)

MEMBERS EXCUSED:

MEMBERS ABSENT:

STAFF PRESENT:

Angus Maciver, Legislative Auditor
Candace Radovich, Administrative Assistant
Deborah F. Butler, Legal Counsel
Joe Murray, Deputy Legislative Auditor
Cindy Jorgenson, Deputy Legislative Auditor

VISITORS' LIST (no signatures)

AGENDA ([Attachment 1](#)) **CALL**

TO ORDER

16:04:30 The Legislative Audit Committee met February 6, 2019, in room 335 of the State Capitol Building. Chairwoman McNally called the meeting to order at 4:04 p.m., noting the presence of a quorum.

ROLL CALL

16:04:42 The committee administrative assistant took roll and Rep. Emma-Kerr Carpenter, Sen. Vuckovich, and Rep. Hayman were excused at the time of roll, but shortly after all joined the meeting. ([Attachment 2](#)).

INTRODUCTION OF NEW COMMITTEE MEMBERS

16:05:23 Chair McNally introduced the two new committee members Rep. Emma Kerr-Carpenter who was excused for roll call and Rep. Matt Regier.

16:05:49 Rep. Regier introduced himself as a representative of House District four and stated his excitement to be on the committee.

APPROVAL OF DECEMBER 2018 MINUTES

16:06:09 Chair McNally spoke on approval of the minutes from the last meeting and there were no comments or corrections

Motion Chair McNally moved to approve the minutes from the December 10-11, 2018, meeting.

Vote The motion passed unanimously on a voice vote.

APPOINTMENT OF COMMITTEE SECRETARY FOR THE INTERIM

16:06:40 Chair McNally noted the committee was without a secretary as the previous was Rep. Court. Chair McNally spoke to the fact that normally there wasn't a meeting during the session so the need for a secretary would just be until officer appointments would be made at the June meeting.

16:07:13 Sen. Brown moved to elect Sen. MacDonald for the interim replacement.

MONTANA BOARD OF INVESTMENTS (18-04A)

16:08:08 Presented by Karen. E. Simpson, CPA, Financial Compliance Senior Auditor ([Exhibit 1](#)) Investment Fees for the fiscal year Ended June 30, 2018.

Present from agency:
Dan Villa, Executive Director

Committee Questions of LAD Staff

16:16:41 Sen. Brown asked Ms. Simpson about the board's misstatement and what affect that had on the state bond rating.

16:17:22 Sen. Brown still referred to the board's misstatement and asked Ms. Simpson how many staff members were directly involved in the process of checking that.

16:18:09 Rep. Burnett also spoke on the board's misstatement and asked Ms. Simpson if that would have been an eye ball mistake or mechanical problem that would need corrected.

16:19:13 Sen. Brown asked Ms. Simpson about what kind of training employees had on GAP. Ms. Simpson stated that would be a question for Director Villa.

Agency Response

16:19:57 Director Villa introduced himself and noted staff that were involved with the financial statements. Director Villa touched on training that his staff had received and went into detail regarding audit findings.

Committee Questions of the Board of Investments

16:23:57 Rep. Bartel asked Director Villa to elaborate on his request for staff changes.

16:25:41 Rep. Hayman referenced page C1 of the audit report, and asked Director Villa about the board's opposition with the material weakness finding related to the statement of cash flows.

16:27:06 Rep. Hayman asked Director Villa if the material weakness issue would be solved by the next audit.

- 16:27:58 Sen. Brown asked Director Villa about the consultant’s opinion, how much they were paid, and if it was an ongoing contract.
- 16:29:24 Sen. Brown brought up hiring consultants and how much they are paid and asked Director Villa how that impacted staff.
- 16:30:41 Sen. Brown asked Director Villa about how the board disagreed with material weakness and what kind of training the members have had specifically with investment strategies.
- 16:33:03 Rep. Burnett asked Director Villa if he agreed with the auditor that an extra review of GAP coverage could have caught the \$696 million discrepancy.
- 16:34:57 Rep. Hayman asked Director Villa about incomplete credit risk disclosures.
- 16:36:52 Sen. McNally asked Director Villa if the back and forth between his agency and the LAD was discussed at the exit interview.
- 16:41:04 Legislative Auditor Maciver took the podium to expand on what really went on during exit conferences, and noted how the report was in draft form at that time. He also had remarks about what was expected of the LAD as far as auditing standards.
- 16:44:01 Chair McNally stated that she appreciated Director Villa’s comment about learning from the LAD.

Public Comment

None

Motion

- 16:44:50 Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Sen. Brown; **motion carried.**

Vote

- 16:45:03 The motion passed unanimously on a voice vote.

PUBLIC EMPLOYEES' RETIREMENT BOARD (18-08A)

- 16:45:09 Presented by Shandell VanDonsel, CPA, Financial-Compliance Senior Auditor

Present from agency:

Dore Schwinden, Executive Director
Hollie Koehler, Fiscal Services Bureau Chief

Committee Questions of LAD staff

- 16:50:11 Sen. Brown referred to page three of the audit report and asked Ms. VanDonsel to explain the statement “The board expects actuarial gains on investments in the coming years.”
- 15:51:11 Sen. Brown asked Ms. VanDonsel about the Game Wardens’ and Peace Officers’ Retirement System. Ms. VanDonsel stated that would be a question for the agency.

Agency Response

16:52:14 Director Schwinden introduced himself and gave a background information on the audit.

Committee Questions of the Public Employees' Retirement Board

- 16:54:21 Rep. Hayman complimented Director Schwinden on the approach with investments and securing pension benefits for members. But with that said Rep. Hayman asked Director Schwinden what the backup plan was as far as down term or recession.
- 16:56:36 Rep. Hayman referred to her previous question as she felt it wasn't answered and asked Director Schwinden if the market were to go south in six months, was there a cushion to continue to pay out pensions.
- 16:57:41 Rep. Hayman inquired of Director Schwinden what the game plan would be if the market went south in the next year.
- 16:58:25 Sen. Brown asked Director Schwinden about smoothing, or lack thereof.
- 16:59:34 Sen. Brown inquired of Director Schwinden about the two percent employer contribution.
- 17:01:39 Sen. MacDonald asked Director Schwinden about trend lines.
- 17:03:05 Rep. Burnett referred to actuarial gains within the coming years and asked Director Schwinden what the comparable duty on the part of board members was.
- 17:04:15 Rep. Burnett asked Director Schwinden about obviate specificity of 30 years.

Public Comment

None

Motion

- 17:05:09 Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Sen. Keenan; **motion carried.**

Vote

- 17:05:21 The motion passed unanimously on a voice vote.

TEACHERS' RETIREMENT BOARD (18-09A)

- 17:05:45 Presented by Kelly Zwang, CPA, Financial Compliance Senior Auditor

Present from agency:

Shawn Graham, Executive Director
Nolan Brilz, Accounting and Fiscal Manager

Committee Questions of LAD Staff

- 17:11:23 Sen. Brown referred to the 2.7 million dollars that should not have been included in the state supplemental contribution calculation, and asked Ms. Zwang why the audit team hadn't caught that before.
- 17:12:05 Sen. Brown asked Ms. Zwang how much the tax payers, paid into the board.

17:13:02 Rep. Kerr-Carpenter spoke about the vote for the reimbursement of the general fund on the house floor, and asked Ms. Zwang if she thought that would keep the fund actuarially sound and amortized in the right direction.

Agency Response

17:14:06 Director Graham introduced himself along with Mr. Brilz and thanked the LAD staff. Director Graham spoke on the audit on behalf of the board.

17:16:09 Director Graham handed out ([Exhibit 2](#)), a document regarding the Legislative History of HB 59 the 2009 Session.

Committee Questions of the Teachers' Retirement Board

17:19:47 Rep. Hayman asked Executive Director Graham if the 2.7 million would reduce the amortization rate if at all.

Public Comment

None

Motion

17:22:50 Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Sen. Keenan; **motion carried.**

Vote

17:23:04 The motion passed unanimously on a voice vote.

STATE OF MONTANA (17-01B)

17:23:21 Presented by Natalie H. Gibson, CPA, Financial Compliance Audit Manager

Present from agency:

Department of Administration

John Lewis, Director

Cheryl Grey, CPA, Administrator, State Financial Services Division

Cody Pearce, CPA, State Accountant, State Accounting Bureau

Kristin Reynolds, CPA, Manager, State Accounting Financial Reporting

Governor's Office of Budget and Program Planning

Tom Livers, Director

Sonia Powell, CPA, Single Audit Coordinator

Department of Administration Response

17:32:28 Director Lewis introduced himself, welcomed new members, and spoke on the audit.

Governor's Office of Budget and Program Planning Response

17:36:15 Director Livers introduced himself and Ms. Powell and thanked the LAD audit team.

17:40:24 Sen. McNally commented on the report being important and that it was one to keep.

Public Comment

None

Motion

17:41:13 Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Sen. MacDonald; **motion carried.**

Vote

17:41:30 The motion passed unanimously on a voice vote.

17:41:46 Legislative Auditor Maciver took the podium and commented on the importance of the State of Montana Audit and how much work went into it. He also mirrored Chair McNally's comment stating this was the audit to keep for reference.

PERFORMANCE AUDIT FOLLOW-UP

STATE EMPLOYEE HEALTH CLINIC CONTRACT MANAGEMENT AND OVERSIGHT (19SP-05)

17:44:24 Presented by Joe Murray, Deputy Legislative Auditor

18:01:35 Rep. Hayman asked Chair McNally why no one was present from the agency for the follow-up.

18:01:59 Legislative Auditor Maciver reminded the committee that agencies were not typically asked to be present for follow-up audits, but if the committee should have questions they can arrange to have agency representatives available at a future hearing.

18:02:23 Rep. Hayman stated her big issue was no well-baby care and asked Mr. Murray to address that.

18:03:13 Rep. Regier asked Mr. Murray how much the cost was at the time of closure for Miles City.

18:03:42 Rep. Regier stated he was disappointed the agency wasn't present and asked Mr. Murray if the agency had a rebuttal as to why they didn't do a request for proposal.

18:04:58 Rep. Bartel asked Mr. Murray if there were numbers that prove the health centers save the State of Montana money.

18:05:48 Rep. Regier followed up on Rep. Bartel's question and asked Mr. Murray if the answer for whether the health centers saved the State of Montana money or not would be forthcoming.

18:06:39 Chair McNally took the podium and let Rep. Regier know that if the committee wanted a subsequent follow-up that was something that could be asked for.

18:06:48 **Committee Request:** Rep. Regier would like to request that the agency be invited back for a future hearing, and noted that recommendation number two and nine were not answered.

18:07:56 Rep. Regier noted the verbiage “no further action will be taken” for recommendation two, B. and asked Mr. Murray to explain that.

PERFORMANCE AND INFORMATION SYSTEMS SCOPE & OBJECTIVES (Exhibit 3)

Public vs. Private Adult Correctional Facilities

18:09:31 Presented by James Sutcliffe, Performance Auditor

18:16:05 Sen. MacDonald asked Mr. Sutcliffe how to account for differences in population in those different facilities.

Orion (Property Tax and Appraisal System)

18:17:58 Presented by William Hallinan, Information Systems Auditor

INFORMATION SYSTEMS PRIORITIZATION RESULTS CY2019 (Exhibit 4)

18:25:06 Presented by Diedra Murray, Information Systems Audit Manager

18:30:14 Sen. McNally commented that she appreciated the lay out of the assurance work and that it was very interesting.

PERFORMANCE AND INFORMATION SYSTEMS AUDIT UPDATE (Exhibit 5)

FINANCIAL-COMPLIANCE AUDIT UPDATE (Exhibit 6)

18:30:44 Chair McNally took the podium and summarized to committee members the Performance and Information Systems audit update as well as the Financial-Compliance Audit update. Chair McNally opened the hearing up for questions on either of those agenda items for sake of time.

18:32:09 Sen. Keenan noted the Foster Care audit (19P-01), and spoke on the fact that there was pending legislation that could change the scope of the audit.

18:34:33 Legislative Auditor Maciver took the podium and reminded committee members there would not be another committee meeting until June 2019.

ADJOURNMENT

18:35:00 Chair McNally thanked committee members and with no further business the meeting was adjourned at 6:35 p.m.

Committee Secretary _____
Rep. Emma Kerr-Carpenter