



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Department of Labor and
Industry*

*For the Two Fiscal Years Ended
June 30, 2019*

NOVEMBER 2019

LEGISLATIVE AUDIT
DIVISION

19-15

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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, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

November 2019

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Labor and Industry for the two fiscal years ended June 30, 2019. Included in this report are three recommendations. Two recommendations relate to misstatements on the accounting records; one for the Unemployment Insurance Trust Fund cash balance and one related to deposits for workers compensation. The third recommendation relates to awarding grants for underground facilities training and educational programs.

This report also includes the Independent Auditor's Report, the department's financial schedules and notes, and the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters. We issued unmodified opinions on the financial schedules for each of the two fiscal years ended June 30, 2019, and 2018, which means the information presented on the financial schedules can be used for decision-making purposes. The 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* includes two significant deficiencies relating to misstatements we identified over the Unemployment Insurance cash balance and workers compensation plan deposits.

The department's written response to the audit recommendations is included in the audit report at page C-1. We thank the commissioner and department 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 Labor and Industry Galen Hollenbaugh, Commissioner
 Kathleen O’Leary, Deputy Commissioner
 Judy Bovington, Chief Legal Counsel
 Scott Eychner, Administrator, Workforce Services Division
 Todd Younkin, Administrator, Business Standards Division
 Natalie Smitham, Administrator, Centralized Services Division
 Eric Strauss, Administrator, Employment Relations Division
 Brenda Nordlund, Administrator, Unemployment Insurance Division
 George Parisot, Chief Information Officer, Administrator, Technology Services Division
 Rende Mackay, Human Resource Director

Associated Functions David Sandler, Judge, Workers’ Compensation Court
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Administratively Attached Boards and Commissions Unemployment Insurance Appeal Board
 Board of Personnel Appeals
 Human Rights Commission
 Professional and Occupational Licensing Boards

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FINANCIAL-COMPLIANCE AUDIT

Department of Labor and Industry

For the Two Fiscal Years Ended June 30, 2019

NOVEMBER 2019

19-15

REPORT SUMMARY

The Montana Department of Labor and Industry’s (department) mission is to promote and protect the well-being of Montana’s workers, employers, and citizens. The department administers various programs to accomplish this. We identified several million dollar misstatements in both fiscal years on the state’s accounting records for the cash balance and revenue in the Unemployment Insurance Trust Account and an instance of noncompliance related to awarding grants.

Context

The department is tasked with administration of Unemployment Insurance (UI), state wage and hour claims, workers’ compensation, discrimination, state and federal health and safety laws, and enforcement of state and federal labor law. Additionally, the department establishes minimum building codes, completes research on employment statistics, offers job training, provides oversight of federal and state training and apprenticeship programs and administers 37 professional/occupational licensing boards. The department accomplishes this through multiple job service offices across the state, a UI claim processing center, as well as a Helena office housing all other department activities. The department generates and spends over \$200 million each year.

the department’s controls and the many state and federal laws and regulations by which the department must abide. Our work also included testing over the benefits and premium information systems used to administer the UI program. The audit report includes three recommendations to the department related to the UI trust fund cash balance on the state’s accounting records, the awarding of grants related to underground facilities, and a \$4,000,000 private purpose trust fund misstatement. The prior financial audit report contained three recommendations for the department, of which all were fully implemented.

Results

We reviewed UI premium revenue and benefit expenditures, federal revenues, personal services, and the overall reasonableness of the financial schedules. During our review, we obtained an understanding of

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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 Call toll-free 1-800-222-4446, or e-mail LADHotline@mt.gov.

Chapter I – Introduction and Background

Introduction

We performed a financial-compliance audit of the Department of Labor and Industry (department) for the two fiscal years ended June 30, 2019. The objectives of the audit were to:

1. Determine department compliance with selected applicable state and federal laws and regulations.
2. Determine whether the financial schedules present fairly the department's results of operations and changes in fund equity and property held in trust for each of the fiscal years ended June 30, 2019, and June 30, 2018.
3. Determine the implementation status of prior audit recommendations.
4. 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.

This report contains three recommendations related to misstatements on the state's accounting records associated with the cash in the Unemployment Insurance trust fund, awarding grants per state law, and a \$4,000,000 private purpose trust fund misstatement. We focused on significant financial activity of the department including Unemployment Insurance (UI) contributions and premiums, UI benefit payments, personal services, and federal revenue. We also audited the UI program's controls and compliance with federal regulations. Additionally, we determined the department's compliance with various applicable state laws and tested the information systems used to administer the UI program.

Internal Service Funds

In accordance with §17-8-101(6), MCA, we reviewed each of the department's four internal service funds to determine the reasonableness of fees and charges for services and fund equity balances for fiscal years 2018 and 2019. Internal service funds at the department are used to account for services that are performed centrally and then allocated out to each division. To determine whether fees and charges are reasonable and based on cost, we reviewed the relationship between fee revenues collected and expenses incurred in providing the services. To determine the reasonableness of fund equity in each fund, we reviewed working capital in the funds at the end of the fiscal year, as well as fund equity trends. Working capital is defined in state policy as the amount of cash that would remain if all of the current assets were converted, and all current liabilities were paid at their book value. In looking at both working capital and fund equity, we excluded long-term, noncash liability balances related to pension

and other post-employment benefits from our calculations. We used a 60-day working capital reserve as a measure of the reasonableness of fund equity based on state policy and federal guidelines. Table 1 summarizes our determination of the reasonableness of fees and charges and fund equity balances.

Table 1
Internal Service Funds Fees and Fund Equity
FY 2018-19

Fund Name and Description	Fees and Charges Reasonable		Fund Equity Reasonable	
	FY18	FY19	FY18	FY19
Commissioner's Office/Centralized Services Division: Accumulates costs incurred by the Commissioner's Office and Centralized Services Division that are of benefit to all divisions, and allocates those costs amongst the divisions.	No	No	No	No
Administrative Services: Accumulates legal costs incurred for activity at the department, and allocates those costs amongst the programs at the department.	No	Yes	Yes	Yes
Technical Services: Accumulates costs incurred for providing information technology and related support services to all divisions, such as technical services, network services, help desk, project management, and application services including computer programming and database management, and allocates those costs to the divisions.	No	Yes	Yes	Yes
Technical Services Direct: Accumulates costs for information technology expenditures that are related to a specific division, such as Information Technology Services Division charges, software purchases, and contract payments.	Yes	Yes	Yes	Yes

Source: Compiled by the Legislative Audit Division.

Commissioner's Office/Centralized Services Division: As indicated on the table above, fees were not commensurate with costs during the audit period and fund equity was not reasonable. Revenues exceeded expenditures by \$381,639 and \$200,349 in fiscal years 2018 and 2019, respectively. This resulted in an ending fund equity, adjusted for noncash activities such as Other Post Employment Benefits, of \$777,611 and \$845,922 and a 77- and 78-day working capital, for each of these fiscal years, respectively. Department personnel stated that during the year they had a position open which resulted in less expenditures than originally estimated. This position was not filled until part way through fiscal year 2019. Additionally, costs to upgrade their electronic management system were expected in fiscal years 2018 and 2019, however the projects were not completed as anticipated. Department personnel anticipate excess revenue and fund equity will be alleviated as the position is now filled and the

electronic management system is on track for completion. The department projects that any excess will be used up in fiscal year 2020, however the department continues to monitor to determine if a fee decrease is necessary.

Administrative Services and Technical Services: As indicated on the table above, both of these funds had revenue that exceeded expenditures in fiscal year 2018. The department monitored these funds and took action in fiscal year 2019 as described below. For the Administrative Services Fund, legal staff received market pay adjustments which resulted in higher expenditures in fiscal year 2019, aligning expenditures more closely with revenues. For the Technical Services Fund, there are several rates charged. One rate is distributed to all divisions on a per full-time equivalent (FTE) basis and another is an hourly rate charged for specific projects. The rates approved by the legislature were \$266 per FTE and \$84 per hour for both fiscal year 2018 and 2019. In managing the fund, the department charged less than these rates. The actual rates charged were \$240 and \$242 per FTE and \$76 and \$72 per hour for fiscal year 2018 and 2019, respectively.

Because the department is actively managing its internal service funds in an effort to comply with the requirement in state law, we make no recommendation to the department at this time.

Background

The department operates as part of a national employment, unemployment insurance, and job training system that assists individuals in preparing for and finding work. The department assists employers in finding workers and pays workers unemployment benefits if they are temporarily unemployed through no fault of their own. The department enforces federal and state labor and wage and hour, workers' compensation, discrimination, and state and federal health and safety laws. In addition, the department conducts research, collects statistics, and provides rulings in labor management disputes. The department also administers building codes enforcement, weights and measures, and professional and occupational licensing. The department has a Commissioner's Office, six divisions, and two administratively attached units. A brief description of each is below followed by Table 3 on page 7, which indicates the FTE for each division.

Commissioner's Office: The Commissioner's Office is responsible for the overall administration of the department, including direction and program focus. The office provides administrative and support services to the department. The office provides legal, personnel-related, and administrative hearing and dispute resolution services for the department and administratively attached boards and commissions.

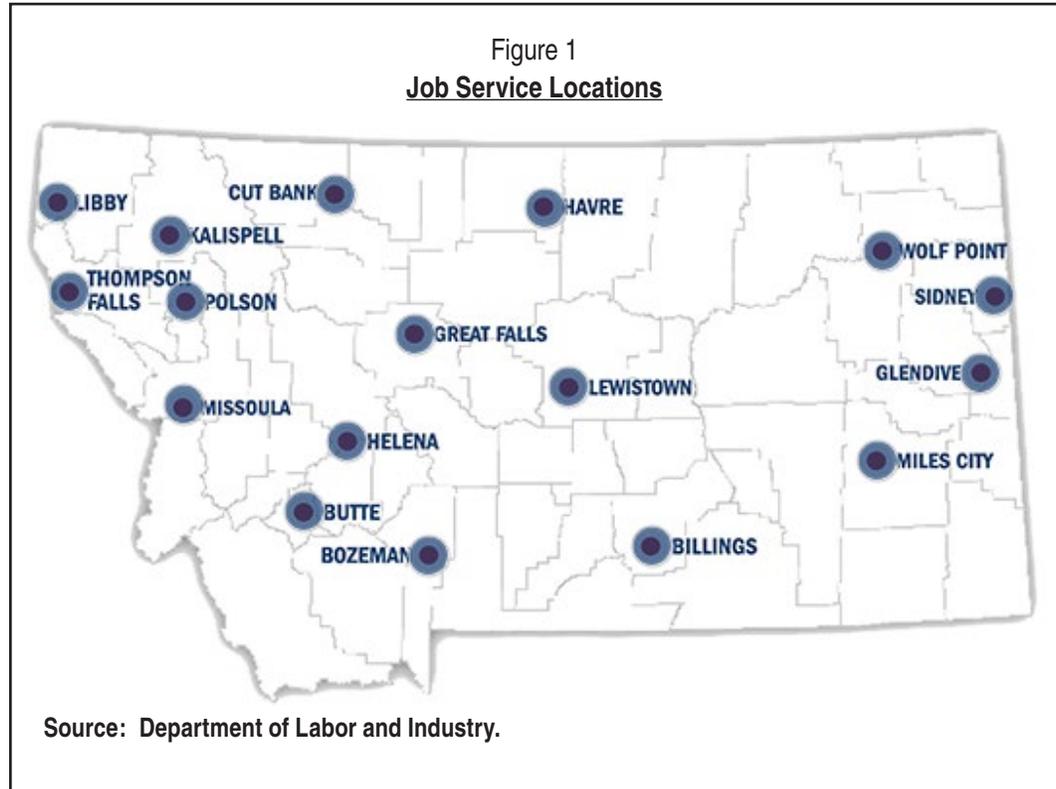
Centralized Services Division: Centralized Services provides central services including payroll, accounting, purchasing, budgeting, and general services.

Employment Relations Division: Employment Relations administers and enforces federal and state wage and hour, labor relations, workers' compensation, workplace safety, contractor registration, and human rights statutes. In addition, both the Board of Personnel Appeals and Human Rights Commission, which are administratively attached to the department, are part of this division.

Unemployment Insurance Division: Unemployment Insurance administers the state's unemployment insurance laws and related federal programs. The division operates through the Contributions, Program Support, and Claims Processing Bureaus. The economic condition of the state drives activity in this division. During the audit period, the department was able to move to the lowest rate schedule thereby reducing employer premiums.

The Unemployment Insurance Appeal Board, which is administratively attached to the department, is part of this division. The board acts in a quasi-judicial capacity for the hearing of disputes concerning the administration of Montana's unemployment insurance laws.

Workforce Services Division: Workforce Services is designed to be a gateway to government services that include retraining and re-employment services for laid-off workers and employment and training services for people transitioning from welfare to work, as well as for youth, veterans, seasonal/migrant farm workers, and general job seekers. The division coordinates and guides the delivery of workforce development services to communities through a network of job service centers across the state. It also performs oversight, regulatory, registration, and support functions for state and federal workforce programs including the State Displaced Homemaker program, Workforce Innovation and Opportunity Act, Apprenticeship and Training, and Jobs for Montana Graduates. In addition, the division provides labor market information used at the national and state level by businesses, policy makers, and educators. In 2017, the department closed the Glasgow, Shelby, and Livingston offices for budget reasons. Additional offices in Anaconda, Dillon, and Hamilton were closed in 2018. The department has 17 remaining job service offices in 2019 as shown in Figure 1 (see page 5).



Business Standards Division: Business Standards oversees professional and occupational licensing, weights and measures, and building codes administration. There are 37 licensing boards and programs and the Prescription Drug Registry under the Professional Licensing and Building and Commercial Measurements Bureaus as shown in Table 2 (see page 6).

Table 2
Professional and Occupational Licensing Boards

Alternative Health Care	Fire Prevention Licensure	Plumbers
Architects and Landscape Architects	Funeral Service	Private Security & Investigations
Athletic Trainers	Hearing Aid Dispensers	Professional Engineers & Land Surveyors
Barbers and Cosmetologists	Massage Therapy	Psychologists
Behavioral Health	Medical Examiners	Public Accountants
Boiler Operator Program	Nursing	Radiologic Technologists
Chiropractors	Nursing Home Administrators	Real Estate Appraisers
Clinical Laboratory Science Practitioners	Occupational Therapists	Realty Regulation
Construction Blasters Program	Optometry	Respiratory Care Practitioners
Crane/Hoisting Operator Program	Outfitters	Sanitarians
Dentistry	Pharmacy	Speech-Language Pathologists and Audiologists
Electrical	Physical Therapy Examiners	Veterinary Medicine
Elevator Contractors, Mechanics, and Inspectors Licensing Program		

Source: Department of Labor and Industry.

Technology Services Division: Technology Services provides technical services, network services, help desk, project management, security, infrastructure, and application services including computer programming and database management.

Workers' Compensation Court: The court provides a legal forum for Montana's employees and the insurance industry to resolve disputes arising out of work-related injuries and occupational disease.

Office of Community Services: The office administers federal programs including AmeriCorps and Campus Corps and coordinates community service and volunteer efforts statewide.

The FTE employees were allocated as shown in the following table. The current FTE level is 31.08 FTE less than at June 30, 2017, due to legislative reductions.

Table 3
Full-Time Equivalent Employees
at June 30, 2019

Location	HB2 Funded FTE	Proprietary Funded FTE	Total FTE
Centralized Services Division/ Commissioner's Office	10.50	54.75	65.25
Employment Relations Division	118.98		118.98
Unemployment Insurance Division	148.61		148.61
Workforce Services Division	238.00		238.00
Business Standards Division	134.89		134.89
Technology Services Division		54.00	54.00
Workers' Compensation Court	7.00		7.00
Office of Community Services	4.00		4.00
Totals	661.98	108.75	770.73

Source: Compiled by the Legislative Audit Division.

Prior Audit Recommendations

The prior audit report included three recommendations to the department. Two recommendations related to noncompliance with federal Unemployment Insurance requirements and one recommendation related to the defunct boxing program. All three recommendations were implemented. The department implemented controls over the federal requirements and we found no further noncompliance during the current audit. Chapter 51, Laws of 2019, repealed the boxing program.

Chapter II – Findings and Recommendations

Unemployment Trust Fund Cash Balance

The cash balance in the Unemployment Insurance Fund was understated by \$2 million in each fiscal year.

The Department of Labor and Industry (department) administers the Unemployment Insurance (UI) program which is a federal and state funded insurance program. The department collects unemployment insurance premiums from employers in the state and provides state and federal UI benefits to eligible individuals. The structure of the UI program is based on federal statute; however, it is implemented through state law. State unemployment insurance taxes are paid by employers and remitted to the federal UI trust fund, where each state has a separate account for covering normal unemployment insurance benefits. We will refer to this as the state's trust fund account. UI premiums are set annually by the state based on the trust fund reserve amount as required by §39-51-1217, MCA.

The federal government provides a monthly report that shows all deposits and withdrawals from the state's trust fund account. In addition to deposits for UI taxes from employers and withdrawals for payments of benefits to claimants, the fund also earns interest on a quarterly basis.

We compared the June 30, 2018, and June 30, 2019, cash balances on the state's accounting system to the federal report for the state's trust fund account for the fiscal year ending balance. We noted differences for both fiscal year-ends resulting in misstatements on the accounting records.

The June 30, 2018, cash balance, as well as contribution revenue, was understated by \$2,761,957. Department personnel noted that this error occurred as a result of staff turnover. The prior staff member reconciled the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) account balance to the federal report on the state's trust fund account each month. This procedure was not documented and therefore not continued when the new employee was hired. When we brought this to the department's attention, they identified a month where entries on SABHRS were recorded backwards.

At June 30, 2019, the cash balance and investment revenue were understated by \$2,067,401. Department personnel preparing a required federal report noted the SABHRS balance did not agree to the federal UI trust fund balance report for the

state's trust fund account. The quarterly interest was posted to the state's trust fund account on June 30, 2019, and during the busy fiscal year-end period had not been recorded on SABHRS. While the department caught this error, it was not detected until fiscal year 2020, at which time it was too late to correct the balance on SABHRS for fiscal year 2019.

State law requires all state agencies to input all necessary transactions on the state's accounting records prior to fiscal year-end to present the receipt, use, and disposition of all money the agency is accounting for in accordance with Generally Accepted Accounting Principles (GAAP). State accounting policy further states that agency management is responsible for establishing agency internal controls to facilitate compliance with GAAP. The department should implement procedures to reconcile the cash balance on SABHRS with the monthly federal report for the state's UI trust fund account prior to fiscal year-end to ensure the two match or any discrepancies are detected in a timely manner. Given the misstatements in both fiscal years, we consider this internal control deficiency to be a significant deficiency for financial reporting purposes and it is reported in our 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* on page B-1.

RECOMMENDATION #1

We recommend the Department of Labor and Industry implement controls to reconcile the Unemployment Insurance (UI) cash balance on the State's accounting records to the monthly federal UI trust balance report.

Underground Facilities Grants

The department did not award grants to notification centers contracting with underground facility owners, as required by state law.

An underground facility is a facility buried or placed below ground related to storage of matters such as water, sewer, telegraphic communications, oil, gas, fiber optics, or cablevision. Notification centers are entities within a designated service area that provide the location of underground facilities prior to digging to prevent damage to the underground facilities, service interruptions, or bodily injury.

Chapter 326, Laws of the 2017 Regular Legislative Session, enacted several laws related to underground facilities and notification centers. These laws, specifically §69-4-528, MCA, placed several requirements on the department, including developing rules and awarding grants to notification centers beginning in January 2018. The grants to the notification centers are for the purpose of funding training and educational programs and materials for excavators, underground facility owners, and the general public. The grants are funded primarily with annual fees paid by underground facility owners based on the number of locate requests received from a notification center in the previous 12-month period.

State law requires annual grant awards beginning January 1, 2018, in accordance with law and adopted rules. While the department adopted rules effective September 8, 2018, as of August 2019, the department had not yet awarded any grants. The department cited the nature of the new program as the reason grants have been delayed. The department has developed an application and provided it to notification centers in June of 2019. The department has since received a completed application and pending final approval, a grant will be awarded for around \$44,000 in the fall of 2019. As a result in the delay of awarding these grants, training and educational programs that could prevent digging that results in damage to the underground facilities, service interruptions, or bodily injury are also delayed.

RECOMMENDATION #2

We recommend the Department of Labor and Industry comply with state law by awarding grants to notification centers as required by §69-4-528, MCA.

Workers' Compensation Security Deposits

The department recorded an entry on the state's accounting records which overstated benefits and claims in the Employment Relations Division and understated ending fund equity in the private purpose trust fund by \$4 million in fiscal year 2019.

The department administers Compensation Plan Number One (Plan 1) within the Workers' Compensation Act established in Title 39, Chapter 71 of the Montana Code Annotated. Plan 1 is for employers electing to self insure. As such, §39-71-2106, MCA, requires employers to provide a security deposit to the department. The deposit is available to the department if needed to pay workers compensation costs in the event an employer is liable and not otherwise able to pay.

The department maintains a spreadsheet of all security deposits on hand for the plan. In fiscal year 2019, a deposit was accidentally deleted from the spreadsheet resulting in department accounting staff recording an entry removing the deposit from the state's accounting records. Upon request for support for the entry, department staff realized the deposit had been deleted in error from the spreadsheet and an entry should not have been recorded on the state's accounting records. A correcting entry was then processed, but it occurred in fiscal year 2020.

As a result, on the fiscal year 2019 Schedule of Expenditures & Transfers-Out, Benefits and Claims from Other Sources in the Employment Relations Division is overstated by \$4,000,000. Nonbudgeted Expenditures & Transfers-Out in the Private Purpose Trust Fund on the Schedule of Changes in Fund Equity & Property Held in Trust is overstated and ending fund equity is understated by the same amount. As the department expended over \$213 million in fiscal year 2019, this misstatement represents approximately 2 percent of total expenditures and does not impact the opinion issued on the financial statements.

Department staff noted that a reconciliation between the spreadsheet and the state's accounting records is completed prior to year-end. This reconciliation indicated the state's accounting records differed from the spreadsheet by \$4,000,000. Additional support for why the \$4,000,000 deposit was deleted was not provided to support the accounting entry. While the department has additional controls in place to annually select security deposits from the spreadsheet and trace them back to the physical instruments held in their vault, this would not have caught the error since the deposit had been removed from the spreadsheet. The security instrument was not removed from the vault.

While the department has controls in place, they did not prevent or detect this misstatement. Therefore, we consider this internal control deficiency to be a significant deficiency for financial reporting purposes and it is reported in our 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* on page B-1.

RECOMMENDATION #3

We recommend the Department of Labor and Industry enhance controls to ensure the Compensation Plan Number One security deposit spreadsheet that supports the state's accounting records is accurate and complete.

Independent Auditor's Report and Department Financial Schedules

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



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Labor and Industry for each of the fiscal years ended June 30, 2019, and 2018, 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, 2019, and June 30, 2018, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Department of Labor and Industry for each of the fiscal years ended June 30, 2019, and 2018, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2019, on our consideration of the Department of Labor & Industry's internal 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 department's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

September 6, 2019

DEPARTMENT OF LABOR & INDUSTRY
 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	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2018							
PROPERTY HELD IN TRUST: July 1, 2018	<u>(73,215)</u>	<u>40,327,339</u>	<u>366,585</u>	<u>310,232,930</u>	<u>(5,600,970)</u>	<u>0</u>	<u>32,469,500</u>
ADDITIONS							
Budgeted Revenues & Transfers-In	38,802	55,067,756	31,241,301	144,447,450	16,905,732		
Nonbudgeted Revenues & Transfers-In		1,553,943	4,276	229	6		2,276,000
Prior Year Revenues & Transfers-In Adjustments	(250)	(21,924)	21,413	2,789,484	62,531		
Direct Entries to Fund Equity	1,746,963	626	(140)	(109,195)	78,595		
Additions to Property Held in Trust						338,607	
Total Additions	<u>1,785,515</u>	<u>56,600,401</u>	<u>31,266,850</u>	<u>147,127,968</u>	<u>17,046,864</u>	<u>338,607</u>	<u>2,276,000</u>
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	1,789,080	49,406,534	31,236,425	108,727,471	17,584,600		
Nonbudgeted Expenditures & Transfers-Out	(3,762)	545,318		(1,692,917)	906,255		4,000,000
Prior Year Expenditures & Transfers-Out Adjustments	(4)	(43,665)	(7,916)	1,202,019	9,194		
Reductions in Property Held in Trust						417,026	
Total Reductions	<u>1,785,314</u>	<u>49,908,187</u>	<u>31,228,509</u>	<u>108,236,573</u>	<u>18,500,049</u>	<u>417,026</u>	<u>4,000,000</u>
FUND EQUITY: June 30, 2019	<u>(73,014)</u>	<u>47,019,553</u>	<u>404,926</u>	<u>349,124,325</u>	<u>(7,054,155)</u>	<u>0</u>	<u>30,745,500</u>
PROPERTY HELD IN TRUST: June 30, 2019						<u>90,228</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-9.

DEPARTMENT OF LABOR & INDUSTRY
 SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2017	(12,706)	35,456,445	284,431	297,669,458	(4,774,640)	0	32,387,500
PROPERTY HELD IN TRUST: July 1, 2017						153,659	
ADDITIONS							
Budgeted Revenues & Transfers-In	29,494	53,929,161	30,284,007	127,532,111	16,119,809		
Nonbudgeted Revenues & Transfers-In		467,779	91,057	2,981	117,605		
Prior Year Revenues & Transfers-In Adjustments	1,278	(30,617)	204,941	9,843	8,280		82,000
Direct Entries to Fund Equity	1,474,194	8,842	(2,019)	603,692	(629,970)		
Additions to Property Held in Trust						477,046	
Total Additions	1,504,966	54,375,165	30,577,986	128,148,627	15,615,724	477,046	82,000
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	1,566,869	47,135,594	30,458,828	115,073,725	16,064,491		
Nonbudgeted Expenditures & Transfers-Out	(1,440)	2,375,310		(368,889)	407,014		
Prior Year Expenditures & Transfers-Out Adjustments	47	(6,632)	17,003	880,318	(29,451)		
Reductions in Property Held in Trust						462,059	
Total Reductions	1,565,476	49,504,272	30,475,831	115,585,154	16,442,054	462,059	0
FUND EQUITY: June 30, 2018	(73,216)	40,327,398	366,586	310,232,931	(5,600,970)	0	32,469,500
PROPERTY HELD IN TRUST: June 30, 2018						168,646	

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

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Licenses and Permits		\$ 19,006,321	\$	313,638		\$	19,319,959
Taxes			4,276				4,276
Charges for Services		2,796,984	56,881	22,240	13,673,719		16,549,823
Investment Earnings		269,405		6,013,679			6,283,085
Fines and Forfeits	\$ 38,552	1,581,162	757,410	152,085			2,529,210
Sale of Documents, Merchandise and Property		62,735		1,830			64,565
Rentals, Leases and Royalties		28,064					28,064
Contributions and Premiums		29,290,605		133,223,961			162,514,566
Grants, Contracts, and Donations		437,781		189		2,276,000	2,713,970
Transfers-in		2,816,037					2,816,037
Capital Asset Sale Proceeds		70,637					70,637
Inception of Lease/Installment Contract		231,338					231,338
Federal Indirect Cost Recoveries					3,294,544		3,294,544
Miscellaneous		8,706			6		8,712
Federal			30,448,423	7,509,541			37,957,964
Total Revenues & Transfers-In	38,552	56,599,775	31,266,990	147,237,163	16,968,269	2,276,000	254,366,748
Less: Nonbudgeted Revenues & Transfers-In		1,553,943	4,276	229	6		3,834,454
Prior Year Revenues & Transfers-In Adjustments	(250)	(21,924)	21,413	2,789,484	62,531		2,851,254
Actual Budgeted Revenues & Transfers-In	38,802	55,067,756	31,241,301	144,447,450	16,905,732	0	247,701,040
Estimated Revenues & Transfers-In	31,000	56,160,333	34,661,942	140,543,811	17,848,649		249,245,735
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 7,802	\$ (1,092,577)	\$ (3,420,641)	\$ 3,903,639	\$ (942,917)	\$ 0	\$ (1,544,695)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Licenses and Permits		\$ 863,911	\$	(75,838)		\$	788,074
Taxes		(657)	(5,052)				(5,709)
Charges for Services		266,703	(14,119)		386,812		637,836
Investment Earnings		187,221		(917,947)			(730,726)
Fines and Forfeits	\$ 7,802	(957,421)	126,410	7,085			(816,123)
Sale of Documents, Merchandise and Property		85		(7,831)			(7,746)
Rentals, Leases and Royalties		(29,249)					(29,249)
Contributions and Premiums		934,777		11,124,018			12,058,793
Grants, Contracts, and Donations		(800)		89			(711)
Transfers-in		(2,349,549)	(919,965)				(3,269,514)
Capital Asset Sale Proceeds		(7,423)					(7,423)
Federal Indirect Cost Recoveries					(1,329,729)		(1,329,729)
Miscellaneous		(175)					(175)
Federal			(2,607,915)	(6,224,377)			(8,832,292)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 7,802	\$ (1,092,577)	\$ (3,420,641)	\$ 3,903,639	\$ (942,917)	\$ 0	\$ (1,544,695)

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-9.

DEPARTMENT OF LABOR & INDUSTRY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Licenses and Permits		\$ 19,472,058	\$	216,923		\$	19,688,981
Taxes			2,870				2,870
Charges for Services		2,347,337	73,039	17,750	12,276,839		14,714,965
Investment Earnings		145,883		6,981,105			7,126,988
Fines and Forfeits	\$ 29,362	1,483,211	729,822	159,409			2,401,804
Monetary Settlements		88					88
Sale of Documents, Merchandise and Property		60,668		2,930			63,598
Rentals, Leases and Royalties		114,476					114,476
Contributions and Premiums		27,470,903		113,154,941			140,625,844
Grants, Contracts, and Donations	1,410	392,254		2,878	117,605	82,000	596,147
Transfers-in		2,838,031	909,589				3,747,620
Capital Asset Sale Proceeds		8,490					8,490
Inception of Lease/Installment Contract		31,376			3,851,250		3,882,626
Federal Indirect Cost Recoveries							
Miscellaneous		1,548	32				1,580
Federal			28,864,853	7,008,999			35,873,852
Total Revenues & Transfers-In	30,772	54,366,323	30,580,005	127,544,935	16,245,694	82,000	228,849,729
Less: Nonbudgeted Revenues & Transfers-In		467,779	91,057	2,981	117,605	82,000	761,422
Prior Year Revenues & Transfers-In Adjustments	1,278	(30,617)	204,941	9,843	8,280		193,725
Actual Budgeted Revenues & Transfers-In	29,494	53,929,161	30,284,007	127,532,111	16,119,809	0	227,894,582
Estimated Revenues & Transfers-In	131,000	55,417,549	37,150,373	136,782,311	17,828,798		247,310,031
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>(101,506)</u>	<u>(1,488,388)</u>	<u>(6,866,366)</u>	<u>(9,250,200)</u>	<u>(1,708,989)</u>	<u>0</u>	<u>(19,415,449)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Licenses and Permits		\$ 1,305,189	\$	(173,078)		\$	1,132,111
Taxes		(657)	(5,052)				(5,709)
Charges for Services		(185,773)	(748)	(6,050)	(942,075)		(1,134,647)
Investment Earnings		84,437		103,234			187,671
Fines and Forfeits	\$ (1,638)	(1,055,034)	96,832	(6,731)			(935,431)
Sale of Documents, Merchandise and Property		(2,102)					(8,833)
Rentals, Leases and Royalties		(496)					(496)
Contributions and Premiums		512,912		(2,791,611)			(2,278,699)
Grants, Contracts, and Donations	(99,868)	(16,591)	(430,852)	(100)			(116,559)
Transfers-in		(2,118,548)			(766,913)		(2,549,400)
Capital Asset Sale Proceeds		(10,000)					(10,000)
Federal Indirect Cost Recoveries			(468)				(468)
Miscellaneous		(1,725)	(6,526,078)				(8,251,803)
Federal			(6,866,366)	(9,250,200)	(1,708,989)	0	(12,926,351)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>(101,506)</u>	<u>(1,488,388)</u>	<u>(6,866,366)</u>	<u>(9,250,200)</u>	<u>(1,708,989)</u>	<u>0</u>	<u>(19,415,449)</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-9.

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

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Business Standards Division	Commissioners Office & CSD	Employment Relations Division	Office of Community Services	Technology Services Division	Unemployment Insurance Division	Workers Compensation Court	Workforce Services Division	Total
Personal Services									
Salaries	\$ 6,544,718	\$ 4,005,099	\$ 6,602,160	\$ 262,107	\$ 3,083,830	\$ 6,471,476	\$ 436,953	\$ 11,722,016	\$ 39,128,359
Other Compensation	105,000		5,688			5,250		300	116,238
Employee Benefits	2,649,760	1,140,987	2,533,034	113,544	842,118	2,854,217	161,311	5,052,025	15,346,996
Personal Services-Other	(4,968)	88,388			(4,607)				78,813
Total	9,294,510	5,234,474	9,140,882	375,651	3,921,341	9,330,943	598,264	16,774,341	54,670,406
Operating Expenses									
Other Services	1,026,694	548,137	434,497	37,699	4,686,285	685,892	8,428	313,035	7,740,667
Supplies & Materials	509,017	98,678	251,002	21,588	795,890	53,287	6,435	302,430	2,038,327
Communications	168,331	48,644	185,744	13,140	791,820	477,089	5,626	182,116	1,872,510
Travel	337,346	53,773	249,618	67,506	37,189	62,320	8,174	330,459	1,146,385
Rent	465,453	305,539	589,787	25,388	158,701	364,140	39,980	710,570	2,659,558
Utilities	3,627		5,519		24	23,259	3,648	110,810	146,887
Repair & Maintenance	125,784	11,925	22,666	249	4,311	77,105	4,162	327,218	573,420
Other Expenses	4,698,249	1,183,149	2,461,970	127,215	385,811	2,895,885	85,444	4,303,375	16,141,098
Total	7,334,501	2,249,845	4,200,803	292,785	6,860,031	4,638,977	161,897	6,580,013	32,318,852
Equipment & Intangible Assets									
Equipment	233,794							5,139	238,933
Intangible Assets			72,216					1,441,435	1,513,651
Total	233,794		72,216					1,446,574	1,752,584
Capital Outlay									
Buildings								77,144	77,144
Other Improvements		(527)				(6,276)		32,670	25,867
Total		(527)				(6,276)		109,814	103,011
Grants									
From State Sources								337,203	337,203
From Federal Sources				3,364,111				4,995,424	8,359,535
Total				3,364,111				5,332,627	8,696,738
Benefits & Claims									
To Individuals			1,971,610			108,507,128			110,478,738
From State Sources			40,313						40,313
From Other Sources			4,000,000						4,000,000
Insurance Payments			(632,831)						(632,831)
Total			5,379,092			108,507,128			113,886,220
Transfers-out									
Fund transfers	31,085		115,421	222,329				310,295	679,130
Mandatory Transfers		11							11
Total	31,085	11	115,421	222,329				310,295	679,141
Debt Service									
Loans								14,870	14,870
Capital Leases	44,719	2,900	34,001	1,489	1,816	35,451	1,730	105,370	227,476
Total	44,719	2,900	34,001	1,489	1,816	35,451	1,730	120,240	242,346
Post Employment Benefits									
Other Post Employment Benefits	460	14,499			12,682				27,641
Employer Pension Expense	(46,919)	717,121			611,491				1,281,693
Total	(46,459)	731,620			624,173				1,309,334
Total Expenditures & Transfers-Out	\$ 16,892,150	\$ 8,218,323	\$ 18,942,415	\$ 4,256,365	\$ 11,407,361	\$ 122,506,223	\$ 761,891	\$ 30,673,904	\$ 213,658,632
EXPENDITURES & TRANSFERS-OUT BY FUND									
General Fund		287,026	1,350,312	147,983		(4)		(3)	1,785,314
State Special Revenue Fund	16,626,486	307,868	11,954,055	64,338		5,460,827	761,891	14,732,722	49,908,187
Federal Special Revenue Fund	2,080	530,741	1,170,769	4,044,044		9,542,157		15,938,718	31,228,509
Enterprise Fund	263,584		467,279			107,503,243		2,467	108,236,573
Internal Service Fund		7,092,688			11,407,361				18,500,049
Private Purpose Trust Fund			4,000,000						4,000,000
Total Expenditures & Transfers-Out	16,892,150	8,218,323	18,942,415	4,256,365	11,407,361	122,506,223	761,891	30,673,904	213,658,632
Less: Nonbudgeted Expenditures & Transfers-Out	150,800	537,421	3,539,926	64,018	367,836	(1,008,796)	(1,282)	104,972	3,754,895
Prior Year Expenditures & Transfers-Out Adjustments	(44,948)	3,175	41,776	22,430	5,553	1,219,538	(70)	(87,827)	1,159,627
Actual Budgeted Expenditures & Transfers-Out	16,786,298	7,677,727	15,360,713	4,169,917	11,033,972	122,295,481	763,243	30,656,759	208,744,110
Budget Authority	17,705,759	9,403,302	16,952,814	4,287,467	11,422,756	153,627,306	766,952	38,008,982	252,175,338
Unspent Budget Authority	\$ 919,461	\$ 1,725,575	\$ 1,592,101	\$ 117,550	\$ 388,784	\$ 31,331,825	\$ 3,709	\$ 7,352,223	\$ 43,431,228
UNSPENT BUDGET AUTHORITY BY FUND									
General Fund		295	2,852	1					3,148
State Special Revenue Fund	899,953	1,155,578	1,057,217	12,388		1,347,484	3,709	2,451,031	6,927,360
Federal Special Revenue Fund	18,303	232,982	103,766	105,161		3,080,586		4,895,498	8,436,296
Enterprise Fund	1,205		428,266			26,903,755		5,694	27,338,920
Internal Service Fund		336,720			388,784				725,504
Unspent Budget Authority	\$ 919,461	\$ 1,725,575	\$ 1,592,101	\$ 117,550	\$ 388,784	\$ 31,331,825	\$ 3,709	\$ 7,352,223	\$ 43,431,228

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DEPARTMENT OF LABOR & INDUSTRY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Business Standards Division	Commissioners Office & CSD	Employment Relations Division	Office of Community Services	Technology Services Division	Unemployment Insurance Division	Workers Compensation Court	Workforce Services Division	Total
Personal Services									
Salaries	\$ 6,181,255	\$ 3,782,330	\$ 6,435,648	\$ 221,978	\$ 2,925,062	\$ 6,592,726	\$ 415,491	\$ 12,002,335	\$ 38,556,825
Other Compensation	108,650		4,533			5,350		350	118,883
Employee Benefits	2,369,361	1,006,863	2,280,456	85,284	752,207	2,646,487	137,026	4,770,147	14,047,831
Personal Services-Other	5,703	(36,293)			22,937				(7,653)
Total	8,664,969	4,752,900	8,720,637	307,262	3,700,206	9,244,563	552,517	16,772,832	52,715,886
Operating Expenses									
Other Services	1,043,561	553,387	365,397	9,141	4,062,130	750,892	16,752	342,451	7,143,711
Supplies & Materials	280,669	87,219	283,760	33,489	571,409	114,131	6,435	125,547	1,502,659
Communications	184,796	48,741	198,097	2,625	791,211	520,875	4,994	247,087	1,998,426
Travel	321,826	42,560	232,393	32,515	26,549	77,893	10,858	266,526	1,011,120
Rent	456,875	296,822	616,756	24,439	156,544	385,200	41,042	748,497	2,726,175
Utilities	4,098		3,823			24,642	2,957	114,144	149,664
Repair & Maintenance	100,184	5,742	30,061	201	14,702	56,135	3,421	304,817	515,263
Other Expenses	5,177,973	1,000,184	2,256,995	112,777	367,749	4,164,425	78,031	4,699,116	17,857,250
Total	7,569,982	2,034,655	3,987,282	215,187	5,990,294	6,094,193	164,490	6,848,185	32,904,268
Equipment & Intangible Assets									
Equipment	167,162								167,162
Intangible Assets					(7,597)	600,827			593,230
Total	167,162				(7,597)	600,827			760,392
Capital Outlay									
Buildings						(20,500)		(11,659)	(32,159)
Other Improvements		50,775				6,276			57,051
Total		50,775				(14,224)		(11,659)	24,892
Grants									
From State Sources								406,883	406,883
From Federal Sources				2,982,207				5,014,095	7,996,302
Total				2,982,207				5,420,978	8,403,185
Benefits & Claims									
To Individuals			1,782,829			113,258,064			115,040,893
From State Sources			50,050						50,050
Insurance Payments			(46,057)						(46,057)
Total			1,786,822			113,258,064			115,044,886
Transfers-out									
Fund transfers	2,020,627	1,256	58,444	193,319				172,079	2,445,725
Mandatory Transfers		22							22
Total	2,020,627	1,278	58,444	193,319				172,079	2,445,747
Debt Service									
Loans								104,819	104,819
Capital Leases	55,705	3,401	27,570	1,185	1,375	36,359	1,255	108,061	234,911
Total	55,705	3,401	27,570	1,185	1,375	36,359	1,255	212,880	339,730
Post Employment Benefits									
Other Post Employment Benefits	578	14,296			12,318				27,192
Employer Pension Expense	21,658	461,066			423,885				906,609
Total	22,236	475,362			436,203				933,801
Total Expenditures & Transfers-Out	\$ 18,500,681	\$ 7,318,371	\$ 14,580,755	\$ 3,699,160	\$ 10,120,481	\$ 129,219,782	\$ 718,262	\$ 29,415,295	\$ 213,572,787
EXPENDITURES & TRANSFERS-OUT BY FUND									
General Fund		\$ 244,255	\$ 1,198,014	\$ 123,214	\$ (4)		\$ (3)		\$ 1,565,476
State Special Revenue Fund	\$ 18,003,441	257,985	10,982,020	72,595	(1,802)	4,946,083	718,262	14,525,688	49,504,272
Federal Special Revenue Fund	108,312	496,392	1,048,131	3,503,351		10,431,685		14,887,960	30,475,831
Enterprise Fund	388,928		1,352,590			113,842,014		1,650	115,585,154
Internal Service Fund		6,319,739			10,122,315				16,442,054
Total Expenditures & Transfers-Out	18,500,681	7,318,371	14,580,755	3,699,160	10,120,481	129,219,782	718,262	29,415,295	213,572,787
Less: Nonbudgeted Expenditures & Transfers-Out	2,045,534	206,409	78,496	72,323	198,289	(340,960)	(642)	152,545	2,411,994
Prior Year Expenditures & Transfers-Out Adjustments	14,703	(377)	3,758	2,207	(29,412)	879,161	(172)	(8,583)	861,285
Actual Budgeted Expenditures & Transfers-Out	16,440,444	7,112,339	14,498,501	3,624,630	9,951,604	128,681,581	719,076	29,271,333	210,299,508
Budget Authority	17,538,599	10,490,616	16,186,720	3,815,283	10,528,838	153,987,759	734,152	39,654,608	252,936,575
Unspent Budget Authority	\$ 1,098,155	\$ 3,378,277	\$ 1,688,219	\$ 190,653	\$ 577,234	\$ 25,306,178	\$ 15,076	\$ 10,383,275	\$ 42,637,067
UNSPENT BUDGET AUTHORITY BY FUND									
General Fund		\$ 113	\$ 7	\$ 4					\$ 124
State Special Revenue Fund	\$ 1,047,876	2,202,350	1,357,109	12,388		1,480,856	15,076	2,188,249	8,303,904
Federal Special Revenue Fund	42,835	482,925	126,962	178,261		2,916,858		8,188,515	11,936,356
Enterprise Fund	7,444		204,141			20,908,464		6,511	21,126,560
Internal Service Fund		692,889			577,234				1,270,123
Unspent Budget Authority	\$ 1,098,155	\$ 3,378,277	\$ 1,688,219	\$ 190,653	\$ 577,234	\$ 25,306,178	\$ 15,076	\$ 10,383,275	\$ 42,637,067

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-9.

Department of Labor and Industry
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2019

1. Summary of Significant Accounting Policies

Basis of Accounting

The Department of Labor & Industry (the department) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, and Federal Special Revenue). 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 and Agency) 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. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

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

- ◆ **State Special Revenue Fund** – to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include the various professional and occupational licensing boards, contracts from Public Health and Human Services, the Employment Security Account, Subsequent Injury Administration, Building Codes, Weights and Measures, Workers' Compensation Regulation, Uninsured Employers, and cashed Plan I and II Securities.
- ◆ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include the Workforce Innovation and Opportunity Act, Employment Services, and Unemployment Insurance Administrative Funds.

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. Department Internal Service Funds include funds to accumulate and distribute costs. These include the Commissioner's Office and Centralized Services Division, the Office of Legal Services, and the Technology Services Division.
- ◆ **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 the Subsequent Injury Fund, the Board of Public Accountants Fund and the Unemployment Insurance (UI) Fund. The June 30, 2019 UI fund equity was \$349,459,148. The fund equity balance included \$346,231,064 in cash held by the United States Treasury.

Fiduciary Fund Category

- ◆ **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 are the Workers' Compensation Plan I and Plan II Securities funds.
- ◆ **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. The department agency funds include the Wage Collection Fund.

2. General Fund Equity Balance

The department has a negative ending General Fund equity balance for the fiscal year ended June 30, 2018 and June 30, 2019. The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations for the Office of Community Services, Human Rights Bureau and the Office of Administrative Hearings. The department's outstanding liabilities exceeded the assets it had placed in the fund, resulting in a negative ending General Fund equity balances for the fiscal year ended June 30, 2018 and June 30, 2019.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General and State Special Revenue funds for both fiscal years include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

Direct entries to fund equity balances in the General, State Special Revenue, Federal Special Revenue, Enterprise and Internal Service funds for both fiscal years include correction of errors from a previous period that occurred at least two fiscal years prior and entries to record or adjust fund equity classifications.

4. Internal Service Funds

The department has a negative ending Internal Service Fund equity balance due to the pension and OPEB liabilities recognized in these funds which are liabilities the department will not be paying out.

5. Employment Relations Division

In FY 2019, the department incorrectly recorded a fiscal year end entry in a Private Purpose Trust Fund which resulted in a \$4,000,000.00 understatement in property held in trust.

6. Unemployment Insurance Division

In FY 2018, the department understated the US Treasury Cash Balance and revenues in their Enterprise Fund by \$2,761,958.00.

In FY 2019, the department understated the US Treasury Cash Balance and revenues in their Enterprise Fund by \$2,067,401.00. The error results in our US Treasury Cash Balance being misstated by approximately 0.6%.

7. Workforce Services Division

The department rents space in Libby, MT, from Mineral Plaza, LLC, in which one of the owners is a local job service manager. The term of the lease is July 1, 2013 to June 30, 2021. The annual lease amount is currently set at \$21.3 thousand.

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
Joe Murray

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 Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Labor & Industry (department) for each of the fiscal years ended June 30, 2019, and 2018, and the related notes to the financial schedules, and have issued our report thereon dated September 6, 2019.

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 and therefore, material weaknesses or significant deficiencies

may exist that were not identified. 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. We did identify certain deficiencies in internal control, described below, that we consider to be a significant deficiencies.

As described in recommendation 1, the department did not have controls in place to reconcile the cash recorded on the state's accounting records to the cash recorded in the federal UI trust fund account prior to fiscal year-end.

As described in recommendation 3, the department did not have adequate controls in place to ensure Compensation Plan Number One employer security deposits are accurate and complete on the state's accounting records.

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*.

The department's response to the findings identified in our audit are described on page C-1 of this report. The department's response was not subjected to the auditing procedures applied in the audit of the financial schedules and, accordingly, we express no opinion on it.

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

September 6, 2019

DEPARTMENT OF LABOR
AND INDUSTRY

DEPARTMENT RESPONSE

RECEIVED

NOV 15 2019

LEGISLATIVE AUDIT DIV.

November 6, 2019

Mr. Angus Maciver
Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena MT 59620-1705

Subject: Financial Compliance Audit #19-15: Department of Labor and Industry

Dear Mr. Maciver:

The Department of Labor and Industry has reviewed the October 2019 Financial Compliance Audit for the two fiscal years ending June 30, 2019. The Department would like to thank your audit staff for their review. As a Department we are always looking for ways to improve and appreciate their efforts to help assure we are providing quality services with the best accountability possible. Our responses to the recommendations appear below:

Recommendation #1

We recommend the department implement controls to reconcile the UI cash balance on SABHRS to the monthly federal UI trust balance report.

Response:

Concur. As of August 2019, controls have been put in place to ensure that the SABHRS cash balance is reconciled monthly to the federal trust balance report. Procedural documentation was developed in August 2019 for both the monthly reconciliation process as well as the fiscal year end process.

Recommendation #2

We recommend the department comply with state law by awarding grants to notification centers as required by 69-4-528, MCA.

Response:

Concur. Grants required under 69-4-528, MCA have been awarded effective November 1, 2019.

Recommendation #3



We recommend the department enhance controls to ensure the Compensation Plan Number One security deposit spreadsheet that supports the state's accounting records is accurate and complete.

Response:

Concur. Effective November 2019, the department amended fiscal year end procedures to include a review of individual plan participants who have added or deleted securities. In conjunction with the annual audit of the spreadsheet that currently takes place, this will serve as an additional internal control over the accuracy of the spreadsheet.

As in previous audits, we have asked department staff to track time researching or responding to audit inquiries during this audit. This audit cycle, 38 employees assisted with the audit, working a total of 332.25 hours, at a total cost of \$15,310.

Sincerely,

A handwritten signature in black ink, appearing to read "Galen Hollenbaugh". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

**Galen Hollenbaugh
Commissioner
Department of Labor and Industry**

CC: Natalie Smitham, CSD Administrator