



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Commerce

*For the Two Fiscal Years Ended
June 30, 2021*

MARCH 2022

LEGISLATIVE AUDIT
DIVISION

21-16

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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 September 30, 2022.

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March 2022

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Commerce for the two fiscal years ended June 30, 2021. This report contains four recommendations to the department related to controls over the Coronavirus Relief Funds and identified questioned costs in the Emergency Rental Assistance program.

The department's written response to the audit 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 Commerce Scott Osterman, Director (as of January 2021)

Tara Rice, Director (through December 2020)

Marty Tuttle, Deputy Director (through December 2019)

Jenny Pelej, Administrator, Montana Office of Tourism and Business Development

Renee Lemon, Administrator, Community Development Division (as of July 2021)

Jennifer Olson, Administrator, Community Development Division (through January 2021)

Cheryl Cohen, Administrator, Housing Division

Dan Villa, Executive Director, Board of Investments

Adam Gill, Executive Director, Montana Facility Finance Authority

Elijah Allen, Operations Director, Montana Heritage Preservation and Development Commission

Tom Tucker, Executive Secretary, Board of Horse Racing

Boards, Committees, and Councils

Board of Horse Racing
 Board of Housing
 Board of Investments
 Coal Board
 Hard Rock Mining Impact Board
 Montana Heritage Commission
 Small Business Development Advisory Council
 State Tribal Economic Development Commission
 Tourism Advisory Commission

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MONTANA LEGISLATIVE AUDIT DIVISION

Department of Commerce

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2021

BACKGROUND

The Department of Commerce (department) provides financing for businesses, homeownership, and rental assistance; promotes tourism, travel, and filmmaking in Montana; manages the state's investment activity; manages and preserves historical cultural properties and artifacts; and regulates the live and simulcast horse racing industry.

The department also includes the Board of Housing, Board of Investments, and Facility Finance Authority. The Board of Housing provides housing for low-income families and individuals by issuing tax exempt bonds to investors and using the proceeds to purchase mortgages. The Board of Investments manages local governments' investment activity. The Facility Finance Authority issues tax exempt bonds for facilities at interest rates below those that would be available at taxable bond rates.

Director: Scott Osterman

The Department of Commerce saw an increase of federal expenses of approximately \$48 million and \$279 million in fiscal years 2020 and 2021. This was due to the Coronavirus Relief Fund and Emergency Rental Assistance federal programs the department administered during the audit period. We identified known and likely questioned costs of \$49,716 and \$95,700 in the Coronavirus Relief and Emergency Rental Assistance Programs. Our report contains four recommendations to the department related to these programs.

AUDITOR'S OPINION: UNMODIFIED

We found the department's financial statements and note disclosures presented fairly the activity of the department in all material respects and issued an unmodified opinion. 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-3.

The prior audit report contained no recommendations.

RECOMMENDATIONS:

In this report, we issued the following recommendations:

To the department: 4

To the legislature: 0

RECOMMENDATION #1 (page 7):

Internal Control and Federal Compliance

We recommend the Department of Commerce recover questioned costs, perform additional reviews, and develop controls for new programs to ensure only eligible recipients receive funds.

Department response: Concur

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

leg.mt.gov/lad

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RECOMMENDATION #2 (page 8):

Internal Control and Federal Compliance

We recommend the Department of Commerce communicate all required items to subrecipients and develop controls to ensure all items are communicated to subrecipients as required by federal regulations.

Department response: **Concur**

RECOMMENDATION #3 (page 9):

Internal Control and Federal Compliance

We recommend the Department of Commerce develop controls to perform the required subrecipient monitoring, which includes reviewing subrecipient single audit reports and issuing management decisions.

Department response: **Concur**

Emergency Rental Assistance

RECOMMENDATION #4 (page 10):

Federal Compliance

We recommend the Department of Commerce continue to perform reviews to identify ineligible applicants.

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 Department of Commerce (department) for the two fiscal years ended June 30, 2021. The accompanying financial schedules include activities that we audit as part of other engagements. These audits are the Board of Housing (19-07B, 21-07A), Board of Investments (20-04A, 20-04B), and Montana Facility Finance Authority (20-12). The reports are available upon request. The objectives of this audit were to:

1. Gain an understanding of the department's internal controls necessary to support our audit of the financial schedules and make recommendations for improvements in internal and management controls of the department.
2. Determine whether the financial schedules for each of the two fiscal years fairly present the results of operations and changes in fund equity under state accounting policy.
3. Determine whether the department complied with selected state laws and federal regulations.

We primarily tested activity related to Personal Services, Grants From State and Federal Sources, Benefits & Claims From Federal Sources, Transfers-In, and Federal Revenue. This included reviewing the department's internal control policies and procedures, performing analytical procedures, and reviewing accounting transactions. In addition, to the extent necessary, we relied on work completed by our staff in the Board of Investments, Board of Housing, and Facility Finance Authority audits to provide assurance over the activity managed by those divisions. In support of the State of Montana's Single Audit we performed federal compliance testing of the Coronavirus Relief Fund programs administered by the department and the Emergency Rental Assistance Program. This report contains four recommendations related to the coronavirus relief funds and the emergency rental assistance program.

Internal Service Fund

We evaluated fees and charges for services in the department's two Internal Service funds as directed by §17-8-101(6), MCA. State accounting policy defines working capital as the amount of cash that would remain if all the current assets were converted and current liabilities paid at their book value. To determine if fees are commensurate with costs, we analyzed working capital to determine if it exceeded the 60-day limit specified in state accounting policy. We also considered if revenues exceeded expenditures to determine whether fund equity was reasonable. Based on our review, we determined the Internal Service Fund fees were not commensurate with costs, and fund equity was not reasonable for either fund in fiscal years 2020 and 2021. However, we make no recommendation to the department regarding either of these funds, as discussed in the following sections.

The Investment Division fund provides funding to the Board of Investments, and fees are allocated to various asset classes. The number of days of working capital was 67 and 95 in fiscal years 2020 and 2021. Revenues also exceeded expenditures by \$704,000 and \$520,000 in those fiscal years. Staff attributed this to their practice of allocating and collecting fees for an entire month at a time rather than partial months. The excess working capital in fiscal year 2020 was less than a whole month, but

more than a month in fiscal year 2021. However, in fiscal year 2021, the amount of revenue above expenditures did decrease. Adjustments were made to the process and starting in fiscal year 2022, costs will be allocated differently to allow for partial months. While we cannot yet audit the new method, the change intends to ensure that fees are commensurate with costs, and therefore, we make no recommendation.

The Director's Office Internal Service fund provides overall leadership, communication, and management support to the department. Since days of working capital decreased and revenues and expenditures remained reasonably consistent between years, the department demonstrated they actively manage this fund. The number of working capital days was 70 and 63 in fiscal years 2020 and 2021. Revenues also exceeded expenditures by \$82,000 in fiscal year 2021, while expenses exceeded revenues by \$31,000 in fiscal year 2020. Staff indicated they monitor this fund throughout the year. Still, some of the expected activity did not occur during the audit period. Staff estimate having working capital within 60 days beginning in fiscal year 2022. Therefore, we make no recommendation.

Background

The department is responsible for promoting and supporting economic and community development. The department consists of many divisions and several entities that are administratively attached or allocated to the department for administrative purposes. The following describes the various divisions and entities comprising the department, including the number of full-time equivalent (FTE) positions for each.

Director's Office (19.5 FTE) provides overall leadership to the department and its divisions by providing executive, administrative, legal, and policy guidance. It also offers internal support functions such as budgeting, accounting, purchasing, contracting, personnel administration, payroll, and training to all department divisions. The Director's Office also provides analysis, development, maintenance, and supervision of department data processing systems and hardware.

Montana Office of Tourism and Business Development (61.85 FTE) is responsible for promoting a positive image of the state through advertising, publicity, and the printing and distribution of marketing materials to film production companies. The division also administers programs to enhance Montana's business climate, and to build the economic base of Montana through business creation, expansion, retention efforts, energy development, and the Board of Research and Commercialization Technology.

Community Development Division (27.45 FTE) works with federal, state, and local governments, in addition to the private sector, in areas of community development. The division provides financial and technical assistance through several state and federal programs including the Community Development Block Grant Program and Treasure State Endowment Program.

Montana Facility Finance Authority (3.00 FTE) issues tax-exempt bonds for eligible facilities at interest rates below those that would be available at taxable bond rates. Qualified facilities include, but are not limited to, acute care hospitals, nursing homes, assisted living facilities, retirement facilities, outpatient centers, homes for persons with developmental or mental disabilities, chemical dependency centers, and pre-release centers.

Board of Investments (33.00 FTE) invests state funds following the Montana Constitution and statutory requirements. The board has created investment pools that operate like mutual funds to manage these investments. The board's investment pools are the Short-Term Investment Pool, the Trust Fund Investment Pool, and Consolidated Asset Pension Pool. In addition to these pools, the board manages direct investments for approximately eight state agencies. The board also administers several municipal finance programs in the Enterprise Fund, which issue bonds to assist local governments, cities, and school districts, or provide funds to improve the state's economy.

Housing Division (58.33 FTE) administers the federal Section 8 Housing programs, which provide rent subsidies to eligible low-income families and individuals. The Montana Board of Housing (MBOH) is also a part of the Housing Division and helps provide housing to lower-income individuals and families. MBOH funds are made available through issuance of revenue bonds.

Montana Heritage Commission (8.00 FTE) manages select state-owned historic properties located at Virginia City, Nevada City, and Reeder's Alley in Helena.

Board of Horse Racing (1.25 FTE) is responsible for the live and simulcast horse racing industry, licensing all racing personnel, establishing race dates for various communities, and establishing veterinary practices and standards in connection with horse racing meets.

New Federal Programs

During the audit period, the department received funding through the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act and the Consolidated Appropriations Act, 2021, to administer new federal programs established in response to the coronavirus pandemic.

The department administered the Emergency Rental Assistance Program in fiscal year 2021 with funding from the federal government through the Consolidated Appropriations Act, 2021. This program provides housing and utility cost assistance to those facing housing instability due to the COVID-19 pandemic. The department received \$200 million to administer this program and spent approximately \$10.4 million in fiscal year 2021. Additional federal funding may be available through 2025 to continue administering this program.

The State of Montana received \$1.25 billion from the federal government through the CARES Act to administer the Coronavirus Relief Fund. These funds were to assist states with costs related to the pandemic and necessary to respond to the public health emergency. The Department of Commerce administered approximately \$350 million of these funds and established the programs as shown in Table 1 (see page 4) to accomplish this. All of these programs ended, and most completed all of their post-award monitoring as well.

Table 1
Coronavirus Relief Fund Programs
 Expenditures by Program

Program Name	FY20	FY21	Total Expenditures
Business Stabilization Grant Program	\$45,072,781	\$208,723,851	\$253,796,632
East Edge of Glacier Park Tourism Business Grant		\$856,792	\$856,792
Census 2020		\$511,154	\$511,154
Tourism Safety Campaign	\$106,475	\$14,893,525	\$15,000,000
Emergency Housing Assistance Program	\$497,916	\$8,903,982	\$9,401,898
Board of Investment Loan Deferment Program		\$46,577,435	\$46,577,435
Board of Investment Working Capital Loan Program		\$23,128,093	\$23,128,093
Total	\$45,677,172	\$303,594,832	\$349,272,004

Source: Compiled by the Legislative Audit Division from the state's accounting records.

Chapter II – Findings and Recommendations

Coronavirus Relief Fund

The State of Montana received \$1.25 billion from the federal government to administer the Coronavirus Relief Fund (CRF). These funds were intended to assist states with costs related to the pandemic and necessary to respond to the public health emergency. Many federal regulations were suspended for this program by the federal government to allow states to provide assistance timely. As a result, recipients had a great deal of flexibility in how they could administer these funds and what was an allowable use of these funds.

The Department of Commerce (department) was responsible for administering approximately \$350 million of these funds through eight programs. After considering the size and risk associated with each program, we focused our testing primarily on the Business Stabilization Grant Program, Tourism Safety Program, Loan Deferment, and Working Capital Loan Programs. These programs have ended, and most have completed all of their post-award monitoring.

The recipients of these programs are considered to be subrecipients. Federal regulations require the department to establish and maintain effective internal control over these programs to ensure compliance with federal statutes, regulations, and the terms and conditions of the award. Effective internal controls include establishing procedures to ensure eligibility determinations are performed following program requirements, and all required monitoring is performed. The department is also responsible for performing subrecipient monitoring to ensure the subrecipient is using the funds as required by the program and to recover the funds if misused. Subrecipient monitoring requirements continue to exist for the department even though they have completed some post-award monitoring.

Since these programs are now over, we considered this in our recommendations. Since the department will be receiving additional funding for other new federal programs, such as the American Rescue Plan Act (ARPA), our recommendations address an ongoing need for effective internal control.

Business Stabilization Grant Program Controls and Questioned Costs

Some ineligible businesses received funding under the Business Stabilization Grant Program.

The Business Stabilization Grant Program (BSG) provided working capital to support allowable business expenses for small businesses in the state. This program aimed to help businesses retain their current employees and maintain business viability. The department established eligibility criteria for the program, including a business in good standing in Montana, 50 or fewer employees, and sustained revenue loss due to the pandemic. However, the department's controls were not adequate to ensure only businesses meeting the department's eligibility requirements received funding under this program, and that the funding was used only for purposes allowed by this program. In a sample of 60, we identified one business that was not eligible and has identified questioned costs, six businesses that used the funding for salary draws which was unallowed, and one nonprofit that received funding. For each of these situations, we performed additional analytical procedures and reviews of supporting documents

to determine if these were isolated situations or if other similar situations existed for more than the businesses included in our initial sample.

- ♦ One of the businesses that received assistance was a medical marijuana provider. Medical marijuana is illegal at the federal level, and the department's eligibility requirements disallowed these providers from receiving funding under this program. However, the department's application review process did not identify the business as a medical marijuana provider and awarded the business \$27,620. The department performed additional reviews after we identified this business and identified one additional medical marijuana provider that was awarded \$22,096. We consider both of these to be questioned costs of \$49,716.
- ♦ Several sole proprietors received assistance for salary draws, which are not considered business expenses but instead a return of income. We identified six sole proprietors who indicated they used the funding for salary draws. The department indicated this was confusing to sole proprietors, and many misclassified expenses, such as payments to contractors, as salary. During their detailed post-award reviews, the department also identified that sole proprietors who claimed salary draws also had other eligible expenses allowed under the BSG program. The department expects this is the case for the ones we identified but completed post-award reviews were not available to support their assertion at the time of our testing.
- ♦ One of the six sole proprietors also indicated on their BSG application that they were receiving unemployment insurance assistance. Sole proprietors could apply for and receive benefits through the Unemployment Insurance program. Disallowing sole proprietor salary draws ensured funding was not received from two federal sources for the same expenses. Using data from the department collected through the application process, we identified an additional 93 businesses that appear to be sole proprietors receiving both unemployment insurance and BSG funding for salary draws. Based on the review of available data, we could not determine if funding was received for the same period, or for the same expenses. As a result, we do not consider these to be questioned costs.
- ♦ Nonprofit entities were not initially eligible to receive funding through the BSG program. The Department of Public Health and Human Services administered a separate program with CRF funds specifically for nonprofits. However, after multiple nonprofits applied for the BSG program, the department decided to allow nonprofits to receive funding under the BSG program if they hadn't received funding through the other CRF program. During our testing we identified four of the 34 nonprofits received funding from both programs. We reviewed the information submitted for each program and determined the funds were used for different purposes under each program, so we do not consider these questioned costs. However, since the department's controls were not sufficient to prevent or detect these situations, these nonprofits could have received funding for the same activities from both CRF programs.

The department did perform application reviews before awarding funding and performed audits of randomly selected businesses after the program ended. However, none of these procedures identified the situations above. Since the audit identified the situations described, the department should perform risk analysis to determine where additional post award reviews are needed to ensure that subrecipients are using the BSG program's funding appropriately since the department's subrecipient

monitoring requirements continue even after the program ends. The department does have information available to perform this risk analysis.

RECOMMENDATION #1

We recommend the Department of Commerce:

- A. *Recover the funds from the subrecipients, and pay back the Coronavirus Relief Fund for the \$49,716 questioned costs.*
 - B. *Perform additional risk analysis and post-award reviews of subrecipient use of funds.*
 - C. *Develop controls that are sufficient to ensure only eligible applicants receive funding, that applicants understand the requirements for the use of funds, and required documentation is sufficient to ensure any new federal program funds are used for appropriate purposes.*
-

Subrecipient Communications

The department did not ensure all required information was provided to subrecipients.

Through the BSG, Tourism Safety, Loan Deferment, and Working Capital Loan programs the department provided federal assistance to approximately 13,000 businesses. The department considered all of these recipients to be subrecipients.

Federal regulations require specific information be communicated to the subrecipients. These required communications are intended to help the subrecipient meet all their reporting requirements, and to meet all award terms. Subrecipients subject to Single Audits will also need this information for their audit which will occur after much of the department's post-award monitoring is completed.

For each of these programs, the department developed and sent standardized documents to all subrecipients. However, those standardized documents did not contain all required items, such as the Assistance Listing Number (ALN), amount awarded, terms of the award, indirect cost rate, and access to the subrecipient's records. Since these documents did not contain all required items, the department's controls were insufficient to ensure that subrecipients received communication regarding the necessary items. Additionally, some of this information was not initially available, such as ALN, when the documents were created. The documents were not updated when the information became available, and other available information was not included in some of the documents. The specific items not communicated to subrecipients under each program are included in Appendix A on page 11.

RECOMMENDATION #2

We recommend the Department of Commerce:

- A. Communicate all required award information to subrecipients subject to Single Audit.*
 - B. Develop controls to ensure that all award information is communicated to subrecipients as required for any new federal programs.*
-

Tourism Safety Program Subrecipient Monitoring

The department does not review subrecipient audit reports and issue management decisions as required by federal regulations.

The Tourism Safety Program provided money to the six tourism regions and 18 convention visitor bureaus to help them distribute safety information through marketing campaigns. The purpose was to alert those traveling through Montana to COVID restrictions and to promote general safety during the pandemic. All 24 recipients of this funding were considered subrecipients.

Federal regulations require the department monitor the activities of the subrecipient to ensure the subaward is used for authorized purposes. This monitoring must include ensuring subrecipients receiving over \$750,000 receive a Single Audit, reviewing that Single Audit, and issuing a management decision for audit findings pertaining to the federal award provided to the subrecipient from the department.

The subrecipients for this program are primarily nonprofits subject to Single Audit requirements. This program awarded over \$750,000 to two of the subrecipients. Additional subrecipients could also meet this threshold through other federal funding received in addition to Tourism Safety. As a result, at least two subrecipients will receive audits that the department should review to determine if any findings are related to the tourism safety program.

Currently, the department does plan to review these audit reports. Program staff indicated that they initially believed the monitoring they are performing was sufficient, but they do plan to review the Single Audit reports for subrecipients. If the department does not review the audit reports, they will not be aware of instances where the subrecipient did not use the funds as required by the program and not recover those funds from the subrecipient as appropriate.

RECOMMENDATION #3

We recommend the Department of Commerce:

- A. *Develop controls to perform the required subrecipient monitoring which includes reviewing the subrecipients' Single Audit reports and issuing management decisions.*
- B. *Review the Single Audits of the Tourism Safety Grant program subrecipients, and issue management decisions.*

Emergency Rental Assistance

The department's controls identified potentially fraudulent applications paid from the Emergency Rental Assistance Program, resulting in questioned costs.

The department established the Emergency Rental Assistance Program with funding from the federal Consolidated Appropriations Act, 2021. This program provides housing and utility costs assistance to those impacted by the COVID-19 pandemic and facing housing instability. While reviewing applications for this program, the department identified potentially fraudulent applications where applicants submitted incorrect information or, in some cases, did not live at the addresses they were requesting assistance for. The department determined these applicants were eligible based on the federally-established eligibility criteria for the emergency rental assistance program. Subsequent new information received by the department showed that the initial information submitted by these applicants was incorrect or false, and the department determined these applicants were not actually eligible to receive the funds that had been disbursed to them. The department is working with appropriate authorities to address the potentially fraudulent nature of the applications and could recover some of the payments made to ineligible parties.

For fiscal year 2021, the department identified that \$33,700 was incorrectly paid to these applicants, which we consider questioned costs. Similar situations occurred in fiscal year 2022, and as of December 2021, the department identified \$62,000 that we consider to be questioned costs. We anticipate additional questioned costs may be identified through the department's review processes as the department has seen a coordinated effort to submit potentially fraudulent applications requesting assistance totaling \$6 million, as of September 2021. The department has not provided assistance for these applications. The United States Department of the Treasury does not require states to report these instances until they reach \$100,000. However, auditing standards require that we report all instances of known or likely questioned costs over \$25,000.

After identifying the initial situations described, the department implemented supplementary controls, including some targeted reviews, to detect future situations before the applicant receives funding through the program.

RECOMMENDATION #4

We recommend the Department of Commerce continue to perform processes and reviews to identify ineligible applicants for the Emergency Rental Assistance Program.

Appendix A

Items Required to be Communicated to Subrecipients by Program

Items Required to be Communicated	Business Stabilization Grant	Tourism Safety Grant	Loan Deferment	Working Capital Loan
Federal award identification number	✗	✗	✗	✗
Federal award date	✗	✗	✗	✗
Total amount of the federal award committed to subrecipient by the department	✓	✗	✓	✓
Name of federal awarding agency and contact information for the awarding official of the department	✓	✗	✗	✗
ALN and name	✗	✗	✗	✗
Identification of whether the award is research and development	✗	✗	✗	✗
Indirect cost rate for the federal award including if the de minimis rate is charged	✗	✗	✗	✗
Requirement that subrecipients permit the department and auditors to have access to their records and financial statements	✓	✓	✗	✗
Subrecipient name (which must match the name associated with its unique entity identifier)	✓	✓	✓	✓
Subrecipient's unique entity identifier	✓	✓	✓	✓
Requirements imposed by the department on the subrecipient so that the Federal award is used following Federal statutes, regulations, and the terms and conditions of the award	✓	✓	✓	✓
Any additional requirements that the department imposes on the subrecipient for the pass-through entity to meet responsibility to the Federal awarding agency	✓	✓	✓	✓
Subaward period of performance start and end date	✓	✓	✓	✓
Amount of Federal Funds obligated by this action, and total Federal fund obligated to the subrecipient by the department	✓	✓	✓	✓

Source: Compiled by the Legislative Audit Division.

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 Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Commerce for each of the fiscal years ended June 30, 2021, and 2020, 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, 2021, and June 30, 2020, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, present fairly, in all material respects, the results of operations and changes in fund equity of the department for each of the fiscal years ended June 30, 2021, and 2020, in conformity with the basis of accounting described in Note 1.

Emphasis of Matter

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2022, on our consideration of the department'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

February 3, 2022

DEPARTMENT OF COMMERCE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Custodial Fund	Investment Trust Fund
FUND EQUITY: July 1, 2020	\$ (1,538,841)	\$ 6,775,686	\$ (6,831,829)	\$ 0	\$ 181,254,198	\$ (3,662,470)	\$ 2,539,801	\$ 1,718,901,657
ADDITIONS								
Budgeted Revenues & Transfers-In	95	21,804,189	332,154,780	79,057	54,663,558	9,567,721		
Nonbudgeted Revenues & Transfers-In	13	294	214		24,523,977	14	347,209	1,540,651,250
Prior Year Revenues & Transfers-In Adjustments		(212,830)	381,107		(1,064,416)			(977)
Direct Entries to Fund Equity	6,675,270	33,586,806	207,577		(6,548)	(52,578)		
Total Additions	6,675,378	55,178,459	332,743,678	79,057	78,116,570	9,515,157	347,209	1,540,650,272
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	6,828,361	75,931,412	340,101,583	79,057	76,413,072	8,991,649		1,392,011,547
Nonbudgeted Expenditures & Transfers-Out	(1,583)	(3,934)			1,050,780	439,290		
Prior Year Expenditures & Transfers-Out Adjustments	(131,534)	(1,978,669)	(108,113)		(666,481)	(11,850)		
Total Reductions	6,695,245	73,948,809	339,993,470	79,057	76,797,372	9,419,089	0	1,392,011,547
FUND EQUITY: June 30, 2021	\$ (1,558,708)	\$ (11,994,664)	\$ (14,081,621)	\$ 0	\$ 182,573,396	\$ (3,566,402)	\$ 2,887,009	\$ 1,867,540,383

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

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Custodial Fund	Investment Trust Fund
FUND EQUITY: July 1, 2019	\$ (947,850)	\$ (3,668,352)	\$ (8,515,518)	\$ 0	\$ 177,946,311	\$ (4,507,132)	\$ 0	\$ 1,388,380,699
ADDITIONS								
Budgeted Revenues & Transfers-In		7,015,702	62,055,054	533,655	54,320,068	9,445,976		
Nonbudgeted Revenues & Transfers-In	8,890	15,453	5,658		31,013,001	54	328,397	1,640,804,864
Prior Year Revenues & Transfers-In Adjustments		(836)	(205)		(1,117,618)	200	356,954	(270)
Direct Entries to Fund Equity	6,564,128	43,420,655	1,141,155		320,294	309,363	1,854,449	
Total Additions	6,573,017	50,450,975	63,201,662	533,655	84,535,745	9,755,594	2,539,801	1,640,804,594
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	7,156,546	43,412,263	64,506,671	533,655	77,103,495	8,684,919		
Nonbudgeted Expenditures & Transfers-Out	8,890	(1,141,509)	(1,994,694)		4,137,693	228,390		1,310,283,635
Prior Year Expenditures & Transfers-Out Adjustments	(1,427)	(2,263,816)	(994,004)		(13,329)	(2,379)		
Total Reductions	7,164,008	40,006,937	61,517,973	533,655	81,227,859	8,910,931	0	1,310,283,635
FUND EQUITY: June 30, 2020	\$ (1,538,841)	\$ 6,775,686	\$ (6,831,829)	\$ 0	\$ 181,254,198	\$ (3,662,470)	\$ 2,539,801	\$ 1,718,901,657

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 COMMERCE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Custodial Fund	Investment Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS									
Licenses and Permits		\$ 14,040							\$ 14,040
Taxes			\$ 115						115
Charges for Services	\$ 108	768,635	212		\$ 5,639,153	\$ 9,152,275			15,560,383
Investment Earnings		251,926	188,585		20,002,036			\$ 4,042,985	24,485,532
Fines and Forfeits		200							200
Sale of Documents, Merchandise and Property		268,851							268,851
Rentals, Leases and Royalties		193,146							193,146
Contributions and Premiums		35						1,536,607,288	1,536,607,323
Grants, Contracts, and Donations		83,240			141,692				224,932
Transfers-in		20,011,579	306,993,276	\$ 79,057	1,433				327,085,344
Intra-entity Revenue					39,746				39,746
Federal Indirect Cost Recoveries						415,460			415,460
Miscellaneous			(1,746)				\$ 347,209		345,462
Federal			25,355,659		52,299,059				77,654,718
Total Revenues & Transfers-In	108	21,591,653	332,536,101	79,057	78,123,119	9,567,735	347,209	1,540,650,272	1,982,895,252
Less: Nonbudgeted Revenues & Transfers-In	13	294	214		24,523,977	14	347,209	1,540,651,250	1,565,522,969
Prior Year Revenues & Transfers-In Adjustments		(212,830)	381,107		(1,064,416)			(977)	(897,116)
Actual Budgeted Revenues & Transfers-In	95	21,804,189	332,154,780	79,057	54,663,558	9,567,721	0	0	418,269,400

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

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Custodial Fund	Investment Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS									
Licenses and Permits		\$ 13,465							\$ 13,465
Taxes			\$ 299						299
Charges for Services		512,475	13		\$ 3,933,704	\$ 9,123,279			13,569,471
Investment Earnings		273,657	184,774		27,916,777			\$ 24,990,935	53,366,143
Fines and Forfeits		775							775
Sale of Documents, Merchandise and Property		335,062							335,062
Rentals, Leases and Royalties		233,645							233,645
Contributions and Premiums								1,615,813,659	1,615,813,659
Grants, Contracts, and Donations		177,113			44,669				221,781
Transfers-in		5,470,731	45,808,958	\$ 533,655	3,100,000	200			54,913,544
Intra-entity Revenue					7,734				7,734
Inception of Lease/Installment Contract	\$ 8,890	13,397	5,252						27,539
Federal Indirect Cost Recoveries						322,752			322,752
Miscellaneous							\$ 685,352		685,352
Federal			16,061,212		49,212,567				65,273,779
Total Revenues & Transfers-In	8,890	7,030,320	62,060,507	533,655	84,215,451	9,446,230	685,352	1,640,804,594	1,804,785,000
Less: Nonbudgeted Revenues & Transfers-In	8,890	15,453	5,658		31,013,001	54	328,397	1,640,804,864	1,672,176,317
Prior Year Revenues & Transfers-In Adjustments		(836)	(205)		(1,117,618)	200	356,954	(270)	(761,774)
Actual Budgeted Revenues & Transfers-In	0	7,015,702	62,055,054	533,655	54,320,068	9,445,976	0	0	133,370,456

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 COMMERCE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	Board of Horse Racing	Board of Investments	Community Development Division	Director's Office	Housing Division	Montana Heritage Commission	Montana Facility Finance Authority	Montana Office of Tourism & Business Development	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT									
Personal Services									
Salaries	\$ 7,505	\$ 3,288,451	\$ 1,317,483	\$ 2,698,925	\$ 3,141,276	\$ 365,427	\$ 206,108	\$ 2,747,950	\$ 13,773,125
Other Compensation		8,650	2,150	450	2,450		4,700	250	18,650
Employee Benefits	683	689,165	520,964	378,657	1,121,722	121,630	52,782	1,232,710	4,118,313
Personal Services-Other		162,188		68,778	(40,978)		1,148		191,136
Total	8,188	4,148,454	1,840,597	3,146,809	4,224,470	487,056	264,738	3,980,910	18,101,224
Operating Expenses									
Other Services	39,392	1,908,595	212,097	80,058	6,125,566	224,708	63,441	7,585,217	16,239,075
Supplies & Materials		172,560	38,836	47,816	157,683	79,663	6,574	283,245	786,379
Communications	772	46,276	35,771	35,387	251,699	61,391	4,249	8,814,699	9,250,243
Travel	19,190	23,019	6,081	8,958	24,766	13,626	3,802	33,384	132,827
Rent		243,671	111,346	132,783	301,050	12,685	28,187	474,148	1,303,869
Utilities						81,287			81,287
Repair & Maintenance		8,166	327	19,534	531,661	155,801	3,438	21,014	739,942
Other Expenses	90,466	684,618	328,112	17,892	2,086,648	114,910	59,007	1,806,410	5,188,063
Goods Purchased For Resale						228,150		1,685	229,835
Total	149,820	3,086,905	732,571	342,429	9,479,074	972,221	168,699	19,019,801	33,951,519
Equipment & Intangible Assets									
Equipment						5,000			5,000
Total						5,000			5,000
Capital Outlay									
Other Improvements						10,280			10,280
Total						10,280			10,280
Local Assistance									
From State Sources								7,366,930	7,366,930
Total								7,366,930	7,366,930
Grants									
From State Sources			46,204,993	516,672	(238,682)			9,218,956	55,701,939
From Federal Sources		69,673,261	18,788,028	512,400	17,252,275			219,379,888	325,605,852
Total		69,673,261	64,993,021	1,029,072	17,013,593			228,598,845	381,307,791
Benefits & Claims									
From Federal Sources					47,276,580				47,276,580
STIP Distrib to Local Govts		1,392,011,547							1,392,011,547
Total		1,392,011,547			47,276,580				1,439,288,127
Transfers-out									
Fund transfers					700,000		(1,200,000)	700,066	200,066
Intra-Entity Expense							39,746	200,000	239,746
Total					700,000		(1,160,254)	900,066	439,812
Debt Service									
Bonds		865,793			16,088,083				16,953,876
Capital Leases		88	2,926	77	228		16	6,459	9,793
Total		865,882	2,926	77	16,088,311		16	6,459	16,963,669
Post Employment Benefits									
Other Post Employment Benefits		(2,917)		45,832	180,531		16,593		240,039
Employer Pension Expense		447,390		214,344	560,596		47,868		1,270,198
Total		444,473		260,176	741,127		64,461		1,510,237
Total Expenditures & Transfers-Out	\$ 158,008	\$ 1,470,230,520	\$ 67,569,115	\$ 4,778,563	\$ 95,523,155	\$ 1,474,558	\$ (662,340)	\$ 259,873,010	\$ 1,898,944,588
EXPENDITURES & TRANSFERS-OUT BY FUND									
General Fund			\$ 892,003					\$ 5,803,242	\$ 6,695,245
State Special Revenue Fund	\$ 158,008		46,672,243			\$ 1,395,501		25,723,057	73,948,809
Federal Special Revenue Fund		\$ 69,705,528	20,004,869	\$ 2,282,361	\$ 19,654,000			228,346,711	339,993,470
Capital Projects Fund						79,057			79,057
Enterprise Fund		1,590,557			75,869,154		\$ (662,340)		76,797,372
Internal Service Fund		6,922,888		2,496,202					9,419,089
Investment Trust Fund		1,392,011,547							1,392,011,547
Total Expenditures & Transfers-Out	158,008	1,470,230,520	67,569,115	4,778,563	95,523,155	1,474,558	(662,340)	259,873,010	1,898,944,588
Less: Nonbudgeted Expenditures & Transfers-Out	239	1,392,351,207	(799)	199,920	2,107,304	(738)	(1,156,814)	(4,218)	1,393,496,101
Prior Year Expenditures & Transfers-Out Adjustments		(284,585)	(1,512,497)	604,090	(339,477)	512	(27,924)	(1,336,766)	(2,896,646)
Actual Budgeted Expenditures & Transfers-Out	157,769	78,163,898	69,082,411	3,974,552	93,755,327	1,474,784	522,399	261,213,994	508,345,133
Budget Authority	336,747	80,633,130	89,708,723	6,376,826	295,052,145	1,624,363	902,874	275,837,686	750,472,494
Unspent Budget Authority	\$ 178,978	\$ 2,469,233	\$ 20,626,312	\$ 2,402,274	\$ 201,296,818	\$ 149,579	\$ 380,475	\$ 14,623,692	\$ 242,127,361
UNSPENT BUDGET AUTHORITY BY FUND									
General Fund			\$ 9,640					\$ 98,579	\$ 108,218
State Special Revenue Fund	\$ 178,978		5,602,042			\$ 12,291		12,179,041	17,972,352
Federal Special Revenue Fund		\$ 37,164	15,014,631	\$ 2,373,698	\$ 192,689,717			2,346,072	212,461,281
Capital Projects Fund						137,288			137,288
Enterprise Fund		2,105,817			8,607,101		\$ 380,475		11,093,393
Internal Service Fund		326,252		28,576					354,828
Unspent Budget Authority	\$ 178,978	\$ 2,469,233	\$ 20,626,312	\$ 2,402,274	\$ 201,296,818	\$ 149,579	\$ 380,475	\$ 14,623,692	\$ 242,127,361

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 COMMERCE SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT FOR THE FISCAL YEAR ENDED JUNE 30, 2020									
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Board of Horse Racing	Board of Investments	Community Development Division	Director's Office	Housing Division	Montana Heritage Commission	Montana Facility Finance Authority	Montana Office of Tourism & Business Development	Total
Personal Services									
Salaries	\$ 7,070	\$ 3,181,321	\$ 1,228,722	\$ 1,441,288	\$ 2,974,701	\$ 374,982	\$ 223,086	\$ 3,326,501	\$ 12,757,671
Other Compensation		13,650	1,900		4,200		6,150		25,900
Employee Benefits	680	483,281	468,555	446,206	1,008,302	122,443	75,779	1,252,010	3,857,255
Personal Services-Other		43,162		16,088	102,346		539		162,135
Total	7,750	3,721,414	1,699,177	1,903,582	4,089,549	497,425	305,553	4,578,511	16,802,962
Operating Expenses									
Other Services	39,961	1,922,094	256,000	66,290	4,666,542	219,291	49,455	6,326,389	13,546,021
Supplies & Materials		101,065	70,932	41,766	107,701	78,123	16,929	129,838	546,354
Communications	1,725	50,218	44,965	27,413	175,340	72,160	6,691	6,766,371	7,144,885
Travel	10,816	84,995	31,489	8,286	99,810	15,446	16,549	216,033	483,423
Rent		235,715	110,738	123,696	294,503	8,292	28,088	453,910	1,254,942
Utilities						92,570			92,570
Repair & Maintenance		1,157	(4,826)	(0)	417,424	74,387	140	18,779	507,061
Other Expenses	140,087	694,674	284,952	20,553	2,093,964	123,458	62,936	2,019,188	5,439,811
Goods Purchased For Resale						157,536			157,536
Total	192,589	3,089,917	794,251	288,004	7,855,284	841,263	180,788	15,930,508	29,172,604
Equipment & Intangible Assets									
Equipment						5,000			5,000
Capital leases - equipment			6,433					11,039	17,472
Total			6,433			5,000		11,039	22,472
Capital Outlay									
Other Improvements						533,655			533,655
Total						533,655			533,655
Local Assistance									
From State Sources								7,423,323	7,423,323
Total								7,423,323	7,423,323
Grants									
From State Sources			8,456,273		230,027		136,139	7,467,615	16,290,053
From Federal Sources			13,200,757	436,358	497,906			45,072,781	59,207,803
Total			21,657,030	436,358	727,933		136,139	52,540,396	75,497,857
Benefits & Claims									
To Individuals				(50,000)				(15,000)	(65,000)
From Federal Sources					44,959,913				44,959,913
STIP Distrib to Local Govts		1,310,283,635							1,310,283,635
Total		1,310,283,635		(50,000)	44,959,913			(15,000)	1,355,178,548
Transfers-out									
Fund transfers			195,094		800,000		2,300,000	902,182	4,197,276
Intra-Entity Expense							7,734	200,000	207,734
Total			195,094		800,000		2,307,734	1,102,182	4,405,010
Debt Service									
Bonds		2,007,982			17,744,611				19,752,593
Capital Leases		73	1,950	63	188		13	4,306	6,593
Total		2,008,055	1,950	63	17,744,799		13	4,306	19,759,186
Post Employment Benefits									
Other Post Employment Benefits		5,710		3,498	7,796		1,450		18,454
Employer Pension Expense		337,751		157,590	312,003		23,585		830,929
Total		343,461		161,088	319,798		25,035		849,383
Total Expenditures & Transfers-Out	\$ 200,339	\$ 1,319,446,482	\$ 24,353,935	\$ 2,739,096	\$ 76,497,277	\$ 1,877,343	\$ 2,955,262	\$ 81,575,265	\$ 1,509,644,999
EXPENDITURES & TRANSFERS-OUT BY FUND									
General Fund			912,079					6,251,930	7,164,008
State Special Revenue Fund	\$ 200,339		9,554,361			1,343,688		28,908,549	40,006,937
Federal Special Revenue Fund			13,887,495	436,358	779,333			46,414,787	61,517,973
Capital Projects Fund						533,655			533,655
Enterprise Fund		2,554,653			75,717,944		2,955,262		81,227,859
Internal Service Fund		6,608,194		2,302,737					8,910,931
Investment Trust Fund		1,310,283,635							1,310,283,635
Total Expenditures & Transfers-Out	200,339	1,319,446,482	24,353,935	2,739,096	76,497,277	1,877,343	2,955,262	81,575,265	1,509,644,999
Less: Nonbudgeted Expenditures & Transfers-Out		1,310,265,214	203,680	157,938	1,899,636		2,326,930	(3,330,993)	1,311,522,405
Prior Year Expenditures & Transfers-Out Adjustments	271	32,146	(1,580,948)	(50,833)	19,722	14,452	(16,743)	(1,693,022)	(3,274,956)
Actual Budgeted Expenditures & Transfers-Out	200,069	9,149,122	25,731,204	2,631,991	74,577,919	1,862,891	645,075	86,599,280	201,397,550
Budget Authority	335,285	135,564,910	87,464,743	2,868,592	133,316,102	2,151,814	896,893	139,360,283	501,958,623
Unspent Budget Authority	\$ 135,216	\$ 126,415,788	\$ 61,733,539	\$ 236,601	\$ 58,738,184	\$ 288,923	\$ 251,818	\$ 52,761,003	\$ 300,561,072
UNSPENT BUDGET AUTHORITY BY FUND									
General Fund			16,305					298,885	315,189
State Special Revenue Fund	\$ 135,216		48,584,786			72,578		5,535,885	54,328,466
Federal Special Revenue Fund		124,900,000	13,132,448	113,642	51,581,399			46,926,233	236,653,723
Capital Projects Fund						216,345			216,345
Enterprise Fund		1,021,556			7,156,784		251,818		8,430,159
Internal Service Fund		494,232		122,960					617,192
Unspent Budget Authority	\$ 135,216	\$ 126,415,788	\$ 61,733,539	\$ 236,601	\$ 58,738,184	\$ 288,923	\$ 251,818	\$ 52,761,003	\$ 300,561,072

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 Commerce

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2021

1. Summary of Significant Accounting Policies

Basis of Accounting

The Department of Commerce (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). 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 (Investment Trust and Custodial) 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 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. The department uses general fund to help with economic development, international trade, match for federal programs, community technical assistance and research and information grants.
- ♦ **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 accounting for Distressed Wood Products, Micro-Business Loans, Treasure State Endowment Fund, Coal Board grants and administration, and the Montana Heritage

Commission, Bonds for Local Infrastructure, Accommodation Tax, and the Big Sky Trust Fund.

- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include assistance programs such as Community Development Block Grants, Housing Tax Credit Exchange, Neighborhood Stabilization, Housing Trust Fund and Home Grants. In FY 2020 and 2021 there were significant additions of federal revenue sources including Emergency Rental Assistance, CARES Act, Housing Assistance.
- ♦ **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 for to account for Building Preservation as appropriated in HB652 during the 2019 Legislative Session.

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 the proprietary fund utilized for expenditures in the Director's Office and administrative functions for the Board of Investments.
- ♦ **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; Facility Finance Authority, Board of Housing, Board of Investments Municipal Finance Programs (previously referred to as Economic Development Bond Fund in prior years), and Section 8 Housing Programs.

Fiduciary Fund Category

- ♦ **Investment Trust Fund** – to account for situations where legally separate governments commingle their investments in a pool for the benefit of all participants. The department investment trust funds include local government participant activity in the Short-Term Investment Pool (STIP) and Trust Funds Investment Pool (TFIP) managed by the Board the Investments in a fiduciary capacity. Both the STIP and TFIP are considered external investment pools. The local government participants are legally separate entities from the State of Montana. Under the financial schedule format adopted by the Legislative Audit Committee, the additions to the Investment Trust Fund represent purchases by the local government participants in the pools and their net investment earnings. The deductions represent sales from the local government participants in the pools and income distributions to those participants.
- ♦ **Custodial Fund** - to account for resources of fiduciary activities held by the state in a custodial capacity which are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. The external portion of investment pools that are not held in a trust should be reported in a separate

external investment pool fund column, under the custodial fund classification. Custodial 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 Board of Investments custodial funds include Municipal Finance Programs.

2. Negative Fund Equity Balance

- ♦ **General Fund** - 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. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2020 and June 30, 2021.
- ♦ **Federal Fund** - the negative fund equity balance in the federal special revenue fund does not indicate overspent appropriation authority. For each of the fiscal years ended June 30, 2020 and June 30, 2021, liabilities related to the valid grant obligations created the negative fund equity presented on the Schedule of Total Expenditures & Transfers-Out. The department uses A Accruals to account for multi-year projects in various local governments and organizations. The negative fund balance is created as the receivable can not yet be recorded. The A accrual establishes the liability.
- ♦ **Internal Service Fund** - the negative fund equity balance in the Internal Service Fund does not indicate overspent appropriation authority. For each of the fiscal years ended June 30, 2020 and June 30, 2021, noncash liabilities related to the state pension liability and OPEB created the negative fund equity presented on the Schedule of Total Expenditures & Transfers-Out.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General, Special Revenue, fund(s) include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

Direct entries to fund equity in the General, State Special Revenue, Federal Special Revenue Fund, Internal Service, Custodial and Enterprise funds include correction of an error from a previous period that occurred at least two fiscal years prior; to true up non-governmental fund pension Balance Sheet accounts for FY 2020 for Public Employee Retirement System, reduction of accrued grant awards; reclassification of expenses, and reclassification of inventory.

Implementation of GASB 84 – Fiduciary Activities resulted in a prior period adjustment of \$1,854,448.82 in the 07015 fund for FY 2020. The Montana Board of Investments did not have a prior period adjustment in the FY 2020 Enterprise statements, as it was an asset and a liability that moved within 06014.

4. Unspent Budget Authority

In FY 2020 there was significant unspent budget authority in various department programs. The majority of this unspent authority is due grants for CARES Act, the Treasure State Endowment program, Local Infrastructure Accounts and Delivering Local Assistance Accounts. Because these

appropriations were continuing, any unspent authority is carried forward to the next year. Additionally, the HOME Grants and the Housing trust fund had significant unspent authority. A large portion of the reverted appropriation for the Housing Trust Fund occurred because multiple budget amendments were open as continuing appropriations. In FY 2021 the department had significant unspent budget authority in federal funds for Emergency Rental Assistance and CDBG-CV Awards. These awards were received late in the fiscal year and are continuing in nature. Additionally, appropriations for the Accommodation Tax Account had a large amount of unspent authority due to the COVID-19 pandemic. The Department was tasked with curtailing promotional tourism advertising and instead asked to promote safety messaging utilizing CARES Act funding.

5. New Accounting Guidance Implemented

For the year ended June 30, 2020, the State of Montana implemented GASB 84 – Fiduciary Activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Amounts previously reported as property held in trust on the Enterprise financial statements have been moved to a custodial fund. The custodial fund included on the financial schedules is a result of implementation of GASB 84.

6. Subsequent Events

As a result of a reorganization effective October 2022, the Montana Office of Tourism & Business Development division became the Brand MT division, the Business MT division, and the Office of Research & Information Services became part of the Director's Office division. Also, the HOME and Housing Trust Fund programs moved from the Community MT division into the Housing MT division.

On July 14, 2021, the Montana Facility Finance Authority issued bonds Series 2021A of \$56,895,000 and bonds Series 2021B of \$36,185,000 to the Bozeman Deaconess Hospital to create new tax-exempt debt for buildings and equipment and create new taxable debt to purchase the EPIC electronic health records information system.

On July 27, 2021, the Montana Facility Finance Authority issued bonds Series 2021B of \$100,000,000 to Benefis Health System to fund construction of a new Helena Ambulatory Center, a new osteopathic medical school facility, and equipment upgrades across the campus.

On August 12, 2021, the Montana Facility Finance Authority issued bonds Series 2021A of \$8,000,000 and Series 2021B of \$18,615,000 to Community Hospital of Anaconda to finance the Hospital's Infusion/Oncology Center project and to refinance existing taxable debt incurred to expand and renovate the facility.

On August 31, 2021, the Montana Facility Finance Authority issued bonds of \$15,102,202 to Beartooth Billings Clinic to refinance a direct loan from USDA Rural Development, the Series 2009A bonds USDA Guarantee and Series 2009B bonds unsecured. The original purpose of the 2009AB Series bonds was for the costs of designing, constructing of the new hospital in the Red Lodge, Montana.

On September 1, 2021, the Montana Facility Finance Authority issued a direct loan of \$500,000 and a trust fund loan of \$1,500,000 to Rimrock Foundation to reimburse the purchase of land in Billings to consolidate services and create a central campus.

On September 16, 2021, the Montana Facility Finance Authority issued a direct loan of \$238,937 to Fallon Medical Complex to refinance existing trust fund loan, which is expected to improve monthly cash flow.

On October 20, 2021 the Montana Facility Finance Authority issued Series 2021 A bonds of \$27,000,000 and Series B bonds of \$10,000,000 to Marcus Daly Memorial Hospital in Hamilton to fund renovation and expansion projects as well as refinance existing taxable and tax-exempt debt.

On November 15, 2021, the Montana Facility Finance Authority issued Series 2021 A bonds to Billings Clinics of \$150,000,000 to be used as a capital expansion to broaden the clinic's service lines and market reach.

Since June 30th, the Montana Board of Investments (Board) made additional commitments to fund loans from the INTERCAP loan program in the amount of over \$13.8 million.

Two outstanding QZAB bonds matured and were paid off on August 18, 2021, in the amount of \$1.45 million.

On November 30, 2021, the Board adopted Resolution No. 249 entitled: "Resolution of the Board of Investments of the State of Montana relating to its annual adjustable rate Municipal Finance Consolidation Act Extendable Bond (INTERCAP Loan Program), Taxable Series 2022, fixing the terms and conditions of the INTERCAP Bond, and authorizing the sale and issuance of the INTERCAP Bond to the Unified Investment Program."

Since June 30th, the Board has committed an additional \$109.0 million within the Real Estate Pension Asset Class and \$100.0 million within the Private Investments Pension Asset Class of CAPP.

Since June 30th, the Board has reserved \$2.5 million, committed \$1.7 million and funded \$6.1 million of additional funds to Montana lenders from the Coal Severance Tax Permanent Fund's In-State Loan Program. Of the commitments in effect as of June 30th, \$10.0 million have since expired. Additional reservations in the amount of \$3.8 million were made for the VHLM residential mortgage purchases.

7. Significant Increase in Federal Expenditures

In FY 2020 and FY 2021 the department realized a significant increase of federal expenditures over previous years. In FY 2020 an increase of about \$47.7 million over the previous year and in FY 2021 an increase of almost \$278.5 million over FY 2020. This increase is almost entirely because of the governmental response to the pandemic beginning late in FY 2020.

8. Unified Investment Program

FY 2021 As of June 30th, the Board had provided loan guarantees from STIP, TFIP, the Coal Severance Tax Trust Fund, and the Treasurer's Cash Fund to the Enterprise Fund for exposure to INTERCAP bond issues amounting to approximately \$90.6 million and to the Montana Facility Finance Authority (MFFA) amounting to approximately \$100.2 million. The Board has not had to perform on any bond and loan guarantee in the past.

STIP and TFIP are external investment pools managed by the Board. Both the Coal Severance Tax Trust Fund and the Enterprise Fund are part of the primary government for the State of Montana. The Board manages the Treasurer's Cash Fund which consists of fund balances of all the funds for the State whose investment earnings are permitted by law to flow to the State's General Fund. The Board has irrevocably pledged to make loans to cure INTERCAP reserve account deficiencies and to purchase tendered bonds not redeemed or remarketed. The outstanding bonds have final maturities of March 1, 2025 – March 1, 2042. The Board has not had to perform on any loan guarantee in the past. The amounts are merely commitments of the Board.

By statute, the Board is authorized to credit enhance the INTERCAP bonds and allows the Board to charge a fee for this service. There is an annual fee of up to 15 basis points on outstanding INTERCAP bonds. If the Board was called on to purchase tendered bonds not redeemed or remarketed, INTERCAP's governing bond indenture requires the Board to be paid a fee equal to 25 basis points of the principal amount of tendered bonds purchased.

MFFA is a discretely presented component unit of the State of Montana. MFFA guarantee requests are submitted to the Board for review and approval. The Board's participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into MFFA's statutorily allowed capital reserve account is explicitly limited by statute which requires the Board to act prudently. The guarantee requests from MFFA pertain to bonds issued by MFFA with a term of up to 40 years. The Board receives a credit enhancement fee at MFFA bond closing based on the term of the financing, the type of bond, the rating of the borrower, and the type of reserve fund. The Board and MFFA have entered into an agreement detailing repayment to the Board. The credit enhancement fee received during the fiscal year was \$385 thousand.

The following schedule summarizes the guarantee activity during the fiscal year:

Bond and Loan Guarantee Activity as of June 30, 2021 (in thousands)				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
INTERCAP	\$ 90,670	\$ -	\$ 70	\$ 90,600
MFFA	88,346	33,465	21,563	100,248

FY 2020

As of June 30th, the Board had provided loan guarantees from STIP, TFIP, the Coal Severance Tax Trust Fund, and the Treasurer's Cash Fund to the Enterprise Fund for exposure to INTERCAP bond issues amounting to approximately \$90.7 million and to the Montana Facility Finance Authority (MFFA) amounting to approximately \$88.3 million. The Board has not had to perform on any bond and loan guarantee in the past.

STIP and TFIP are external investment pools managed by the Board. Both the Coal Severance Tax Trust Fund and the Enterprise Fund are part of the primary government for the State of Montana. The Board manages the Treasurer's Cash Fund which consists of fund balances of all the funds for the State whose investment earnings are permitted by law to flow to the State's General Fund. The Board has irrevocably pledged to make loans to cure INTERCAP reserve account deficiencies and to purchase tendered bonds not redeemed or remarketed. The outstanding bonds have final maturities of March 1, 2025 – March 1, 2042. The Board has not had to perform on any loan guarantee in the past. The amounts are merely commitments of the Board.

By statute, the Board is authorized to credit enhance the INTERCAP bonds and allows the Board to charge a fee for this service. There is an annual fee of up to 15 basis points on outstanding INTERCAP bonds. If the Board was called on to purchase tendered bonds not redeemed or remarketed, INTERCAP's governing bond indenture requires the Board to be paid a fee equal to 25 basis points of the principal amount of tendered bonds purchased. The credit enhancement fee received during the fiscal year was \$157 thousand. Refer to Note 12 – STIP Reserve footnote for further detail.

MFFA is a discretely presented component unit of the State of Montana. MFFA guarantee requests are submitted to the Board for review and approval. The Board's participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into MFFA's statutorily allowed capital reserve account is explicitly limited by statute which requires the Board to act prudently. The guarantee requests from MFFA pertain to bonds issued by MFFA with a term of up to 40 years. The Board receives a credit enhancement fee at MFFA bond closing based on the term of the financing, the type of bond, the rating of the borrower, and the type of reserve fund. The Board and MFFA have entered into an agreement detailing repayment to the Board. The credit enhancement fee received during the fiscal year was \$54 thousand.

The following schedule summarizes the guarantee activity during the fiscal year:

Bond and Loan Guarantee Activity as of June 30, 2020 (in thousands)				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
INTERCAP	\$ 105,065	\$ -	\$ 14,395	\$ 90,670
MFFA	88,941	4,000	4,595	88,346

9. Recategorization of Expenditures

In FY 2022 the Department determined that certain expenses that were expended in FY 2020 and FY 2022 as sub-grants should have been categorized as payments to beneficiaries. The table below depicts the amounts that were recategorized in the Benefits category after June 30, 2021. Movement of expenditures is from 66254 (Grants) to 67103 (Benefits). Movement of expenses in FY 2020 does not occur as the fund balance impact is \$0.

<i>For Fiscal Year 2021</i>	<i>Grants</i>	<i>Benefits</i>
<i>CARES ACT Housing Grants</i>	\$ (7,921,353.47)	\$ 7,921,353.47
<i>HEROS Act Rental Assistance Program</i>	\$ (9,231,428.26)	\$ 9,231,428.26
	\$ (17,152,781.73)	\$ 17,152,781.73

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 Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Commerce for each of the fiscal years ended June 30, 2021, and 2020, and the related notes to the financial schedules, and have issued our report thereon dated February 3, 2022.

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 as a basis for designing 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 financial schedules. 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

February 3, 2022

DEPARTMENT OF
COMMERCE

DEPARTMENT RESPONSE

GREG GIANFORTE
GOVERNOR



SCOTT OSTERMAN
DIRECTOR

March 4, 2022

Angus Maciver, Legislative Auditor
Legislative Audit Division
State Capitol, Room 160
Helena, MT 59620-1705

RECEIVED
MAR 09 2022
LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver,

We appreciate the opportunity to respond to the audit recommendations in the Financial Compliance Audit Report of the Montana Department of Commerce for the two fiscal years ended June 30, 2021. Our response follows.

Recommendation #1

We recommend the Department of Commerce:

- A. Recover the funds from the subrecipients, and pay back the Coronavirus Relief Fund for the \$49,716 questioned costs.**
- B. Perform additional risk analysis and post-award reviews of subrecipient use of funds.**
- C. Develop controls that are sufficient to ensure only eligible applicants receive funding, that applicants understand the requirements for the use of funds, and required documentation is sufficient to ensure any new federal program funds are used for appropriate purposes.**

Response

- A. Concur. Despite the department's efforts in screening over 13,115 applications, two ineligible organizations were approved for award. Upon discovery of the ineligible recipients, the department notified the businesses and is working with them to recover the funds.
- B. Concur. During the grant period, the department selected a sample of recipients and performed an internal review. It was found that of the recipients sampled, all that listed salaries or owner draws had other allowable expenses. Based on those findings, the department determined there was reasonable assurance that the recipients that listed owner draws had other eligible expenses. Additionally, the department followed up with the six businesses identified as sole proprietors and found that all of them had other allowable expenses.
- C. Concur. The decision to allow nonprofits that inadvertently applied for a Business Stabilization Grant was made to reduce the burden on the recipients by not requiring they repeat the application process when the applications were nearly identical. The decision was made in response to the urgent need of funds and is not indicative of the department's standard practices. Further, the department reviewed expenses for the four organizations that received funding from both of the awards and determined that none of the expenses were duplicated.

COMMERCE.MT.GOV

SCOTT OSTERMAN
DIRECTOR



GREG GIANFORTE
GOVERNOR

Recommendation #2

We recommend the Department of Commerce:

- A. Communicate all required award information to subrecipients subject to Single Audit.**
- B. Develop controls to ensure that all award information is communicated to subrecipients as required for any new federal programs.**

Response

- A. Concur. While not all required information was communicated, the department did provide the recipients with information sufficient for them to understand they received federal funds including the start and end date of the award, the amount of the award, the federal award project description, and the name of the federal awarding agency. Additionally, the majority of recipients of the Business Stabilization Grants are not subject to the Single Audit requirements. The department identified each nonprofit that received an award that may be subject to single audit requirements, and has communicated to them the information required in 2 CFR 200.332.
- B. Concur. Going forward the department will ensure all required information is provided to subrecipients through multiple communication channels. Additionally, the department is evaluating the use of compliance checklists to ensure all requirements for any grant proposal are met or exceeded by any applicant with a binary evaluation of compliance.

Recommendation 3

- A. Develop controls to perform the required subrecipient monitoring which includes reviewing the subrecipients' Single Audit reports and issuing management decisions.**
- B. Review the Single Audits of the Tourism Safety Grant program subrecipients, and issue management decisions.**

Response

Concur. The department has worked with the Office of Budget & Program Planning to complete subrecipient monitoring activities. The department has communicated to the subrecipients the Single Audit requirements and plans to review the audits as they become available, and follow-up on any matters that may relate to the Tourism Safety Grants.

Recommendation #4

We recommend the Department of Commerce continue to perform processes and reviews to identify ineligible applicants for the Emergency Rental Assistance Program.

Response

Concur. The department will continue its diligent effort to detect fraudulent applications and prevent disbursements on such claims. The department also plans to move to a single grant database and management system, which will further our fraud detection capabilities.

SCOTT OSTERMAN
DIRECTOR



GREG GIANFORTE
GOVERNOR

The legislative audit staff's hard work and professionalism during the audit is appreciated. My staff and I will be available to discuss the audit and recommendations with the Legislative Audit Committee at its convenience.

Sincerely,

A handwritten signature in black ink, appearing to be "Scott Osterman", written over a horizontal line.

Scott Osterman
Director