

STATEWIDE AUDIT

April 26, 2022

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AGENCIES IN ATTENDANCE



- Department of Administration
- Governor's Office
- Department of Labor and Industry
- Department of Public Health and Human Services

RECAP AND GOAL



- **Recap:**

- Various other audits support SWA
- SWA = your one-stop-shop

- **Goal:**

- Make SWA a more powerful source of information

PRODUCTS ISSUED AND AUDITED



- **Blue Cover Audit Report**
 - Issued to facilitate compliance with auditing standards, including federal Uniform Guidance requirements
- **Annual Comprehensive Financial Report (ACFR)**
 - Issued to comply with GAAP requirements

CONTENT DIFFERENCES

	LAD Report	ACFR
Introductory Section		X
Report on Internal Controls and Compliance	X	
Independent Auditor's Report	X	X
Management's Discussion & Analysis (MD&A)	X	X
Basic Financial Statements (including note disclosures)	X	X
Required Supplementary Information (RSI)	X	X
Supplementary Information (SI) – Combining Statements		X
SI – SEFA	X	
Statistical Section		X

MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)



- Should be an objective analysis of financial activities based on currently known facts, decisions, or conditions
- **Under GAAP, MD&A should:**
 - Compare current year results to the prior year
 - Focus on the primary government
 - Include:
 - Condensed financial information
 - An analysis of the state's overall financial position and results of operations
 - A description of capital asset and long-term debt activity
- **Unaudited**

BASIC FINANCIAL STATEMENTS



- **Basic Financial Statements include:**
 - Government-wide financial statements (A-22 – A-25)
 - Fund financial statements (A-26 – A-39)
 - Governmental Funds
 - Proprietary Funds
 - Fiduciary Funds
 - Notes to the financial statements (A-40 – A-160)
- **Audited**

GOVERNMENT-WIDE FINANCIAL STATEMENTS



- Statement of Net Position (A-22) & Statement of Activities (A-24)
- Distinguish between:
 - Primary Government
 - Governmental Activities
 - Business Type Activities
 - Component Units:
 - Board of Housing, Facility Finance Authority, Montana State Fund, UM, and MSU

GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATEMENT OF NET POSITION
JUNE 30, 2021
(amounts expressed in thousands)

ASSETS

PRIMARY GOVERNMENT			COMPONENT UNITS
GOVERNMENTAL	BUSINESS-TYPE	TOTAL	
ACTIVITIES	ACTIVITIES		

GOVERNMENT-WIDE FINANCIAL STATEMENTS



- **Governmental Activities**
 - Supported by fees, taxes, and intergovernmental revenues
- **Business-Type Activities**
 - Supported by fees and charges to services charged to others

GOVERNMENT-WIDE FINANCIAL STATEMENTS



- **Non-Fiduciary Activities**
 - Fiduciary activities are excluded
- **Full-Accrual Basis of Accounting**
 - Contains all long-term liabilities and non-current assets

STATEMENT OF NET POSITION



- Similar to balance sheet
- **Net Position classification based on nature and restrictions**
 - Net Investment in Capital Assets
 - Restricted, by category
 - Unrestricted

STATEMENT OF ACTIVITIES



- **Operating Statement**
- **Net (Expense) Revenue Format**
 - Illustrates financial burden of each function on the taxpayers
 - Identifies extent to which each function draws on general revenues or is self-financing

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

(amounts expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE
Primary government:					
Governmental activities:					
General government	\$ 1,699,213	\$ 214,699	\$ 1,451,597	\$ 5,918	\$ (26,999)
Public safety	544,839	198,475	29,095	—	(317,269)
Transportation	611,537	35,802	83,533	505,281	13,079
Health and human services	3,418,518	39,781	2,476,116	245	(902,376)
Education	1,492,682	3,563	251,968	1,379	(1,235,772)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL	BUSINESS-TYPE		COMPONENT
	ACTIVITIES	ACTIVITIES	TOTAL	UNITS
Changes in net position:				
Net (expense) revenue	\$ (2,466,486)	\$ (560,222)	\$ (3,026,708)	\$ (138,238)
General revenues:				
Taxes:				
Property	329,585	—	329,585	—
Fuel	274,417	—	274,417	—
Natural resource	160,987	—	160,987	—
Individual income	1,712,162	—	1,712,162	—
Corporate income	261,686	—	261,686	—
Other (Note 1)	431,603	38,141	469,744	—

FUND FINANCIAL STATEMENTS



- **Presented by type of fund**
 - Governmental
 - Proprietary
 - Fiduciary
- **Focus on “Major Funds”**
 - Presented in separate columns
 - Include:
 - General Fund
 - Any meeting size thresholds in GAAP
 - Any others of particular importance

MAJOR FUNDS



- **Governmental Funds**
 - General Fund
 - State Special Revenue Fund
 - Federal Special Revenue Fund
 - Coal Severance Tax Permanent Fund
 - Land Grant Permanent Fund
- **Proprietary Funds**
 - Unemployment Insurance
 - Municipal Finance programs
- **Fiduciary Funds – concept does not apply**

FUND FINANCIAL STATEMENTS



- **Basis of Accounting**

- Modified Accrual – near –term focus
 - Governmental Funds

- Full Accrual

- Proprietary Funds
- Fiduciary Funds

- **Required Reconciliation**

- Governmental Fund financial statements to Government-Wide statements for governmental activities

GOVERNMENTAL FUND FINANCIAL STATEMENTS



- **Balance Sheet**

- Fund Balance presented based on level of restriction
 - Non-spendable
 - Restricted
 - Committed
 - Assigned
 - Unassigned

- **Statement of Revenues, Expenditures, and Changes in Fund Balances**

PROPRIETARY FUND FINANCIAL STATEMENTS



- **Required Statements:**

- Statement of Net Position
- Statement of Revenues, Expenses, and Changes in Fund Net Position
- Statement of Cash Flows

- **Other Info:**

- Major Fund concept – N/A to Internal Service Funds

FIDUCIARY FUND FINANCIAL STATEMENTS



- **Required Statements:**
 - Statement of Fiduciary Net Position
 - Statement of Changes in Fiduciary Net Position
- **Significant Fiduciary Activities:**
 - Pension and Other Employee Trust Fund
 - Investment Trust Fund

NOTES TO THE FINANCIAL STATEMENTS



- Integral part of the basic financial statements
- **Helpful disclosures:**
 - Note 1 – Summary of Significant Accounting Policies
 - Note 3 – Cash/Cash Equivalents and Investments
 - Note 4 – Disaggregation of Accounts Receivable, Accounts Payable, and Deferred Items

NOTES TO THE FINANCIAL STATEMENTS



- **Helpful disclosures:**
 - Note 5 – Capital Assets
 - Note 6 – Retirement Plans
 - Note 11 – State Debt
 - Note 12 – Interfund Balances and Transfers
 - Note 16 – Contingencies
 - Note 17 – Subsequent Events
 - Note 18 – Component Units

OPINION UNITS



- Unique to governmental auditing
- Separates basic financial statements into 11 separate portions

Table 1
Summary of Financial Statements and Related Opinion Units Contained in the
 State's Basic Financial Statements

Type of Financial Statement	Financial Statement Titles	Page # in this Report	Related Opinion Units
Government Wide	Statement of Net Position; Statement of Activities	A-22 A-24	Governmental Activities (1) Business Type Activities (2) Discretely Presented Component Units (3)
Fund Financial	Governmental Funds Balance Sheet; Statement of Revenues, Expenditures, and Changes in Fund Balances Proprietary Fund Statement of Fund Net Position; Statement of Revenues, Expenses, and Changes in Fund Net Position; Statement of Cash Flows Fiduciary Fund Statement of Fiduciary Net Position; Statement of Changes in Fiduciary Net Position	A-26 A-30 A-33 A-35 A-36 A-38 A-39	General Fund (4) State Special Revenue Fund (4) Federal Special Revenue Fund (4) Land Grant Permanent Fund (4) Coal Tax Permanent Fund (4) Unemployment Insurance enterprise fund (5) Municipal Finance Program enterprise fund (5) Remaining Fund Information (6)

SEFA



- Prepared by OBPP
- Required by federal regulations
- Reports expenditures by federal awarding agency and federal program
- Covid-designations are relatively new

SEFA

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2021

		Amount to Subrecipients	Expenditures
DEPARTMENT OF LABOR			
17.002	Labor Force Statistics		\$734,876
17.005	Compensation and Working Conditions		\$92,853
17.201	Registered Apprenticeship	\$49,064	\$299,422
17.225	COVID-19 - Unemployment Insurance		\$565,892,687
17.225	Unemployment Insurance		\$192,462,498

SEFA



- **Total Expenditures - \$6.54 billion**
- **Large increase in expenditures attributed to COVID19 funding**
 - Coronavirus Relief Fund - \$1.14 billion
 - Unemployment Insurance - \$565.9 million
 - Education Stabilization Fund - \$94.5 million
 - Medicaid - \$70.0 million

AUDIT RESULTS



- **Independent Auditor's Report: Unmodified Opinions**
- **Report on Internal Control and Compliance**
 - Material Weaknesses in Internal Controls – 3
 - Department of Labor and Industry
 - Department of Administration
 - Department of Public Health and Human Services
 - Significant Deficiencies in Internal Controls – 1
 - UM and MSU
 - Material Non-Compliance – 1
 - PERB

AUDIT RESULTS: FINDINGS AND RECOMMENDATIONS



- Room for improvement in internal controls
- **Identified Errors:**
 - Duplicated activity, overstating cash and accounts payable by \$26.3 million
 - Errors up to \$14.99 million associated with bad debt expense and allowance for doubtful account activity
 - Errors up to \$87.8 million in Statement of Cash Flow reporting

AUDIT RESULTS: FINDINGS AND RECOMMENDATIONS

RECOMMENDATION #1

We recommend the Department of Administration State Financial Services Division enhance internal controls to ensure:

- A. *Staff consider the underlying nature of UI enterprise fund activity when preparing the basic financial statements, especially in years where the fund has new or unusual activity and*
 - B. *Adjustments made for errors in agency accounting records do not duplicate adjustments made through other processes completed while preparing the basic financial statements and are appropriate to correct the errors.*
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QUESTIONS