STATEWIDE AUDIT

April 26, 2022
Karen Simpson, Financial-Compliance Audit Manager
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
<table>
<thead>
<tr>
<th>Section</th>
<th>LAD Report</th>
<th>ACFR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introductory Section</td>
<td></td>
<td>X</td>
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<tr>
<td>Report on Internal Controls and Compliance</td>
<td>X</td>
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<tr>
<td>Independent Auditor’s Report</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Management’s Discussion &amp; Analysis (MD&amp;A)</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Basic Financial Statements (including note disclosures)</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Required Supplementary Information (RSI)</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Supplementary Information (SI) – Combining Statements</td>
<td></td>
<td>X</td>
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<tr>
<td>SI – SEFA</td>
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<td>X</td>
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<tr>
<td>Statistical Section</td>
<td></td>
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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)*

<table>
<thead>
<tr>
<th>PRIMARY GOVERNMENT COMPONENT</th>
<th>GOVERNMENTAL ACTIVITIES</th>
<th>BUSINESS-TYPE ACTIVITIES</th>
<th>TOTAL</th>
<th>UNITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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)

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

<table>
<thead>
<tr>
<th></th>
<th>GOVERNMENTAL ACTIVITIES</th>
<th>BUSINESS-TYPE ACTIVITIES</th>
<th>TOTAL</th>
<th>COMPONENT UNITS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Changes in net position:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net (expense) revenue</td>
<td>$ (2,466,486)</td>
<td>$ (560,222)</td>
<td>$ (3,026,708)</td>
<td>$ (138,238)</td>
</tr>
<tr>
<td><strong>General revenues:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property</td>
<td>329,585</td>
<td>—</td>
<td>329,585</td>
<td></td>
</tr>
<tr>
<td>Fuel</td>
<td>274,417</td>
<td>—</td>
<td>274,417</td>
<td></td>
</tr>
<tr>
<td>Natural resource</td>
<td>160,987</td>
<td>—</td>
<td>160,987</td>
<td></td>
</tr>
<tr>
<td>Individual income</td>
<td>1,712,162</td>
<td>—</td>
<td>1,712,162</td>
<td></td>
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<tr>
<td>Corporate income</td>
<td>261,686</td>
<td>—</td>
<td>261,686</td>
<td></td>
</tr>
<tr>
<td>Other (Note 1)</td>
<td>431,603</td>
<td>38,141</td>
<td>469,744</td>
<td></td>
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</tbody>
</table>
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
Unique to governmental auditing

Separates basic financial statements into 11 separate portions
<table>
<thead>
<tr>
<th>Type of Financial Statement</th>
<th>Financial Statement Titles</th>
<th>Page # in this Report</th>
<th>Related Opinion Units</th>
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</thead>
<tbody>
<tr>
<td>Government Wide</td>
<td>Statement of Net Position; Statement of Activities</td>
<td>A-22</td>
<td>Governmental Activities (1)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>A-24</td>
<td>Business Type Activities (2)</td>
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<td></td>
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<td>Discretely Presented Component Units (3)</td>
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<tr>
<td>Fund Financial</td>
<td>Governmental Funds Balance Sheet; Statement of Revenues, Expenditures, and Changes in Fund Balances</td>
<td>A-26</td>
<td>General Fund (4)</td>
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<tr>
<td></td>
<td></td>
<td>A-30</td>
<td>State Special Revenue Fund (4)</td>
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<td></td>
<td></td>
<td>A-35</td>
<td>Land Grant Permanent Fund (4)</td>
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<td></td>
<td></td>
<td>A-36</td>
<td>Coal Tax Permanent Fund (4)</td>
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<td></td>
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<td></td>
<td>Unemployment Insurance enterprise fund (5)</td>
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<tr>
<td></td>
<td>Fiduciary Fund Statement of Fiduciary Net Position; Statement of Changes in Fiduciary Net Position</td>
<td>A-38</td>
<td>Municipal Finance Program enterprise fund (5)</td>
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<tr>
<td></td>
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<td>A-39</td>
<td>Remaining Fund Information (6)</td>
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</table>
SEFA

- Prepared by OBPP
- Required by federal regulations
- Reports expenditures by federal awarding agency and federal program
- Covid-designations are relatively new
## State of Montana
### Schedule of Expenditures of Federal Awards
### For the Fiscal Year Ended June 30, 2021

<table>
<thead>
<tr>
<th>DEPARTMENT OF LABOR</th>
<th>Amount to Subrecipients</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>17.002</td>
<td></td>
<td>$734,876</td>
</tr>
<tr>
<td>17.005</td>
<td></td>
<td>$92,853</td>
</tr>
<tr>
<td>17.201</td>
<td>$49,064</td>
<td>$299,422</td>
</tr>
<tr>
<td>17.225</td>
<td>COVID-19 - Unemployment Insurance</td>
<td>$565,892,687</td>
</tr>
<tr>
<td>17.225</td>
<td>Unemployment Insurance</td>
<td>$192,462,498</td>
</tr>
</tbody>
</table>
Total Expenditures - $6.54 billion

Large increase in expenditures attributed to COVID-19 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
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.
QUESTIONS