



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Military Affairs

*For the Two Fiscal Years Ended
June 30, 2020*

MAY 2021

LEGISLATIVE AUDIT
DIVISION

20-25

FINANCIAL-COMPLIANCE AUDITS

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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 March 31, 2022.

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LEGISLATIVE AUDIT DIVISION

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Deputy Legislative Auditors:
Cindy Jorgenson
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May 2021

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Military Affairs for the two fiscal years ended June 30, 2020. Included in this report are four recommendations related to reimbursement for disaster grants, expenditure accruals, payroll splits for the federal operation and maintenance grant, and preparation of the notes to the financial schedules.

During the audit we completed work over personal services, grants, capital outlay, and operating expenditures. We also reviewed federal revenue, budgetary activity, and determined compliance with federal regulations related to the Military Operation and Maintenance federal program.

The department's written response to the recommendations can be found on page C-1.

We thank the Adjutant General 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 Military Affairs

Major General J. Peter Hronek, Adjutant General (as of January 4, 2021)

Major General Matthew T. Quinn, Adjutant General (through January 2, 2021)

Sundi West, Deputy Director, Director's Office

Delila Bruno, Administrator, Disaster and Emergency Services Division

Trent Gibson, Director, Montana Youth Challenge Program

Wendy Fechter, Director, Science and Technology Academies Reinforcing Basic Aviation and Space Exploration Program (STARBASE)

Kelly Ackerman, Administrator, Veterans Affairs Division

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MONTANA LEGISLATIVE AUDIT DIVISION

Department of Military Affairs

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2020

BACKGROUND

The department consists of eleven programs: Air National Guard, Army National Guard, Montana Youth Challenge, Director's Office, Disaster & Emergency Services, Disaster Fund, Military Capital Construction, Montana Military Family Relief Fund, Scholarship Program, Montana Science and Technology Academies Reinforcing Basic Aviation and Space Exploration (STARBASE), and Veterans Affairs. The department, through the Army and Air National Guard, manages a joint federal-state program to maintain trained and equipped military organizations in readiness for state and national mobilizations to active duty. In addition to the National Guard, the department plans for and coordinates state responses in disaster and emergency situations. The department also manages and cooperates with state and federal agencies in providing statewide services for discharged veterans and their families.

The Department of Military Affairs (department) administers several grant programs subject to federal regulations. Past audits have reported recommendations related to allocation, reimbursement, and expenditure accruals for these grant programs. While the department has made progress, this report continues to include recommendations related to these federal programs including a \$6,179 over federal allocation for the Operation and Maintenance federal program and questioned costs of \$127,954 related to Emergency Management Performance Grants.

AUDITOR'S OPINION: UNMODIFIED

We found the department's financial schedules and note disclosures presented fairly the activity of the department in all material respects and issued unmodified opinions. 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-4.

RECOMMENDATIONS:

In this report, we issued the following recommendations:

To the department: 4

To the legislature: 0

In this report, we determined the implementation status of recommendations in the prior audit:

Fully Implemented: 3

Partially Implemented: 2

Not Implemented: 2

RECOMMENDATION #1 (page 5):

Federal Compliance

We recommend the department comply with federal requirements to allocate the correct amount of salaries for employees whose time is split between federal and state activities, reimburse the federal government for the amount overallocated, and develop controls to ensure splits are accurate.

Department response: **Concur**

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

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RECOMMENDATION #2 (page 6):

Internal Control

We recommend the department continue to enhance internal control procedures and training to ensure proper documentation is obtained prior to the reimbursement of expenses under the Emergency Management Performance Grants program.

Department response: **Concur**

RECOMMENDATION #3 (page 8):

Internal Control

Record expenditure accruals in accordance with state accounting policy and improve internal controls over the fiscal year-end expenditure accrual process to ensure expenditures are accrued in accordance with state accounting policy.

Department response: **Concur**

RECOMMENDATION #4 (page 9):

Internal Control

We recommend the Department of Military Affairs strengthen internal controls over the drafting of the financial schedule note disclosures to ensure the information accurately reflects the department's operations.

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: 3

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

Audit Scope

We performed a financial-compliance audit of the Department of Military Affairs (department) for the two fiscal years ended June 30, 2020. The objectives of the audit were to:

1. Determine whether the department's financial schedules present fairly its results of operations for each of the fiscal years ended June 30, 2020, and 2019, and property held in trust for the fiscal year ended June 30, 2019.
2. Obtain an understanding of the department's internal control structures to the extent necessary to support the audit of its financial schedules and, where necessary, make recommendations for improvement in the department's management and internal controls.
3. Determine the department's compliance with selected, applicable laws and regulations.
4. Follow-up on and determine the implementation status of prior audit recommendations.

We addressed these objectives by focusing our audit efforts primarily on federal grants received for the National Guard Military Operations and Maintenance Projects, National Guard Military Construction Projects, Disaster and Emergency Services, and presidentially declared disasters. We also tested transactions related to personal services, capital outlay, federal revenue, operating expenditures, and budgetary activity.

Our work included obtaining an understanding of the department's internal control policies and procedures, performing analytical procedures, and reviewing accounting transactions. We also reviewed and tested compliance with various state and federal laws and regulations.

Background

The department, through the Army and Air National Guard, manages a joint federal-state program to maintain trained and equipped military organizations in readiness for state and national mobilizations to active duty. The department was authorized 213.25 full-time equivalent (FTE) positions in fiscal year 2020. The following paragraphs discuss the various divisions making up the department, as they appear on the Schedules of Total Expenditures & Transfers-Out on pages A-8 and A-9.

Montana National Guard has a unique dual mission that consists of both federal and state roles. The Governor can call the National Guard into action during local or statewide emergencies, such as storms, fires, earthquakes, or civil disturbances.

In addition, the President of the United States can activate the National Guard for participation in federal missions. The Montana National Guard has two programs—the Army National Guard and the Air National Guard.

Army National Guard (51.30 FTE) – A component of the Army (which consists of the Active Army, the Army National Guard, and the Army Reserve). The Army National Guard is composed primarily of traditional Guardsmen—civilians who serve their country, state, and community on a part-time basis. The National Guard has a dual mission that consists of both federal and state roles where the Governor can command guard forces for state missions and the President of the United States can activate the guard for federal missions.

Air National Guard (ANG) (46.00 FTE) – The ANG maintains units available for prompt mobilization during war and provides assistance during national emergencies. During peacetime, the combat-ready units and support units carry out missions compatible with training, mobilization readiness, humanitarian, and contingency operations. Air National Guard units' missions include emergency relief support during natural disasters such as floods, earthquakes, and forest fires; search and rescue operations; support to civil defense authorities; maintenance of vital public services; and counterdrug operations.

Military Capital Construction (0 FTE) – This program is administered by the Montana National Guard and provides support to the Army and Air National Guard for the construction of military facilities, real property improvements, design services, and other projects authorized and directed by Congress or the Department of Defense. FTE are included above for the National Guard programs.

Director's Office (12.32 FTE) – The primary administrative support organization for the department and provides oversight for budgeting, fiscal management, payroll, human resource management, purchasing, information technology, property control, policy development and implementation, and assists with interpretation of rules, regulations, and statutes for all programs within the department.

Disaster and Emergency Services Division (DES) (22.89 FTE) – This division works with local, state, and federal officials to prepare, update, and coordinate emergency preparedness, response, and recovery plans. This responsibility includes the administration and disbursement of federal homeland security and emergency management funds to eligible applicants across the state. DES provides technical support and monitoring for civil defense shelters, exercises, and radiological defense. The division also receives, records, and disburses federal funds to eligible government entities.

Disaster Fund Program (0 FTE) – This division is administered by DES to provide assistance under an emergency or major disaster declaration. The department works with the Federal Emergency Management Agency and uses the funds to restore its own disaster damaged facilities and to provide subgrants to local governments. FTE are included under DES above.

Montana Youth Challenge Academy (53.15 FTE) – This is a 17-month, voluntary, military-modeled training program targeting unemployed, drug-free, and crime-free youth ages 16 to 18 who have stopped attending secondary school before graduating. The program provides values, skills, education, and self-discipline in a quasi-military modeled training environment. The Residential Phase of the program is a 5-month residential stay on the campus of University of Montana–Western in Dillon focusing on physical training, classroom instruction, personal development, and life skills. The Mentoring Phase is a year-long mentoring relationship with a specially trained member of the community where the youth resides to provide a positive role model and to assist the student in gaining employment or enrolling in postsecondary schooling.

Veterans Affairs Division (25.59 FTE) – This division manages and cooperates with state and federal agencies in providing statewide services for discharged veterans and their families. It promotes the general welfare of veterans and assists Montana's veterans and dependents in obtaining veterans' benefits. The program also administers the veterans' cemeteries located in Miles City, Helena, and Missoula.

Montana STARBASE (Science and Technology Academies Reinforcing Basic Aviation and Space Exploration) "Big Sky" Program (2.0 FTE) – This is a program for elementary school-aged children. Its goals include raising interest and improving the knowledge and skills of Montana youth in math, science, and technology by exposing the students and their teachers to real world applications of math and science. The program uses positive role models found on military bases and installations to implement experimental learning, simulations, and experiments in aviation and space-related fields. The program has two locations in Montana, Helena and Great Falls, as well as summer outreach programs to tribes within the state.

Montana Military Family Relief Fund (0.0 FTE) – This is administered by the Director's Office and provides monetary grants to families of Montana National Guard and Reserve Component members who meet the grant criteria. The grants are intended to help Montana families defray the costs of food, housing, utilities, medical services, and other expenses that become difficult to afford when a wage-earner has temporarily left civilian employment to be placed on active military duty. FTE administering the program are counted under the Director's Office above.

Montana Guard Scholarship Program (0.0 FTE) – This is administered by the Director’s Office and was established to assist in recruiting and retention efforts for the Montana National Guard. The program provides scholarships to eligible Montana National Guard personnel enrolled as undergraduate students at Montana colleges, universities, or in training programs. FTE administering the program are counted under the Director’s Office above.

Prior Audit Recommendations

The prior audit report for the two fiscal years ended June 30, 2018, contained seven recommendations to the department. These recommendations related to federal grant reimbursements, expenditure accruals, recording fire suppression activity, compliance with federal regulations, and the financial schedule note disclosure preparation process. Several of these recommendations are repeated in this report. The chart below provides a description of the prior audit recommendation, its current implementation status, and the location of a repeat finding, if applicable.

Table 1
Prior Audit Recommendation (PAR) Status

PAR #	Description	Status	Current Audit Recommendation #	Page #
1	Nondisaster Grant Reimbursements	Partially Implemented	2	6
2	Fire Suppression Activities	Implemented	n/a	
3	Military Operations and Maintenance Project Costs	Implemented	n/a	
4	Disaster Grant Payments	Implemented	n/a	
5	Disaster Accruals	Not Implemented	3	8
6	Internal Controls over Accruals	Partially Implemented	3	8
7	Note Disclosures	Not Implemented	4	9

Source: Compiled by the Legislative Audit Division.

Chapter II – Findings and Recommendations

National Guard Military Operations and Maintenance (O&M) Project Costs

The Department of Military Affairs (department) did not ensure that payroll costs were properly allocated between federal and state sources for the Operations and Maintenance Federal Program.

The department receives federal funding from the National Guard Bureau (NGB) to provide support to the Army and Air National Guard in minor construction, maintenance, repair or operation of facilities, and mission operational support. The state is required to share in the cost of some of these activities as outlined in the Master Cooperative Agreement (MCA) with the NGB, which consists of an Agreement and related Appendices. The Agreement includes the standard terms and conditions applicable to all Appendices, and the Appendices contain the more specific terms and conditions, policy, administrative procedures, scope of work, authorized and unauthorized activities or charges, budget information, and funding limitations.

Federal regulations require expenditures charged to the federal grant be allocable, allowable, and reasonable. During our audit, we sampled 44 expenditure transactions and found two instances where payroll charges were not properly allocated between the federal grant and the General Fund. The two instances allowed us to identify a systematic problem that extended to all applicable employees during the affected time frame.

A Post Engineer split is calculated every six months to allocate costs of certain workers, such as carpenters, between the General Fund and the O&M grant based on actual hours worked on buildings or projects for the previous six months. Based on the actual hours worked a ratio is calculated for charging either federal or state funds. The splits are entered into the state's accounting system so that when applicable employees input their time, their salaries are appropriately allocated between the federal and state funds. Through our sample testing, we found that splits effective for January 1, 2020, through June 30, 2020, were not updated in the state's accounting system. The splits from the previous six-month time frame continued to be used. While the splits do not typically change substantially each period, using the incorrect splits for a six-month time period resulted in a \$6,179 overallocation to the federal fund and under allocation to the General Fund for the same amount.

Federal regulations require nonfederal entities to establish and maintain effective internal control over the Federal award that provides reasonable assurance that the nonfederal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Adequate controls, such as a checklist or calendar reminder, were not in place to ensure that the payroll splits were updated in the state's accounting system.

RECOMMENDATION #1

We recommend the Department of Military Affairs:

- A. *Comply with federal requirements to allocate the correct amount of salaries for employees whose time is split between federal and state projects.*
 - B. *Establish internal controls to ensure the state's accounting system is updated when the splits are recalculated, and*
 - C. *Reimburse the federal government for the amount of payroll costs it was overallocated.*
-

Nondisaster Grant Reimbursements

The department does not have adequate internal controls in place to ensure adequate support is provided prior to reimbursement for grant expenditures incurred by local governments, resulting in noncompliance with federal regulations and questioned costs of \$38,443 and \$89,511 for FY19 and FY20, respectively.

The prior audit report included a recommendation to the department to implement internal controls in the Disaster & Emergency Services Division (DES) to ensure subrecipient reimbursements are supported and allowable under the grant awards at the time the reimbursement is made. As part of our current audit, we followed up on this recommendation and found that internal controls for all but one of the grant types had been put in place to ensure reimbursable expenses are sufficiently supported.

DES administers and distributes several nondisaster federal grants to individual local government subrecipients throughout the state, such as Homeland Security Grants (HSGP), Emergency Management Performance Grants (EMPG), Hazard Mitigation Grants (HMGP), and Pre-Disaster Mitigation Grants (PDM). Subrecipients are to expend funds for projects outlined in the terms of their grant agreement before

receiving reimbursements through requests to DES. The subrecipient sends requests for reimbursements in line with the terms of the grant. DES staff reviews the requests, and if determined adequately supported, approves them. While the prior audit noted unallowable costs with DES grants in general, during the current audit period, we only noted unsupported expenditures for the EMPG grants.

During the audit, we reviewed a sample of 35 grant reimbursements, of which 17 were for EMPG grants. Of the 17 EMPG grants reviewed, we found 15 lacked sufficient documentation, such as which specific employee or position, to support the reimbursement. Most of the expenditures were for personal services expenditures. Under federal regulations, to be an allowable cost for the grant, the expenditures for which reimbursement is requested must be for an activity that falls within the scope of the grant.

Personal service expenditures are very common in the EMPG grant program and are allowed under the grant guidance. However, personal service activities need to be associated with emergency management. The supporting documents for these expenses must contain enough detail to allow a reviewer to determine the scope of the employee's work as it relates to the grant. For example, if an employee does not spend all of their time on emergency management programs, but requests reimbursement without a breakdown of the employee's time spent on the grant, there is not enough supporting documentation to adequately demonstrate the salary costs were related to the EMPG grant. Support must also include adequate detail to indicate the salary expenditures are for emergency personnel salaries rather than other local government employees not providing services applicable to the EMPG grant.

Federal regulations require recipients of federal assistance to implement and maintain effective internal control to provide reasonable assurance the federal award is being administered in compliance with statutes, regulations, and terms and conditions of the federal award. While the department put in place procedures for the reimbursement process for the grant, the procedures did not properly detail the type of documentation needed from subrecipients in order to approve the reimbursement.

The total costs reimbursed for the 17 EMPG grants sampled were \$51,447 in fiscal year 2019 and \$155,731 in fiscal year 2020 of which \$38,443 and \$89,511, respectively, were not adequately supported and therefore considered questioned costs. The activity is recorded on the state's accounting records as grant expenditures. Therefore, without reviewing all of the reimbursement requests, we are unable to distinguish the total amount paid from EMPG grants for personal service reimbursements. In total for fiscal year 2019 and 2020, \$3.7 million was reimbursed to subrecipients for EMPG grants.

As a result of the prior audit recommendation, the department received training in January 2020 to help understand the required documentation needed for reimbursement. While procedures have been updated over the reimbursement process for EMPG grants, they were not implemented until the next funding cycle in fiscal year 2021 which is outside of the audit period. We consider this internal control deficiency to be a significant deficiency and it is reported in our *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance with Government Auditing Standards* on page B-1.

RECOMMENDATION #2

We recommend the Department of Military Affairs continue to enhance internal control procedures and provide training to ensure proper documentation is obtained prior to the reimbursement of expenses under the Emergency Management Performance Grants program.

Expenditure Accruals

The department did not ensure the completeness of expenditure accruals related to disaster grants recorded on the department's accounting records.

The department routinely enters into various contracts with subrecipients for grant projects throughout the year. Often these contracts are not complete, or the department has not issued the payment, by fiscal year-end. In these instances, state accounting policy requires the department to accrue expenditures for commitments related to the contracts as of the end of the fiscal year. State policy also requires the department to have internal controls in place to check the accuracy and reliability of financial data. In the prior audit, we recommended the department record all valid obligations related to disaster grants in accordance with state accounting policy. Based on the results of our current audit work, the department did not establish internal controls that were effective to ensure the expenditure accruals recorded for fiscal year 2020 were complete.

During the fiscal year-end closing process, the Director's Office directs the individual divisions to gather all of their accrual information. Then division staff work with Director's Office staff to create the journal entries. As the Director's Office staff consists of staff performing the accounting functions for the department, they are the ones at the department who have the knowledge of state accounting policy and experience with accruals to identify errors in what the divisions have gathered.

In fiscal year 2020, we noted the following accruals were not recorded:

- ♦ An accrual for the Homeland Security grant for reimbursements to counties in the amount of \$1,027,964 was provided to the Director's Office but was missed when recording other disaster grant accruals. In total, support for 14 accruals for all the different disaster grants were provided to the Director's Office and this was the only one not recorded.
- ♦ The department also had two projects related to flooding where costs were not accrued. Additionally, the federal government allows for up to 5 percent in a subrecipient's costs to be claimed as management costs which the subrecipient can be reimbursed for. These administrative costs were not accrued. In total, between the projects and administrative costs, \$657,770 was not recorded as an accrual.

In both of the above instances, controls were not adequate to ensure that accruals required under state accounting policy were recorded prior to fiscal year-end. A checklist that includes each division or grants that could have accruals could serve as a means to ensure accruals are complete at fiscal year-end. We consider this internal control deficiency to be a significant deficiency and it is reported in our *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance with Government Auditing Standards* on page B-1.

RECOMMENDATION #3

We recommend the Department of Military Affairs:

- A. *Improve internal controls over the fiscal year-end expenditure accrual process to ensure expenditures are accrued in accordance with state accounting policy, and*
 - B. *Record expenditure accruals in accordance with state accounting policy.*
-

Financial Schedule Note Disclosures

The prior audit recommended the department strengthen internal controls over drafting the financial schedule note disclosures. While the department updated their processes to include a review of the notes, our review of the draft notes still found incomplete or inaccurate notes.

The notes, beginning on page A-11, are an integral part of the financial schedules and essential to a reader's understanding of the information presented on the financial

schedules. These notes should include informative disclosures to help a user of the financial schedules understand the activity presented in those schedules. State policy designates management as responsible for preparing these disclosures based on a template provided by the Department of Administration and for determining what additional disclosures, if any, are required beyond those included in the template. Additionally, state policy requires state agencies implement internal controls to ensure the notes provided as part of the audit are free from material misstatement prior to the audit process.

During our review of the first draft of the notes provided by the department, we identified the following incomplete or inaccurate notes:

- ♦ Note 1 under *Basis of Accounting* was missing the types of Governmental fund categories used.
- ♦ Note 1 under *Basis of Presentation* was missing information related to the change in format approved by the Legislative Audit Committee for revenue estimates and due to implementation of GASB Statement 84 – Fiduciary Activities.
- ♦ A note related to explanation of Direct Entries to Fund Equity was omitted.
- ♦ The unspent budget authority note contained incorrect amounts that did not tie to the fiscal year 2020 financial schedules for the Disaster Emergency Services and Disaster Fund Divisions.
- ♦ The subsequent event note did not clearly explain the reason for the \$15 million loan in relation to the expected federal reimbursement amount.

The note disclosures starting on page A-11 have been updated for the items noted above.

Since the prior audit, there was turnover in the staff who prepare the notes. Internal controls should be in place to allow for preparation of complete and accurate notes even when staff turnover occurs. Given the department's procedures did not prevent and detect and correct the misstatements in the note disclosures, we consider the deficiency in internal controls to be a significant deficiency and is reported in our *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance With Government Auditing Standards* on page B-1.

RECOMMENDATION #4

We recommend the Department of Military Affairs strengthen internal controls over the drafting of the financial schedule note disclosures to ensure the information accurately reflects the department's operations.

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 Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2019, of the Department of Military Affairs 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 and liabilities.

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, 2020, and June 30, 2019, or changes in financial position for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held In Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2019, present fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Department of Military Affairs for each of the fiscal years ended June 30, 2020, and 2019, in conformity with the basis of accounting described in Note 1.

Emphasis of Matters

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.

In fiscal year 2020, the state adopted Governmental Accounting Standards Board Statement No. 84—Fiduciary Activities. Implementation of the standard necessitated elimination of the presentation of property held in trust, and its additions and reductions, on the Schedule of Changes in Fund Equity. 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 March 25, 2021, on our consideration of the Department of Military Affairs' 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

March 25, 2021

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL ENDED JUNE 30, 2020

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Custodial Fund
FUND EQUITY: July 1, 2019	\$ <u>(955,650)</u>	\$ <u>2,400,599</u>	\$ <u>(910,791)</u>	\$ <u>(27,640)</u>	\$ <u>0</u>
ADDITIONS					
Budgeted Revenues & Transfers-In	754	1,374,576	54,342,176	10,234,425	
Nonbudgeted Revenues & Transfers-In	48,315	11,030			1,356,170
Prior Year Revenues & Transfers-In Adjustments		(2,728)	(6,777,806)		
Direct Entries to Fund Equity	<u>9,362,042</u>	<u>104,877</u>	<u>(259,131)</u>		
Total Additions	<u>9,411,111</u>	<u>1,487,755</u>	<u>47,305,239</u>	<u>10,234,425</u>	<u>1,356,170</u>
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	8,401,273	1,396,078	53,943,596	10,915,796	
Nonbudgeted Expenditures & Transfers-Out	(539)	92,677			1,356,170
Prior Year Expenditures & Transfers-Out Adjustments	<u>(52,304)</u>	<u>1,778</u>	<u>(576,074)</u>		
Total Reductions	<u>8,348,431</u>	<u>1,490,532</u>	<u>53,367,522</u>	<u>10,915,796</u>	<u>1,356,170</u>
FUND EQUITY: June 30, 2020	\$ <u>107,030</u>	\$ <u>2,397,821</u>	\$ <u>(6,973,074)</u>	\$ <u>(709,012)</u>	\$ <u>0</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Agency Fund
FUND EQUITY: July 1, 2018	\$ <u>(683,375)</u>	\$ <u>1,402,974</u>	\$ <u>(448,999)</u>	\$ <u>0</u>	\$ <u>0</u>
PROPERTY HELD IN TRUST: July 1, 2018					\$ <u>0</u>
ADDITIONS					
Budgeted Revenues & Transfers-In	12,212	2,223,533	44,468,312	525,161	
Nonbudgeted Revenues & Transfers-In	162	598,569			
Prior Year Revenues & Transfers-In Adjustments	753	(19,170)	(2,778,345)		
Direct Entries to Fund Equity	6,888,585	113,511	(1,459,948)		
Additions to Property Held in Trust					1,048,214
Total Additions	<u>6,901,712</u>	<u>2,916,443</u>	<u>40,230,019</u>	<u>525,161</u>	<u>1,048,214</u>
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	7,192,965	1,510,860	41,537,206	552,801	
Nonbudgeted Expenditures & Transfers-Out	(5,050)	394,317	(420)		
Prior Year Expenditures & Transfers-Out Adjustments	(13,928)	13,641	(844,975)		
Reductions in Property Held in Trust					1,058,547
Total Reductions	<u>7,173,987</u>	<u>1,918,818</u>	<u>40,691,811</u>	<u>552,801</u>	<u>1,058,547</u>
FUND EQUITY: June 30, 2019	\$ <u><u>(955,650)</u></u>	\$ <u><u>2,400,599</u></u>	\$ <u><u>(910,791)</u></u>	\$ <u><u>(27,640)</u></u>	\$ <u><u>0</u></u>
PROPERTY HELD IN TRUST: June 30, 2019					\$ <u><u>(10,333)</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF MILITARY AFFAIRS
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	Custodial Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Taxes			\$ 2,115			\$ 2,115
Charges for Services	\$ 339	\$ 369,482	10,140			379,960
Investment Earnings		8,354				8,354
Rentals, Leases and Royalties	414	580				994
Grants, Contracts, and Donations		4,017				4,017
Transfers-in	103	998,431	186,910	\$ 10,234,425		11,419,869
Miscellaneous	48,212	1,450			\$ 1,356,170	1,405,832
Federal		564	47,365,206			47,365,770
Total Revenues & Transfers-In	49,068	1,382,878	47,564,370	10,234,425	1,356,170	60,586,910
Less: Nonbudgeted Revenues & Transfers-In	48,315	11,030			1,356,170	1,415,514
Prior Year Revenues & Transfers-In Adjustments		(2,728)	(6,777,806)			(6,780,534)
Actual Budgeted Revenues & Transfers-In	754	1,374,576	54,342,176	10,234,425	0	65,951,930

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-11.

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

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS					
Taxes	\$ 6		\$ 1,862		\$ 1,868
Charges for Services	5,927	\$ 224,962	8,166		239,056
Investment Earnings		11,855			11,855
Sale of Documents, Merchandise and Property	5,833	974,845	14,566		995,244
Rentals, Leases and Royalties		642			642
Grants, Contracts, and Donations		412,059			412,059
Transfers-in	162	990,656	192,387	\$ 525,161	1,708,365
Federal Indirect Cost Recoveries			1,123		1,123
Miscellaneous	34	187,913	103		188,050
Federal	1,165		41,471,760		41,472,925
Total Revenues & Transfers-In	13,127	2,802,932	41,689,967	525,161	45,031,187
Less: Nonbudgeted Revenues & Transfers-In	162	598,569			598,731
Prior Year Revenues & Transfers-In Adjustments	753	(19,170)	(2,778,345)		(2,796,761)
Actual Budgeted Revenues & Transfers-In	12,212	2,223,533	44,468,312	525,161	47,229,217
Estimated Revenues & Transfers-In	12,212	2,223,713	44,468,312	525,161	47,229,397
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ (180)	\$ 0	\$ 0	\$ (180)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Grants, Contracts, and Donations		\$ (180)			\$ (180)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ (180)	\$ 0	\$ 0	\$ (180)

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-11.

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Air National Guard Program	Army National Guard Program	Challenge Program	Director's Office	Disaster & Eemergency Services	Disaster Fund	Military Capital Construction	Montana Military Family ReliefF Fund	Scholarship Program	STARBASE	Veterans Affairs Program	Total
Personal Services												
Salaries	\$ 2,374,046	\$ 2,579,746	\$ 2,261,413	\$ 742,063	\$ 2,164,499					\$ 154,996	\$ 1,610,552	\$ 11,887,316
Hourly Wages											968	968
Other Compensation			1,966									1,966
Employee Benefits	971,253	1,003,322	1,028,446	252,575	702,206					55,666	649,752	4,663,221
Total	3,345,300	3,583,068	3,291,825	994,638	2,866,705					210,662	2,261,272	16,553,470
Operating Expenses												
Other Services	1,088,447	5,742,875	754,232	129,786	178,659					514,345	62,999	8,471,342
Supplies & Materials	202,754	528,859	320,249	12,636	404,394					58,868	127,607	1,655,367
Communications		198,599	61,453	24,750	83,239					2,563	36,594	407,198
Travel	1,805	59,682	40,486	16,552	93,653					9,535	58,988	280,701
Rent		470,170	327,282	177	288,780					1,834	21,282	1,109,526
Utilities	584,026	1,931,186	2,334		766						19,566	2,537,879
Repair & Maintenance	43,113	5,980,958	6,562	95	6,438					425	12,287	6,049,877
Other Expenses	12,706	129,422	71,383	18,771	111,480	\$ 1,356,170			\$ 111,200	2,391	6,384	1,819,908
Goods Purchased For Resale	315										17	331
Total	1,933,166	15,041,751	1,583,982	202,767	1,167,410	1,356,170			111,200	589,961	345,724	22,332,131
Equipment & Intangible Assets												
Equipment	9,718	111,979									6,195	127,892
Total	9,718	111,979									6,195	127,892
Capital Outlay												
Land & Interest In Land							\$ 52,210					52,210
Buildings							13,768,418				(101,509)	13,666,909
Other Improvements							18,150					18,150
Total							13,838,778				(101,509)	13,737,269
Grants												
From State Sources					81,323	428,693		\$ 140,169			30,000	680,185
From Federal Sources					8,137,640	2,742,080	350,266					11,229,986
Total					8,218,964	3,170,772	350,266	140,169			30,000	11,910,171
Transfers-out												
Fund transfers				32,400	550,693		10,234,425					10,817,518
Total				32,400	550,693		10,234,425					10,817,518
Total Expenditures & Transfers-Out	\$ 5,288,183	\$ 18,736,798	\$ 4,875,807	\$ 1,229,805	\$ 12,803,772	\$ 4,526,942	\$ 24,423,468	\$ 140,169	\$ 111,200	\$ 800,623	\$ 2,541,682	\$ 75,478,451
EXPENDITURES & TRANSFERS-OUT BY FUND												
General Fund	\$ 422,101	\$ 1,736,891	\$ 1,033,411	\$ 732,331	\$ 2,556,427	\$ 428,693			\$ 111,200		\$ 1,327,378	\$ 8,348,431
State Special Revenue Fund		100		83,891	52,067			\$ 140,169			1,214,305	1,490,532
Federal Special Revenue Fund	4,866,082	16,999,808	3,842,396	413,583	10,195,278	2,742,080	\$ 13,507,672			\$ 800,623		53,367,522
Capital Projects Fund							10,915,796					10,915,796
Custodial Fund						1,356,170						1,356,170
Total Expenditures & Transfers-Out	5,288,183	18,736,798	4,875,807	1,229,805	12,803,772	4,526,942	24,423,468	140,169	111,200	800,623	2,541,682	75,478,451
Less: Nonbudgeted Expenditures & Transfers-Out	(17)	(15)	(64)	83,867	8,525	1,356,170					(159)	1,448,308
Prior Year Expenditures & Transfers-Out Adjustments	(14,203)	(51,828)	40,909	1,618	(563,410)				(29,000)	4,131	(14,817)	(626,600)
Actual Budgeted Expenditures & Transfers-Out	5,302,404	18,788,641	4,834,961	1,144,320	13,358,657	3,170,772	24,423,468	140,169	140,200	796,492	2,556,659	74,656,743
Budget Authority	5,706,428	19,153,698	5,050,490	1,388,818	20,869,851	10,297,657	67,091,337	290,000	207,362	884,936	3,232,392	134,172,969
Unspent Budget Authority	\$ 404,024	\$ 365,058	\$ 215,529	\$ 244,498	\$ 7,511,195	\$ 7,126,884	\$ 42,667,868	\$ 149,831	\$ 67,162	\$ 88,444	\$ 675,733	\$ 59,516,226
UNSPENT BUDGET AUTHORITY BY FUND												
General Fund	\$ 501	\$ 9,821	\$ 117,062	\$ 114,882	\$ 627,005	\$ 2,935,120			\$ 67,162		\$ 28,323	\$ 3,899,875
State Special Revenue Fund		320			272,450			\$ 149,831			566,443	989,044
Federal Special Revenue Fund	403,523	354,917	98,466	129,616	6,611,740	4,191,765	\$ 31,351,035			\$ 88,444	50,195	43,279,701
Capital Projects Fund							11,316,833				30,773	11,347,606
Unspent Budget Authority	\$ 404,024	\$ 365,058	\$ 215,529	\$ 244,498	\$ 7,511,195	\$ 7,126,884	\$ 42,667,868	\$ 149,831	\$ 67,162	\$ 88,444	\$ 675,733	\$ 59,516,226

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-11.

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

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Air National Guard Program	Army National Guard Program	Challenge Program	Director's Office	Disaster & Eemergency Services	Disaster Fund	Military Capital Construction	Montana Military Family Relieff Fund	Scholarship Program	STARBASE	Veterans Affairs Program	Total
Personal Services												
Salaries	\$ 2,238,866	\$ 2,586,623	\$ 2,234,395	\$ 744,950	\$ 1,422,873					\$ 147,097	\$ 1,522,817	\$ 10,897,621
Other Compensation			1,690									1,690
Employee Benefits	909,450	1,026,568	1,077,407	253,064	559,998					54,930	633,181	4,514,599
Total	3,148,317	3,613,191	3,313,492	998,014	1,982,872					202,028	2,155,998	15,413,911
Operating Expenses												
Other Services	887,401	5,820,568	733,141	50,671	99,276		\$ 2,975			421,372	40,763	8,056,167
Supplies & Materials	223,468	381,485	230,045	19,918	(558,583)					69,157	64,165	429,655
Communications		150,667	59,293	24,559	49,827					2,353	52,653	339,352
Travel	14,325	101,975	56,301	6,652	64,069			3,554		14,680	53,697	315,254
Rent		358,990	330,612		61,743					175	25,578	777,098
Utilities	531,784	1,965,044	2,470								24,059	2,523,356
Repair & Maintenance	82,161	5,667,896	43,702	96	3,330		49,921			20,923	33,460	5,901,489
Other Expenses	7,025	457,249	59,108	11,789	70,631				\$ 206,975	762	2,180	815,718
Goods Purchased For Resale										8		8
Total	1,746,163	14,903,874	1,514,671	113,685	(209,707)		56,451		206,975	529,430	296,555	19,158,096
Equipment & Intangible Assets												
Equipment	41,342	36,232										77,574
Total	41,342	36,232										77,574
Capital Outlay												
Land & Interest In Land							86,422					86,422
Buildings							580,294				101,509	681,803
Total							666,716				101,509	768,225
Grants												
From State Sources					107,608	\$ 679,474		\$ 54,750				841,831
From Federal Sources					8,814,378	2,547,518	1,560,308					12,922,204
Total					8,921,985	3,226,992	1,560,308	54,750				13,764,035
Transfers-out												
Fund transfers		2,874		66,400	561,141		525,161					1,155,576
Total		2,874		66,400	561,141		525,161					1,155,576
Total Expenditures & Transfers-Out	\$ 4,935,822	\$ 18,556,170	\$ 4,828,163	\$ 1,178,099	\$ 11,256,291	\$ 3,226,992	\$ 2,808,636	\$ 54,750	\$ 206,975	\$ 731,458	\$ 2,554,062	\$ 50,337,418
EXPENDITURES & TRANSFERS-OUT BY FUND												
General Fund	\$ 406,695	\$ 1,632,133	\$ 1,053,957	\$ 768,477	\$ 1,160,942	\$ 741,974			\$ 206,975		\$ 1,202,835	\$ 7,173,987
State Special Revenue Fund		391,863			120,978			\$ 54,750			1,351,227	1,918,818
Federal Special Revenue Fund	4,529,127	16,532,174	3,774,206	409,622	9,974,371	2,485,018	2,255,835			\$ 731,458		40,691,811
Capital Projects Fund							552,801					552,801
Total Expenditures & Transfers-Out	4,935,822	18,556,170	4,828,163	1,178,099	11,256,291	3,226,992	2,808,636	54,750	206,975	731,458	2,554,062	50,337,418
Less: Nonbudgeted Expenditures & Transfers-Out	(257)	391,936	(1,850)	(456)	2,489						(3,013)	388,848
Prior Year Expenditures & Transfers-Out Adjustments	(286)	(70,400)	1,915	(1,718)	(775,559)						785	(845,262)
Actual Budgeted Expenditures & Transfers-Out	4,936,365	18,234,634	4,828,098	1,180,273	12,029,361	3,226,992	2,808,636	54,750	206,975	731,458	2,556,291	50,793,832
Budget Authority	5,226,212	21,511,520	4,967,637	1,291,049	18,555,311	12,768,616	40,822,432	60,000	207,363	765,000	2,910,445	109,085,585
Unspent Budget Authority	\$ 289,847	\$ 3,276,886	\$ 139,540	\$ 110,776	\$ 6,525,950	\$ 9,541,624	\$ 38,013,796	\$ 5,250	\$ 388	\$ 33,542	\$ 354,154	\$ 58,291,753
UNSPENT BUDGET AUTHORITY BY FUND												
General Fund	\$ 19,220	\$ 24,209	\$ 56,571	\$ 22,459	\$ 15,519	\$ 3,257,780			\$ 388		\$ 21,485	\$ 3,417,632
State Special Revenue Fund		240			61,147			\$ 5,250			251,702	318,339
Federal Special Revenue Fund	270,627	3,252,436	82,969	88,317	6,449,284	6,283,844	31,074,550			\$ 33,542	50,195	47,585,764
Capital Projects Fund							6,939,246				30,773	6,970,019
Unspent Budget Authority	\$ 289,847	\$ 3,276,886	\$ 139,540	\$ 110,776	\$ 6,525,950	\$ 9,541,624	\$ 38,013,796	\$ 5,250	\$ 388	\$ 33,542	\$ 354,154	\$ 58,291,753

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-11.

Department of Military Affairs

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2020

1. Summary of Significant Accounting Policies

Basis of Accounting

The Department of Military Affairs (Department) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund (General, State Special Revenue, Federal Special Revenue, and Capital Projects) category. 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, except for 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 Fiduciary (Agency or 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 SABHRS without adjustment.

At the June 16, 2020 LAC meeting, the LAC approved two changes to the content of the regulatory basis special purpose framework for agency financial schedules.

Schedule of Changes in Fund Equity:

The LAC voted to exclude property held in trust activity from the Schedule of Changes in Fund Equity beginning in fiscal year 2020. This change was necessary to facilitate implementation of GASB Statement 84 – Fiduciary Activities at the agency financial schedule level.

Schedule of Total Revenues and Transfers-In:

The LAC voted to exclude revenue estimate activity from the Schedule of Total Revenues and Transfers-In effective for the 2020 audit cycle.

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. An example of the Agency’s use of General Fund is the cost share or matching fund requirements for Federal Grant or other Program(s) Funding.
- ♦ **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’s State Special Revenue Funds include accounting for the Purple Heart & Higher Scholarship Fund, Patriotic License Plate Fees, the Veterans Affairs Cemeteries, Veterans Affairs Fund, Military Family Relief Fund and DES Training Conference.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include The Army National Guard, Air National Guard, Military Capital Construction Fund, Disaster Grants, Homeland Security, Flood and Disaster Mitigation, Long Range Building and Veterans Cemetery Fund.
- ♦ **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 Army NG for Construction projects. For the audit period this included the Malta Readiness Center, Butte Readiness Center, Malta Cemetery, Fort Harrison, CSMS Wash Building and the Helena Aviation Reserve Center.
- ♦ **Agency or Custodial Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the State) clearing account activity, but these must have a zero balance at fiscal year-end. The Department’s agency funds include Emergency Management Assistance Compact (EMAC) which is a mutual aid agreement among states and territories of the United States. The Agency uses the EMAC system to process the reimbursement of City, County and State entities when deployed to other states to assist with a natural or man-made disaster. This system enables states to share resources during natural and man-made disasters, including terrorism. An example of this would be a local municipal (paid and or volunteer) fire company dispatching crews and equipment to help fight a forest fire in another state. Utilizing the EMAC system and Custodial fund gives the state a mechanism to track the billing and reimbursement of these entities.

2. General Fund Equity Balance

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 Departments outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balance for the fiscal year ended June 30, 2019.

The Departments total assets placed in the fund exceed outstanding liabilities, resulting in positive ending General Fund equity balance for the fiscal year ended June 30, 2020. The balance reflects the results of the activity of the Department and not the fund equity balance of the statewide General Fund.

3. Direct Entries to Fund Equity

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

4. Unspent Budget Authority

In FY19 there was unspent authority of \$8.5M in DES, \$7.4M in Disaster fund, and \$38M in the Military Capital Construction due to continuing Disaster Cleanup/Projects and Construction Projects. In FY20 there was unspent authority of \$7.5M in DES, \$7.1M in Disaster fund, and \$42.6M in the Military Capital Construction due to continuing Disaster Cleanup/Projects and Construction Projects. Budgetary authority carries over each fiscal year until the projects are complete after which any remaining/unused authority is then reverted.

5. Subsequent event

Due to the COVID-19 Pandemic, the Agency has borrowed an additional \$15 Million in inter-agency funding in January of 2021. The additional \$15 million was necessary to cover the additional expenses relating to the COVID-19 Pandemic Federal Emergency Management Agency (FEMA) Grant application. all grant contracts must be completely spent out before the Agency can seek reimbursement. This funding was originally booked at 75% reimbursement but on January 21, 2021, President Biden issued a Memorandum on Maximizing Assistance from the (FEMA) which increased the reimbursement rate to 100%, the memorandum provides that the 100 percent

cost share is retroactive for eligible work performed from January 20, 2020 through January 20, 2021. This cost share was previously recorded for the period of January 20, 2020 – June 20, 2020 at 75% Federal/ 25% State Match. The 25% General Fund match will be retroactively billed in SFY 2021. The fiscal impact of this for SFY is still being calculated as of this date, in total across both years of the State of Emergency, it is estimated an additional 4.8 Million in Federal Funding will be provided to the State of Montana for the COVID-19 Pandemic previously funded by the State General Fund (25% Match) due to the President's memorandum.

6. Prior Year Activity

In 2019 an accrual was made for \$13 million to account for 2019 revenues not yet received. This accrual was reversed at the beginning of the SFY2020, on July 29, 2019, in the amount of \$13 million. As of October 2019 only 6.2 million dollars of reimbursement from the Federal Government had been booked leaving the remaining 6.8 million unapplied to SFY 2019 and subsequently recorded to SFY 2020 as revenue, since the SABHRS system does not allow for prior year entries after this point in time. Due to this practice which is not consistent with the MOM policy for Accruals at Fiscal Year-End in Modified Accrual Funds the prior year revenues on the fiscal year 2020 revenue schedule will be understated by \$6.8 million and the SFY 2020 revenues will be overstated.

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 Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2019, of the Department of Military Affairs, and the related notes to the financial schedules, and have issued our report thereon dated March 25, 2021.

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 department's internal control. Accordingly, we do not express an opinion on the effectiveness of department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We consider the deficiencies outlined in the table below to be a significant deficiencies and provide a reference to the applicable recommendation in this report.

Summary of Significant Deficiencies in Internal Control

Subject	Reference in 20-25 report
Internal controls over nondisaster grant reimbursements	Recommendation #2, page 6
Internal controls over expenditure accruals	Recommendation #3, page 8
Internal controls over preparation of note disclosures	Recommendation #4, page 9

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the department's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Department of Military Affairs's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

March 25, 2021

DEPARTMENT OF
MILITARY AFFAIRS

DEPARTMENT RESPONSE



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THE HONORABLE GREG GIANFORTE
GOVERNOR

MAJOR GENERAL J. PETER HRONEK
ADJUTANT GENERAL

May 13, 2021

Angus Maciver
Legislative Auditor
P.O. Box 201705
Helena, MT 59620-1705

RECEIVED
May 14, 2021
LEGISLATIVE AUDIT DIV.

RE: Department of Military Affairs Response to Audit 20-25

Dear Mr. Maciver,

In response to the Financial Compliance Audit Report received by this agency we are submitting the following:

Recommendation #1

We recommend the Department of Military Affairs:

- A. Comply with federal requirements to allocate the correct amount of salaries for employees whose time is split between federal and state projects.**
- B. Establish internal controls to ensure the state's accounting system is updated when splits are recalculated, and**
- C. Reimburse the federal government for the amount of payroll costs it was overallocated.**

Concur DMA will have implemented the recommendation by 1 JUL 2021.

The Department of Military Affairs (DMA) will implement the following Standard Operating Procedure to comply with Recommendation #1 and concur with the Legislative Audit finding.

Standard Operating Procedures for Calculating Post Engineer Split

Pursuant to DMA letter dated 21 April 2021 and signed by MT DMA Deputy Director Sundi West and US Property and Fiscal Officer (USPFO) James Hesterberg, the following procedures will be initiated and communicated to the Director's Office 15 May of the current year in order to be reported to the USPFO on 1 June of the current year.

1. Each post engineer (PE) tracks his or her hours worked at each building/site, as per cat code (100% Federal, 50/50 split, etc.). This information is recorded on what are referred to as white sheets and is conducted daily. Each PE white sheet is submitted to the Construction Facilities and Maintenance Office CFMO Admin Assistant biweekly.

2. Once the CFMO Admin Assistant receives the PE white sheets, the information is input into a tracking spreadsheet. The spreadsheet is saved on the CFMO shared drive.
3. PE hours are tracked from June 1 of the current year to May 31 the following year. In May, the Resource Manager (RM) branch of the CFMO tallies and analyzes the hours from the previous reporting period and uses that information to calculate a new PE fed/state split for the following fiscal year.

Example: $\text{total hours spent on state facilities} / \text{total hours worked} = \text{new state amount \%}$
 $\text{total hours spent on federal facilities} / \text{total hours worked} = \text{new federal amount \%}$
 $\text{total state \%} + \text{total federal \%} \text{ should equal } 100\%$

4. The CFMO RM branch uses the calculated information to populate a memo, which is then routed to the USPFO from the DMA Directors Office requesting the new split with an effective date starting at the beginning of the state fiscal year and ending on June 30 the following year.
5. Concurrent to the newly calculated split percentages, the RM branch will also prepare the forms required to change the PE task profiles and speed charts in the State Human Resources system (SABHRS). These will be sent at the same time as the memo with an effective date of July 1.
6. Upon receipt, the USPFO will issue a memo back to the Directors Office either concurring or not concurring with the proposed changes. If the USPFO concurs then the Directors Office will enter the changes into SABHRS. If the USPFO does not concur with the new splits, the old splits will remain in effect until further guidance is given.
7. The CFMO Budget Analyst will verify SABHRS to make sure the splits were implemented and entered correctly with the correct effective date.

Recommendation #2

We recommend the Department of Military Affairs continue to enhance internal control procedures and provide training to ensure proper documentation is obtained prior to the reimbursement of expenses under the EMPG grant program.

Concur DMA has implemented the recommendation.

Following the 2019 Financial Audit, DMA developed a Corrective Action Plan to address internal control procedures to ensure proper documentation is gathered prior to reimbursement of Emergency Management Performance Grant (EMPG) funding to local governments. A component of this plan was to conduct a review with OBPP related to required documentation associated with local payroll ledgers. This occurred in January 2020. Following this review, MT Disaster and Emergency Services Division (DES) updated associated grant guidance and began outreach to counties and tribes to inform subrecipients of the revisions. The revised guidance took effect on July 1st, 2020. MT DES has been monitoring county and tribal compliance since that time. As noted in the audit report, these changes were implemented outside of the current audit period. The agency has implemented the necessary modifications to procedures to address this recommendation.

Recommendation #3

We recommend the Department of Military Affairs:

- A. **Improve internal controls over the fiscal year-end expenditure accrual process to ensure expenditures are accrued in accordance with state accounting policy, and**
- B. **Record expenditure accruals in accordance with state accounting policy.**

Concur DMA will have implemented the recommendation by **1 JUL 2021**.

The Department of Military Affairs hired a Chief Financial Officer on December 7, 2020, this position was previously only a Lead Budget Analyst. The CFO will work with the Division Administrators to create and implement internal controls to ensure that all divisions within the DMA have access to training and assistance when planning for the fiscal year end process to include the fiscal year-end accruals as detailed in MOM 375 VI (D). Internal Controls over the accrual process will include a tracking mechanism for verifying compliance with state accounting policies and a verification between the divisions and the Director's Office of completion.

Recommendation #4

We recommend the department of Military Affairs strengthen internal controls over the drafting of the financial schedule note disclosures to ensure the information accurately reflects the department's operations.

Concur DMA will have implemented the recommendation by 31 DEC 2021.

The Department of Military Affairs Chief Financial Officer, as the responsible party for the drafting of the disclosures, will work with OBPP to receive the appropriate training on the state's required financial schedule note disclosures. Prior to the next Legislative Audit period, the Department of Military Affairs will implement internal controls and a desk level procedure which will outline the operational information that needs to be reviewed and disclosed in accordance with state policy.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Peter Hronek', with a stylized, cursive script.

Major General J. Peter Hronek
Director, Department of Military Affairs