



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Commerce

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

MARCH 2020

LEGISLATIVE AUDIT
DIVISION

19-16

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

March 2020

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Commerce for the two fiscal years ended June 30, 2019. This report contains no recommendations to the department.

During the audit we focused our audit efforts primarily on the Section 8 Housing Choice Vouchers program, Section 8 Project Based program, and grants provided by the Lodging Faculty Use and Sales Taxes. The department issued grants from state sources totaling approximately \$22 million in fiscal year 2019 and \$11 million in fiscal year 2018. Other testing included, but was not limited to, Personal Services, Investments, and Local Assistance. Our audit work included understanding the department's internal control policies and procedures, performing analytical procedures, and reviewing accounting transactions. We also reviewed and tested compliance with selected state laws.

The department's written response to the audit is included in the audit report on page C-1. We thank the Director and her staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

Department of Commerce Tara Rice, Director
Marty Tuttle, Deputy Director
Jenny Pelej, Administrator, Montana Office of Tourism and Business Development
Jennifer Olson, Administrator, Community Development Division
Bruce Brensdal, Administrator, Housing Division
Dan Villa, Executive Director, Board of Investments
Adam Gill, Executive Director, Montana Facility Finance Authority
Elijah Allen, Operations Director, Montana Heritage Preservation and Development Commission
Tom Tucker, Executive Secretary, Board of Horse Racing

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

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Department of Commerce

For the Fiscal Years Ended June 30, 2019

MARCH 2020

19-16

REPORT SUMMARY

The Department of Commerce (department) works with statewide and local partners, private industry and small businesses to enhance and sustain economic prosperity in Montana. The department's expenditures totaled approximately \$1.5 billion annually. Approximately \$1.37 billion in fiscal year 2019 and \$1.34 billion in fiscal year 2018 of those expenditures were related to local government participant activity in the Short-Term Investment Pool. Approximately \$72 million in 2019 and \$70 million in 2018 in federal grants are related to two federal programs, the Section 8 Housing Choice Vouchers Program and Section 8 Project Based Program.

Context

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

The department's financial schedules include activity that we audit as part of other engagements:

- ◆ The Board of Housing, audited in the 17-07B and 19-07A engagements, provides housing for low-income families and individuals by issuing tax exempt bonds to investors and using the proceeds to purchase mortgages.
- ◆ The Board of Investments, audited in the 18-04A and 18-04B engagements, manages local governments' investment activity. This activity, approximately \$1.528 billion and \$1.533 billion in fiscal years 2019 and 2018, respectively, is accounted for in the department's Investment Trust Fund.

- ◆ The Facility Finance Authority, audited in the 18-12 engagement, issues tax exempt bonds for facilities at interest rates below those that would be available at taxable bond rates.

We relied on these audits, to the extent necessary, to provide us assurance over the related information for fiscal years 2019 and 2018.

In addition to the above reliance, we tested expenditure transactions related to various grants awarded by the department, personal services, and funds transferred to the department from another state agency. We completed federal compliance testing over the Section 8 Housing Choice Vouchers program and Section 8 Project Based program. Our audit included obtaining an understanding over the department's internal control policies and procedures, completing analytical procedures, and reviewing accounting transactions. We also reviewed and tested compliance with selected state laws.

(continued on back)

Results

During the current audit, we followed up on the prior audit's five recommendations and determined all five were implemented. This report contains no recommendations to the department. We issued an unmodified opinion on the department's financial schedules. This means the reader can rely on the information presented on the financial schedules.

For a complete copy of the report (19-16) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <https://leg.mt.gov/lad/audit-reports>
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail LADHotline@mt.gov.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Department of Commerce (department) for the two fiscal years ended June 30, 2019. The accompanying financial schedules include activity that we audit as part of other engagements. These audits are Board of Housing (17-07B, 19-07A), Board of Investments (18-04A, 18-04B), and Montana Facility Finance Authority (18-12). The reports are available upon request. The objectives of this audit were to:

1. Obtain an understanding of the department's internal controls to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in internal and management controls of the department.
2. Determine whether the department's financial schedules for each of the two fiscal years ended June 30, 2019, fairly present the results of operations and changes in fund equity, in accordance with state accounting policy.
3. Determine whether the department complied with selected state laws and federal regulations.
4. Determine the implementation status of audit recommendations made in the prior audit.

We addressed these objectives by focusing our audit efforts primarily on the federal grants received for the Section 8 Housing Choice Program and the Section 8 Project Based Program. We also tested activity related to Personal Services and Grants from State Sources. This included reviewing the department's internal control policies and procedures, performing analytical procedures, and reviewing accounting transactions. In addition, we relied on work completed by our staff in the Board of Investments, Board of Housing, and Facility Finance Authority audits, to the extent necessary, to provide assurance over the activity managed by those divisions. This report contains no recommendations to the department.

As directed by §17-8-101(6), MCA, we reviewed the reasonableness of the department's Investment Division and Director's Office Internal Service Fund fees, charges for services, and the fund equity for fiscal years 2019 and 2018. Based on our review, we determined the Internal Service Fund fees were commensurate with costs and fund equity was reasonable in fiscal years 2019 and 2018.

Background

The department is responsible for promoting and supporting economic and community development. The department consists of many divisions and several entities that are

administratively attached or allocated to the department for administrative purposes, including the Board of Housing, Montana Facility Finance Authority, Board of Investments, Coal Board, Hard Rock Mining Impact Board, State Tribal Economic Development Commission, Montana Heritage Preservation and Development Commission, and the Board of Horse Racing. The following is a description of the various divisions and entities comprising the department, including the number of full-time equivalent (FTE) positions for each.

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

Montana Office of Tourism and Business Development (63.85 FTE) is responsible for promoting a positive image of the state through advertising, publicity, and international and domestic group travel, as well as printing and distribution of publications and marketing to film production companies. The division also administers programs to enhance Montana's economic and business climate, to assist businesses and communities in achieving economic prosperity, and to build the economic base of Montana through business creation, expansion, retention efforts, energy development, and the Board of Research and Commercialization Technology.

Community Development Division (26.45 FTE) works with federal, state, and local governments, as well as the private sector, in areas of community development. The division provides financial and technical assistance through several state and federal programs. These include the Community Development Block Grant Program, Neighborhood Stabilization Program, Community Technical Assistance Program, Treasure State Endowment Program, and the Montana Home Investment Partnership Program. The Coal Board and the Hard Rock Mining Impact Board are independent citizen boards appointed by the governor that are allocated/attached to the division for administrative purposes.

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

Board of Investments (32.00 FTE) invests state funds in accordance with the Montana Constitution and statutory requirements. To manage these funds, the board has created investment pools that operate similar to mutual funds. The board's investment pools are the Short-Term Investments Pool, the Trust Fund Investment Pool, and Consolidated Asset Pension Pool. In addition to these pools, the board manages direct investments for approximately 20 state agencies. The board also administers several programs in the Enterprise Fund, which issue bonds to assist local governments, cities, and school districts, or to provide funds to improve the state's economy.

Housing Division (56.33 FTE) administers the federal Section 8 Housing programs, which provide rent subsidies to eligible low-income families and individuals. The Montana Board of Housing (MBOH) is also a part of the Housing Division and helps provide housing to lower income individuals and families. MBOH moneys are made available through issuance of revenue bonds.

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

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

Prior Audit Recommendations

The prior audit report for the two fiscal years ended June 30, 2017, contained five recommendations to the department. The department implemented all five recommendations.

Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Commerce for each of the fiscal years ended June 30, 2019, and 2018, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the department's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, deferred outflows of resources, liabilities, deferred inflows of resources, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the department as of June 30, 2019, and June 30, 2018, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, present fairly, in all material respects, the results of operations and changes in fund equity of the Department of Commerce for each of the fiscal years ended June 30, 2019, and 2018, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2020, on our consideration of the Department of Commerce's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

March 5, 2020

DEPARTMENT OF COMMERCE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Investment Trust Fund
FUND EQUITY: July 1, 2018	\$ (1,002,491)	\$ 2,295,046	\$ (4,044,222)	\$ 173,982,875	\$ (4,500,792)	\$ 1,233,355,275
ADDITIONS						
Budgeted Revenues & Transfers-In	2,100	21,838,680	8,426,292	51,189,878	8,640,597	
Nonbudgeted Revenues & Transfers-In		448	666,265	30,564,192	76	1,528,740,693
Prior Year Revenues & Transfers-In Adjustments		499,086	(668)	(895,771)	(4)	(87,333)
Direct Entries to Fund Equity	4,770,600	44,163,335	256,677	(14,665)	(53,150)	
Total Additions	<u>4,772,700</u>	<u>66,501,548</u>	<u>9,348,566</u>	<u>80,843,634</u>	<u>8,587,519</u>	<u>1,528,653,360</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	4,756,471	58,612,067	16,765,618	73,488,817	8,309,686	
Nonbudgeted Expenditures & Transfers-Out		13,444,420	(934,381)	4,649,306	236,964	1,373,627,936
Prior Year Expenditures & Transfers-Out Adjustments	(38,412)	408,460	(2,011,376)	(1,257,925)	47,208	
Total Reductions	<u>4,718,059</u>	<u>72,464,947</u>	<u>13,819,861</u>	<u>76,880,198</u>	<u>8,593,859</u>	<u>1,373,627,936</u>
FUND EQUITY: June 30, 2019	<u>\$ (947,850)</u>	<u>\$ (3,668,352)</u>	<u>\$ (8,515,518)</u>	<u>\$ 177,946,311</u>	<u>\$ (4,507,132)</u>	<u>\$ 1,388,380,699</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF COMMERCE
 SCHEDULE OF CHANGES IN FUND EQUITY
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Investment Trust Fund
FUND EQUITY: July 1, 2017	\$ (2,192,881)	\$ (8,644,555)	\$ (7,198,259)	\$ 170,393,487	\$ (3,594,208)	\$ 1,046,205,394
ADDITIONS						
Budgeted Revenues & Transfers-In		22,967,410	8,555,978	51,441,407	7,280,782	
Nonbudgeted Revenues & Transfers-In		387	296,851	25,837,240	79,149	1,533,970,933
Prior Year Revenues & Transfers-In Adjustments		23,010	(32,356)	(967,010)	4,721	(170,468)
Direct Entries to Fund Equity	5,467,750	43,003,438	31,524	415,810	379,314	
Total Additions	5,467,750	65,994,244	8,851,997	76,727,447	7,743,965	1,533,800,465
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	4,295,933	42,393,809	6,006,356	71,711,231	8,284,988	
Nonbudgeted Expenditures & Transfers-Out	(18,573)	14,600,831	315,190	1,428,715	425,386	1,346,650,584
Prior Year Expenditures & Transfers-Out Adjustments		(1,939,997)	(623,586)	(1,886)	(59,825)	
Total Reductions	4,277,359	55,054,643	5,697,961	73,138,059	8,650,549	1,346,650,584
FUND EQUITY: June 30, 2018	\$ (1,002,491)	\$ 2,295,046	\$ (4,044,222)	\$ 173,982,875	\$ (4,500,792)	\$ 1,233,355,275

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

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

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Investment Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Licenses and Permits	\$	21,320				\$	21,320
Taxes			406				406
Charges for Services		14,095,817	36	6,305,218	8,325,974		28,727,046
Investment Earnings		374,314	208,859	26,332,741		30,704,846	57,620,761
Fines and Forfeits		811					811
Sale of Documents, Merchandise and Property		142,199					142,199
Rentals, Leases and Royalties		234,410					234,410
Contributions and Premiums						1,497,948,514	1,497,948,514
Grants, Contracts, and Donations	\$ 2,100	220,439	665,619	2,329,000			222,539
Transfers-in		7,248,903		69,367			10,243,522
Intra-entity Revenue					314,695		314,695
Federal Indirect Cost Recoveries							54,038,942
Federal	2,100	22,338,214	9,091,889	80,858,299	8,640,669	1,528,653,360	1,649,584,531
Total Revenues & Transfers-In		448	666,265	30,564,192	76	1,528,740,693	1,559,971,673
Less: Nonbudgeted Revenues & Transfers-In		499,086	(668)	(895,771)	(4)	(87,333)	(484,689)
Prior Year Revenues & Transfers-In Adjustments		21,838,680	8,426,292	51,189,878	8,640,597	0	90,097,547
Actual Budgeted Revenues & Transfers-In	2,100	18,020,013	8,096,650	49,223,326	8,243,400		83,585,489
Estimated Revenues & Transfers-In	\$ 0	\$ 3,818,667	\$ 329,642	\$ 1,966,552	\$ 397,197	\$ 0	\$ 6,512,058
Budgeted Revenues & Transfers-In Over (Under) Estimated							
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Licenses and Permits	\$	95				\$	95
Charges for Services		9,017		214,349	355,202		578,569
Investment Earnings		27	(181)	1,605,227			1,605,073
Fines and Forfeits		811					811
Sale of Documents, Merchandise and Property		27,999					27,999
Rentals, Leases and Royalties		18,610					18,610
Contributions and Premiums		(220)					(220)
Grants, Contracts, and Donations		28,425					28,425
Transfers-in		3,733,903					3,733,903
Intra-entity Revenue				6,867			6,867
Federal Indirect Cost Recoveries					41,995		41,995
Federal	\$ 0	\$ 3,818,667	\$ 329,822	\$ 140,109	\$ 397,197	\$ 0	\$ 469,931
Budgeted Revenues & Transfers-In Over (Under) Estimated							\$ 6,512,058

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

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

TOTAL REVENUES & TRANSFERS-IN BY CLASS

	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Investment Trust Fund	Total
Licenses and Permits	\$ 23,210				\$	23,210
Taxes		390				390
Charges for Services	15,288,582		3,500,689	6,968,460		25,757,731
Investment Earnings	289,021	201,712	24,183,127		17,430,154	42,104,014
Fines and Forfeits	400					400
Sale of Documents, Merchandise and Property	57,373					57,373
Rentals, Leases and Royalties	192,238					192,238
Contributions and Premiums						
Grants, Contracts, and Donations	253,279		63,421	79,113	1,516,370,310	1,516,370,310
Transfers-in	6,886,703	296,293	500,000			7,682,996
Intra-entity Revenue			36,778			36,778
Federal Indirect Cost Recoveries				317,079		317,079
Federal		8,322,077	48,027,622			56,349,699
Total Revenues & Transfers-In	22,990,806	8,820,473	76,311,637	7,364,652	1,533,800,465	1,649,288,032
Less: Nonbudgeted Revenues & Transfers-In	387	296,851	25,837,240	79,149	1,533,970,933	1,560,184,559
Prior Year Revenues & Transfers-In Adjustments	23,010	(32,356)	(967,010)	4,721	(170,468)	(1,142,104)
Actual Budgeted Revenues & Transfers-In	22,967,410	8,555,978	51,441,407	7,280,782	0	90,245,577
Estimated Revenues & Transfers-In	19,083,485	8,490,135	53,187,148	7,282,000		88,042,768
Budgeted Revenues & Transfers-In Over (Under) Estimated	3,883,925	65,843	(1,745,741)	(1,218)	0	2,202,809

BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS

Licenses and Permits	\$ 3,520				\$	3,520
Charges for Services	(35,788)		(1,301)	(559)		(37,648)
Investment Earnings	(1,661)	(664)	(1,669,050)			(1,671,375)
Fines and Forfeits	(100)					(100)
Sale of Documents, Merchandise and Property	(693)					(693)
Rentals, Leases and Royalties	(217)					(217)
Grants, Contracts, and Donations	(2,514)					(2,514)
Transfers-in	3,921,377	4,500	(222)			3,925,877
Intra-entity Revenue					(659)	(659)
Federal Indirect Cost Recoveries		62,007	(75,168)			(13,161)
Federal		65,843	(1,745,741)	(1,218)	0	2,202,809
Budgeted Revenues & Transfers-In Over (Under) Estimated	3,883,925	65,843	(1,745,741)	(1,218)	0	2,202,809

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

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

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Board of Horse Racing	Board of Investments	Community Development Division	Directors Office	Housing Division	Montana Heritage Commision	Montana Facility Finance Authourity	Montana Office of Tourism and Business Development	Total
Personal Services									
Salaries	\$ 13,865	\$ 3,245,962	\$ 1,290,290	\$ 1,326,855	\$ 2,822,157	\$ 372,701	\$ 200,732	\$ 3,154,451	\$ 12,427,012
Other Compensation		10,300	1,800		5,800		5,150	350	23,400
Employee Benefits	1,211	655,566	498,216	341,028	956,084	132,224	51,337	1,204,584	3,840,251
Personal Services-Other		(29,454)		1,193	18,880		1,184		(8,197)
Total	<u>15,076</u>	<u>3,882,374</u>	<u>1,790,306</u>	<u>1,669,076</u>	<u>3,802,921</u>	<u>504,925</u>	<u>258,403</u>	<u>4,359,385</u>	<u>16,282,467</u>
Operating Expenses									
Other Services	38,030	1,706,759	94,707	47,129	4,221,880	272,401	52,806	6,993,650	13,427,361
Supplies & Materials	425	34,404	53,223	43,547	107,096	103,678	9,337	139,091	490,802
Communications	1,442	38,046	33,532	22,913	172,710	78,191	7,888	10,840,063	11,194,785
Travel	24,994	118,597	34,642	12,507	166,738	17,987	13,551	266,814	655,830
Rent		229,927	113,388	125,789	435,904	10,195	28,509	467,958	1,411,670
Utilities						99,140			99,140
Repair & Maintenance		829	47,446	7,575	378,221	228,792	146	20,225	683,234
Other Expenses	226,226	669,666	295,865	31,066	1,993,099	137,993	57,496	1,956,118	5,367,529
Goods Purchased For Resale						115,914			115,914
Total	<u>291,117</u>	<u>2,798,228</u>	<u>672,804</u>	<u>290,527</u>	<u>7,475,647</u>	<u>1,064,290</u>	<u>169,734</u>	<u>20,683,918</u>	<u>33,446,264</u>
Equipment & Intangible Assets									
Equipment						32,965			32,965
Capital leases - equipment					(1,290,289)				(1,290,289)
Intangible Assets					1,290,289				1,290,289
Total					<u>0</u>	<u>32,965</u>			<u>32,965</u>
Capital Outlay									
Buildings						121,629			121,629
Other Improvements						532,522			532,522
Total						<u>654,151</u>			<u>654,151</u>
Local Assistance									
From State Sources								8,024,072	8,024,072
Total								<u>8,024,072</u>	<u>8,024,072</u>
Grants									
From State Sources			16,652,035				141,982	7,106,087	23,900,104
From Federal Sources			10,645,244	450,002					11,095,246
Total			<u>27,297,280</u>	<u>450,002</u>			<u>141,982</u>	<u>7,106,087</u>	<u>34,995,350</u>
Benefits & Claims									
To Individuals				50,000				15,000	65,000
From Federal Sources					42,859,525				42,859,525
STIP Distrib to Local Govts		1,373,627,936							1,373,627,936
Total		<u>1,373,627,936</u>		<u>50,000</u>	<u>42,859,525</u>			<u>15,000</u>	<u>1,416,552,462</u>
Transfers-out									
Fund transfers		13,552,282	2,400,000		2,329,000			1,732,972	20,014,254
Intra-Entity Expense							69,367	200,000	269,367
Total		<u>13,552,282</u>	<u>2,400,000</u>		<u>2,329,000</u>		<u>69,367</u>	<u>1,932,972</u>	<u>20,283,620</u>
Debt Service									
Bonds		2,254,682			16,556,675				18,811,356
Total		<u>2,254,682</u>			<u>16,556,675</u>				<u>18,811,356</u>
Post Employment Benefits									
Other Post Employment Benefits		8,713		5,014	6,785		1,592		22,103
Employer Pension Expense		445,822		176,371	284,893		92,963		1,000,050
Total		<u>454,535</u>		<u>181,385</u>	<u>291,678</u>		<u>94,555</u>		<u>1,022,153</u>
Total Expenditures & Transfers-Out	<u>\$ 306,193</u>	<u>\$ 1,396,570,036</u>	<u>\$ 32,160,390</u>	<u>\$ 2,640,989</u>	<u>\$ 73,315,447</u>	<u>\$ 2,256,331</u>	<u>\$ 734,040</u>	<u>\$ 42,121,434</u>	<u>\$ 1,550,104,860</u>
EXPENDITURES & TRANSFERS-OUT BY FUND									
General Fund			823,042					3,895,017	4,718,059
State Special Revenue Fund	\$ 306,193	\$ 13,552,282	19,947,560			\$ 2,256,331		36,402,581	72,464,947
Federal Special Revenue Fund			11,389,788	450,002	156,236			1,823,836	13,819,861
Enterprise Fund		2,986,946			73,159,211		734,040		76,880,198
Internal Service Fund		6,402,872		2,190,988					8,593,859
Investment Trust Fund		1,373,627,936							1,373,627,936
Total Expenditures & Transfers-Out	<u>306,193</u>	<u>1,396,570,036</u>	<u>32,160,390</u>	<u>2,640,989</u>	<u>73,315,447</u>	<u>2,256,331</u>	<u>734,041</u>	<u>42,121,434</u>	<u>1,550,104,860</u>
Less: Nonbudgeted Expenditures & Transfers-Out		1,387,371,852		84,643	4,535,562		74,431	(1,042,243)	1,391,024,245
Prior Year Expenditures & Transfers-Out Adjustments	(761)	46,991	258,514	(128)	(1,270,144)	76,172	12,564	(1,975,254)	(2,852,045)
Actual Budgeted Expenditures & Transfers-Out	<u>306,954</u>	<u>9,151,193</u>	<u>31,901,876</u>	<u>2,556,475</u>	<u>70,050,028</u>	<u>2,180,159</u>	<u>647,045</u>	<u>45,138,931</u>	<u>161,932,660</u>
Budget Authority	313,225	9,552,118	52,848,773	2,765,756	79,418,207	2,346,419	843,902	50,970,085	199,058,486
Unspent Budget Authority	<u>\$ 6,271</u>	<u>\$ 400,925</u>	<u>\$ 20,946,897</u>	<u>\$ 209,281</u>	<u>\$ 9,368,179</u>	<u>\$ 166,261</u>	<u>\$ 196,857</u>	<u>\$ 5,831,155</u>	<u>\$ 37,125,826</u>
UNSPENT BUDGET AUTHORITY BY FUND									
General Fund			128					(18,185)	(18,057)
State Special Revenue Fund	\$ 6,271		8,921,131		111,475	166,261		5,418,063	14,623,201
Federal Special Revenue Fund			12,025,638	49,998	1,995,289			431,277	14,502,202
Enterprise Fund		69,727			7,261,415		196,857		7,527,999
Internal Service Fund		331,198		159,283					490,481
Unspent Budget Authority	<u>\$ 6,271</u>	<u>\$ 400,925</u>	<u>\$ 20,946,897</u>	<u>\$ 209,281</u>	<u>\$ 9,368,179</u>	<u>\$ 166,261</u>	<u>\$ 196,857</u>	<u>\$ 5,831,155</u>	<u>\$ 37,125,826</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

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

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Board of Horse Racing	Board of Investments	Community development Division	Directors Office	Housing Division	Montana Heritage Commission	Montana Facility Finance Authority	Montana Office of Tourism and Business development	Total
Personal Services									
Salaries	\$ 10,333	\$ 3,091,811	\$ 1,032,409	\$ 1,318,663	\$ 2,860,344	\$ 351,731	\$ 148,647	\$ 3,167,889	\$ 11,981,828
Other Compensation		10,750	1,600		5,550		6,750	450	25,100
Employee Benefits	845	599,986	356,890	301,655	845,465	117,062	43,221	1,079,648	3,344,771
Personal Services-Other		25,227	(14,770)	15,432	(14,770)		7,825		33,714
Total	11,177	3,727,774	1,390,900	1,635,750	3,696,589	468,793	206,443	4,247,987	15,385,413
Operating Expenses									
Other Services	43,466	1,897,720	106,884	44,984	4,014,939	304,221	40,327	8,090,262	14,542,802
Supplies & Materials		63,230	94,667	42,772	174,199	252,658	17,208	162,333	807,066
Communications	531	63,711	34,999	25,399	160,750	74,347	5,620	5,752,607	6,117,965
Travel	11,395	99,229	53,655	22,633	184,027	28,875	28,499	268,218	696,531
Rent	126	229,099	97,590	126,602	306,643	12,999	26,408	482,120	1,281,587
Utilities						107,441			107,441
Repair & Maintenance		952	56,572	2,907	375,722	93,708	151	28,277	558,288
Other Expenses	177,308	642,213	341,472	31,236	2,140,732	119,455	54,308	2,116,221	5,622,944
Goods Purchased For Resale						32,129			32,129
Total	232,826	2,996,153	785,837	296,532	7,357,012	1,025,832	172,521	16,900,039	29,766,752
Equipment & Intangible Assets									
Equipment						38,123			38,123
Capital leases - equipment					1,290,289				1,290,289
Intangible Assets					(1,290,289)				(1,290,289)
Total					0	38,123			38,123
Capital Outlay									
Other Improvements						746,792			746,792
Total						746,792			746,792
Local Assistance									
From State Sources								7,482,594	7,482,594
Total								7,482,594	7,482,594
Grants									
From State Sources			3,799,434				45,000	8,006,812	11,851,246
From Federal Sources			2,949,753	437,718				36,000	3,423,472
Total			6,749,187	437,718			45,000	8,042,812	15,274,718
Benefits & Claims									
From Federal Sources					43,249,183				43,249,183
STIP Distrib to Local Govts		1,346,650,584							1,346,650,584
Total		1,346,650,584			43,249,183				1,389,899,767
Transfers-out									
Fund transfers		14,690,912	42		500,000			1,296,985	16,487,940
Intra-Entity Expense							36,778	200,000	236,778
Total		14,690,912	42		500,000		36,778	1,496,985	16,724,718
Debt Service									
Bonds		1,905,753			15,019,099				16,924,852
Total		1,905,753			15,019,099				16,924,852
Post Employment Benefits									
Other Post Employment Benefits		9,157		4,963	1,991				16,111
Employer Pension Expense		508,982		213,144	463,882		23,308		1,209,316
Total		518,139		218,107	465,873		23,308		1,225,427
Total Expenditures & Transfers-Out	\$ 244,003	\$ 1,370,489,315	\$ 8,925,966	\$ 2,588,108	\$ 70,287,756	\$ 2,279,540	\$ 484,050	\$ 38,170,417	\$ 1,493,469,155
EXPENDITURES & TRANSFERS-OUT BY FUND									
General Fund			727,316					3,550,043	4,277,359
State Special Revenue Fund	\$ 244,003	\$ 14,690,912	4,634,425			\$ 2,279,540		33,205,764	55,054,643
Federal Special Revenue Fund			3,564,225	\$ 437,718	\$ 281,406			1,414,611	5,697,961
Enterprise Fund		2,647,659			70,006,350		\$ 484,050		73,138,059
Internal Service Fund		6,500,160		2,150,389					8,650,549
Investment Trust Fund		1,346,650,584							1,346,650,584
Total Expenditures & Transfers-Out	244,003	1,370,489,315	8,925,966	2,588,108	70,287,756	2,279,540	484,050	38,170,417	1,493,469,155
Less: Nonbudgeted Expenditures & Transfers-Out		1,361,658,309	16,835	138,436	1,378,211		20,640	208,274	1,363,420,705
Prior Year Expenditures & Transfers-Out Adjustments	(16)	(34,842)	(983,385)	(93,354)	4,628	23,539	(442)	(1,559,995)	(2,643,867)
Actual Budgeted Expenditures & Transfers-Out	244,018	8,865,848	9,892,516	2,543,025	68,904,917	2,256,002	463,852	39,522,139	132,692,317
Budget Authority	272,185	9,415,507	46,905,969	2,692,825	77,195,654	2,372,428	557,234	45,863,215	185,275,017
Unspent Budget Authority	\$ 28,167	\$ 549,659	\$ 37,013,453	\$ 149,800	\$ 8,290,737	\$ 116,426	\$ 93,382	\$ 6,341,076	\$ 52,582,700
UNSPENT BUDGET AUTHORITY BY FUND									
General Fund			1,575					66,162	67,737
State Special Revenue Fund	\$ 28,167		21,701,927		\$ 75,000	\$ 116,426		4,771,935	26,693,455
Federal Special Revenue Fund			15,309,951		2,004,799			1,502,979	18,817,730
Enterprise Fund		\$ 133,300			6,210,938		\$ 93,382		6,437,620
Internal Service Fund		416,359		\$ 149,800					566,159
Unspent Budget Authority	\$ 28,167	\$ 549,659	\$ 37,013,453	\$ 149,800	\$ 8,290,737	\$ 116,426	\$ 93,382	\$ 6,341,076	\$ 52,582,700

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

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

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue). In applying the modified accrual basis, the department records:

- ◆ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ◆ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Investment Trust) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

- ◆ **General Fund** – to account for all financial resources except those required to be accounted for in another fund. Our uses for general fund are to help with economic development, international trade, match for federal programs, community technical assistance, research and information and grants.

- ◆ **State Special Revenue Fund** – to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include; Distressed Woods, Micro-business Loans, School Facilities and Tech Account, Treasure State Endowment Fund, Coal Board, and Montana Heritage Commission.
- ◆ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include assistance programs such as Community Development Block Grants, Housing Tax Credit Exchange, Neighborhood Stabilization, and HOME grants.

Proprietary Fund Category

- ◆ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. Department Internal Service Funds include the Investment Division and the Director’s Office.
- ◆ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities’ cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Department Enterprise Funds include; Facility Finance Authority, Board of Housing, Board of Investments Municipal Finance Programs (previously referred to as Economic Development Bond Fund in prior years), and Section 8 Housing Programs.

Fiduciary Fund Category

Investment Trust Fund – to account for the local government participant activity in the Short-Term Investment Pool (STIP) and Trust Funds Investment Pool (TFIP) managed by the Board the Investments in a fiduciary capacity. Both the STIP and TFIP are considered external investment pools. The local government participants are legally separate entities from the State of Montana. Under the financial schedule format adopted by the Legislative Audit Committee, the additions to the Investment Trust Fund represent purchases by the local government participants in the pools and their net investment earnings. The deductions represent sales from the local government participants in the pools and income distributions to those participants.

2. Negative Fund Equity Balance

- ◆ **General Fund** – the negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2018 and June 30, 2019.
- ◆ **State Special Revenue Fund** – the negative fund equity balance in the state special revenue fund does not indicate overspent appropriation authority. For each of the fiscal years ended June 30, 2018 and June 30, 2019, liabilities related to the valid grant obligations created the negative fund equity presented on the Schedule of Total Expenditures & Transfers-Out.
- ◆ **Federal Special Revenue Fund** – the negative fund equity balance in the federal special revenue fund does not indicate overspent appropriation authority. For each of the fiscal years ended June 30, 2018 and June 30, 2019, liabilities related to the valid grant obligations created the negative fund equity presented on the Schedule of Total Expenditures & Transfers-Out.
- ◆ **Internal Service Fund** – the negative fund equity balance in the Internal Service Fund does not indicate overspent appropriation authority. For each of the fiscal years ended June 30, 2018 and June 30, 2019, noncash liabilities related to the state pension liability and OPEB created the negative fund equity presented on the Schedule of Total Expenditures & Transfers-Out.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General and State Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. The difference in direct entries between fiscal year 2018 and fiscal year 2019 is related to closing cash to administering business units.

Direct entries to fund equity in the General, State Special Revenue, Federal Special Revenue Fund, Internal Service, and Enterprise funds include: correction of an error from a previous period that occurred at least two fiscal years prior; to true up non-governmental fund pension Balance Sheet accounts for FY18 for Public Employee Retirement System, reduction of accrued grant awards; reclassification of prepaid expenses, reclassification of inventory

4. Unspent Budget Authority

The difference in unspent budget authority is due to a continuing appropriation for the Treasure State Endowment Program. Because it is a continuing appropriation, any

unspent authority is carried forward to the next year. Any valid obligations at the end of fiscal year 2019 were accrued.

5. Cash Transfer

SB 4 of the 11/2017 Special Session required Board of Investments to transfer a 3% management fee to the Fire Suppression Fund. The transfer was \$14,690,9120 for FY18 and \$13,552,282 for FY19. HB 6 from the 11/2017 Special Session require the Quality Schools Fund to transfer \$3,400,000 in FY18. The Department of Administration completed several transfers that were required from the Regular and Special Sessions of 2017.

6. Prior Period Adjustments

Prior period activity relates to adjustments made for Pension Deferred Outflows of Resources corrections for both FY17 and FY18 from the implementation of GASB 68. The differences are considered immaterial and affect Montana Facility Finance Authority, Montana Board of Investments, and Montana Board of Housing.

7. Subsequent Events

On July 30, 2019, Single Family Mortgage Bonds, 2019 series B, were issued for \$30,000,0000 to be used for the purpose of acquiring additional mortgage loans in Montana. This event does not require adjustment to fiscal year 2019 financial statements.

On July 11, 2019, Montana Facility Finance Authority made a loan of \$335,870 to Central Montana Medical Center to finance equipment and renovation to create an interventional radiology suite.

On July 15, 2019, Montana Facility Finance Authority made a loan of \$498,531 to Northeast Montana Health Services to refinance debt incurred to replace its boiler system.

On July 18, 2019, Montana Facility Finance Authority made a loan of \$298,470 to Job Connection to refinance debt incurred to build an administrative building.

On August 8, 2019, Montana Facility Finance Authority issued bonds of \$4,000,000 for the for the Bighorn Valley Health Center to construct a new community health clinic in Hardin.

In June 2019, the Montana Board of Investments requested a 100% redemption in the amount of \$101 million from one manager, pertaining to investments within TFIP. Since the date of the request, the redemption has been received.

The Montana Board of Investments' (Board) Chief Investment Officer (CIO) resigned July 19, 2019. Per the Board's Governance Policy, the Executive Director was the acting CIO until the Board hired a replacement. A new CIO was hired on February 11, 2020.

In November 2017, the Governor called the Montana legislature into special session to address a significant budget shortfall in the State's general fund. Senate Bill 4 was passed into law and directed the Montana Board of Investments (Board) to apply a 3% charge against the average total investments of the State Fund exceeding \$1 billion providing certain conditions are met. The Board as statutorily directed transferred money from this charge to the State's Fire Suppression Fund. A lawsuit in District Court was filed by a group of Montana State Fund policyholders, to prevent the Board from charging the 3% management fee. In August 2019, the plaintiffs appealed the District Court Decision to the Montana Supreme Court.

Since June 30th, the Montana Board of Investments has received an additional \$13.0 million in loan reservations from Montana Lenders and committed \$25.0 million in loans from the Coal Severance Tax Permanent Fund's In-State Loan Programs. Refer to Note 8 – Coal Severance Tax Trust Fund Loan and Mortgage Commitments for further detail.

Since June 30th, the Montana Board of Investments made additional commitments to fund loans from the INTERCAP loan program in the amount of \$16.98 million.

During October 2019, a single state entity borrower pre-paid \$11.5 million in principle on outstanding INTERCAP loans.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

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



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Commerce for each of the fiscal years ended June 30, 2019, and 2018, and the related notes to the financial schedules, and have issued our report thereon dated March 5, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the department's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department's internal control.

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

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify

any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the department's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

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 5, 2020

DEPARTMENT OF
COMMERCE

DEPARTMENT RESPONSE

TARA RICE
DIRECTOR



STEVE BULLOCK
GOVERNOR

March 25, 2020

RECEIVED
March 25, 2020
LEGISLATIVE AUDIT DIV.

Angus Maciver, Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena, MT 59602-1705

Dear Mr. Maciver:

We have received and reviewed the financial-compliance audit for the Department of Commerce for the two fiscal years ending June 30, 2019. We have reviewed the financial-compliance audit report which contains no recommendations. We do not have any comments to the report.

I would like to take this opportunity to thank you and your staff for the professionalism and courtesy that was shown during the audit. We appreciate the service of your staff while reviewing our procedures, internal controls, and accounting practices.

We are available to answer any further questions you may have.

Sincerely,

A handwritten signature in blue ink, appearing to read "Tara Rice".

Tara Rice,
Director
Montana Department of Commerce