A Report
to the
Montana
Legislature

Financial-Compliance Audit

Department of Administration

For the Two Fiscal Years Ended June 30, 2022

February 2023

Legislative Audit
Division

22-13

Legislative Audit Committee

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Financial-Compliance Audits

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

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2021, was issued June 21, 2022. The Single Audit Report for the two fiscal years ended June 30, 2023, will be issued by March 31, 2024.

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LEGISLATIVE AUDIT DIVISION

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February 2023

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report of the Department of Administration for the two fiscal years ended June 30, 2022. This report contains four department recommendations related to service organizations, long-range information technology capital projects, classification misstatements, and the state accounting function. The report contains qualified opinions on the financial schedules for fiscal years 2021 and 2022 related to expenditure misclassifications in the Director's Office and State Financial Services Division programs.

The department's written response to the audit recommendations 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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Figures and Tables

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Department of Administration	Misty Ann Giles, Director
	Yvette Englert, Deputy Director
	Don Harris, Chief Legal Counsel
	Cheryl Grey, CPA, Administrator, State Financial Services Division
	Russell Katherman, Administrator, Architecture and Engineering Division
	Stephen Baiamonte, Administrator, General Services Division
	Amy Jenks, Administrator, Health Care and Benefits Division
	Kevin Gilbertson, Chief Information Officer, State Information Technology Services Division
	Melanie Griggs Hall, Commissioner, Banking and Financial Institutions Division
	Brett Dahl, Administrator, Risk Management and Tort Defense Division
	Scott Sales, Director, Montana State Lottery
	Anjenette Schafer, Administrator, State Human Resources Division
	Dave McAlpin, Chair, Montana Tax Appeal Board

The Public Employees' Retirement Administration, the Teachers' Retirement System, and the Montana State Fund, which are allocated to the department, are audited separately and their financial information is not included in the department's financial schedules.

For additional information concerning the Department of Administration, contact:

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Montana Legislative Audit Division

Financial-Compliance Audit
Department of Administration
For the Two Fiscal Years Ended June 30, 2022

A report to the Montana Legislature

Background

The Department of Administration (department) employs over 500 employees and is responsible for providing key services to other state agencies. These services include accounting and financial reporting, state treasury functions; payroll, employee benefits, and human resources; Capitol complex maintenance and the maintenance, construction, and remodeling of state buildings; information systems development and maintenance; and insurance and risk management.

Additionally, the department administers the state's General Fund. During the audit period, the department transferred-out over $700 million from the General Fund to fund other programs or functions of state government. At the end of fiscal year 2022, the fund equity balance of the General Fund was approximately $1.9 billion.

The Department of Administration provides services to state government agencies in various areas. The majority of these services are managed through the department's Internal Service Funds. These funds generated roughly $614 million in revenues during the audit period. Significant expenditures of the department included approximately $700 million in Transfers-Out of the General Fund and roughly $410 million in benefit and claims expenditures associated with the State of Montana Benefit Plan. Additionally, the department distributed over $250 million in CARES Act funds and $86 million in ARPA funding during the audit period.

AUDITOR'S OPINION (see page A-1): QUALIFIED
Due to misstatements identified during the audit period, which are discussed in further detail in Recommendation #3 on page 12, we issued a qualified opinion on the fiscal year 2021 and 2022 financial schedules. This means the reader should understand the misstatements outlined in the opinion when using the financial schedules.

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: 1
Partially Implemented: 2
Not Implemented: 2

(continued on back)

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

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The mission of the Legislative Audit Division is to increase public trust in state government by reporting timely and accurate information about agency operations, technology, and finances to the Legislature and the citizens of Montana.

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Recommendation #1 (page 11):
Internal Control
We recommend the department implement controls to obtain and review service organization control reports and enhance controls over access to financial systems at the State Information Technology Services Division and Health Care and Benefits Division.

Department response: Concur

Recommendation #2 (page 12):
Internal Control
We recommend the department enhance internal controls to ensure the expenditures charged to the long-range IT appropriations are for the projects appropriated to the department by the legislature.

Department response: Concur

Recommendation #3 (page 13):
Accounting and Financial reporting, Internal Control
We recommend the department ensure expenditure activity is accurately classified in compliance with state accounting policy and enhance internal controls to ensure new significant activity is accurately classified in the state's accounting records.

Department response: Partially Concur

Recommendation #4 (page 15):
State Compliance, Internal Control
We recommend the department enhance internal controls to comply with state law by ensuring uniform accounting across state agencies, all necessary transactions are recorded before the accounts close at fiscal year-end, and adequate accounting policy is available to state agencies.

Department response: Concur

REPORT ON INTERNAL CONTROL AND COMPLIANCE (page B-1):
In this report, we identified the following:
Material Weaknesses in Internal Control: 1
Significant Deficiencies in Internal Control: 1
Material Non-Compliance: 0
Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

Chapter I – Introduction and Background

Introduction

We performed a financial-compliance audit of the Montana Department of Administration (department) for the two fiscal years ended June 30, 2022. The objectives of the audit were to:

1. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.
2. Determine if the department's financial schedules present fairly the results of operations for each of the fiscal years ended June 30, 2022, and 2021.
3. Determine if the department complied with selected state and federal laws and regulations during the audit period.
4. Determine the implementation status of prior audit recommendations.

Our audit efforts focused primarily on the department's activity related to: transfers; inter-entity loans; lottery revenues and expenses; State of Montana Benefit Plan contribution revenues and benefit expenditures; State Information Technology Services Division charges for services revenues; local government retirement contribution support; Coronavirus Aid, Relief, and Economic Security (CARES) Act funding; Risk Management and Tort Defense settlement revenue; and General Fund cash. Our work included gaining an understanding of internal controls and reviewing and testing compliance with state laws.

As required by §17-8-101(6), MCA, we reviewed the fees charged and the fund equity balances of the department's internal service funds. The results of this testing are discussed beginning on page 4.

During fiscal year 2021, the department received over $250 million in federal CARES Act funds. The Director's Office distributed roughly $81 million to school districts and the State Financial Services Division distributed roughly $171 million to local governments. Under the American Rescue Plan Act (ARPA), the department distributed approximately $86 million to Montana local government units referred to as non-entitlement units (NEUs) on behalf of the federal government. These funds were distributed to NEUs in both fiscal years 2021 and 2022.

As part of federal compliance testing over the CARES Act funding in fiscal year 2021, we identified an issue with subrecipient monitoring related to the grants made to local governments and school districts. The recommendation made to the department can be found in the 20-02 Single Audit report, Finding 2021-010.

Department Organizations and Functions

The department provides many services to other state agencies. The department is organized into eight divisions under the Director's Office. The following paragraphs describe the department's primary functions and list the authorized full-time equivalent (FTE) positions for fiscal year 2022.

Office of the Director (26.01 FTE): Responsible for the overall supervision and coordination of department programs and allocated boards and agencies. The office also provides accounting, budgeting, payroll, personnel management, and legal services to the department and supports the Board of Examiners. At the beginning of fiscal year 2022, a Chief Data Officer office was created within the Director's Office. This office collaborates with state agencies to enable digital transformation and data modernization efforts within state government.

State Financial Services Division (61.42 FTE): Performs many centralized functions and administers state and federal programs on behalf of state agencies, local government entities, and Montana citizens and businesses. It supports the state's enterprise accounting and budgeting systems and the Montana Acquisition and Contracting System (eMACS). The division publishes the state's Annual Comprehensive Financial Report (ACFR), maintains a statewide accounting structure with related policies and procedures, processes all state agency payments, and performs bank reconciliations. It is responsible for administering the State Procurement Act, Montana Single Audit Act, the state's procurement card programs, and the State Social Security Program.

Architecture and Engineering (A&E) Division (20.50 FTE): Assists agencies and citizens of Montana in the design and construction of facilities, repairs and alterations of existing facilities, and planning for governmental and university system needs. A&E administers the Long-Range Building Program (LRBP). It provides funding for construction, alteration, repair, and maintenance of state-owned buildings and grounds. The LRBP activity is shown in the Corrections, Department & Agencies, DPHHS, and University System programs listed on the Schedule of Expenditures & Transfers-Out.

Banking and Financial Institutions Division (34.00 FTE): Regulates many of the state's banks and financial institutions to provide Montanans with a system of state chartered financial institutions.

General Services Division (91.35 FTE): Manages facilities' operations, security, grounds, and maintenance for the Capitol Complex; manages building leases for state agencies throughout the state; provides mail services to state agencies located in the Helena area; provides centralized printing design, development, and distribution for state agencies; and manages surplus property and recycling. Additionally, effective July 1, 2021, the campus emergency management piece of the State Continuity Emergency Management Office was transitioned to the division.

Health Care and Benefits Division (HCBD) (23.25 FTE): Manages the State of Montana Benefit Plan (State Plan), which provides medical, dental, vision, and prescription drug benefits to state of Montana employees, retirees, legislators, survivors, and their covered dependents. The State Plan offers fully insured life insurance and long-term disability insurance. HCBD's Workers' Compensation Management Bureau performs worker's compensation oversight via its workplace safety and return to work programs.

State Information Technology Services Division (210 FTE): Establishes and enforces statewide information technology policies and standards and provides disaster recovery capabilities. It implements shared information technology platforms and services such as the state network, state data centers, servers and storage, and enterprise custom and commercial applications. Additionally, effective July 1, 2021, the emergency communications and notification portion of the State Continuity Emergency Management Office was transitioned to the division.

Risk Management and Tort Defense Division (19.00 FTE): Provides loss prevention services, insurance coverage, claims adjudication, and tort litigation representation to state agencies, universities, boards, councils, and commissions serving Montana citizens. It evaluates and resolves property/casualty claims including auto, aviation, property, and tort liability.

State Human Resources Division (42.00 FTE): Provides state agencies with human resource management services including training, position classification, and employee relations. Additionally, the division publishes state rules, standards, and policies relating to recruitment and selection, discipline, grievances, performance appraisals, leave, and other HR matters. The division supplies payroll and other human resource systems through the Statewide Accounting, Budgeting, and Human Resources System (SABHRS). Effective September 2021, the Office of Labor Relations was moved from the Director's Office to the State Human Resources Division.

Montana State Lottery (36.30 FTE): Operates a variety of lottery games and sports wagering. The Montana Lottery is allocated to the department for administrative purposes. State law requires the Lottery to transfer the first $1 million net lottery revenue to the Montana STEM scholarship program annually and the remaining net revenue to the General Fund. As required by law, the Legislative Audit Division performs biennial audits of lottery security, and annual audits of the Lottery's financial activity.

Montana Tax Appeal Board (5.50 FTE): Resolves tax appeals concerning real personal property, income, corporate, natural resources, centrally assessed property, and new industry taxes. The three-member board and its staff are administratively attached to the department.

Prior Audit Recommendations

The outstanding audit recommendations are summarized in the table below. Recommendations not fully implemented are discussed in recommendations or in more detail following the table.

Table 1
Prior Audit Recommendations

Prior Audit Recommendation	Report/Recommendation	Implementation Status
Internal Service Funds	16-13/Recommendation #2	Partially Implemented
Information Technology Capital Projects	18-13/Recommendation #5	See Recommendation #4
State Employee Benefit Plan Wellness Incentives Discounts	18-13/Recommendation #3	Not Implemented
Local Government Services Accounts Receivable	20-13/Recommendation #1	Fully Implemented
General Services Division Incorrect Contract Payments	20-13/Recommendation #2	Not Implemented

Source: Compiled by the Legislative Audit Division.

Internal Service Funds

We recommended the department adjust rates to ensure fees were commensurate with costs for several of its internal service funds, as required by state law. We analyzed the department's internal service fund fees and fund equity balances for fiscal years 2021 and 2022. More information on each internal service fund is summarized below. We will continue to analyze internal service funds in future audits as required by state law, but will not continue to follow up on this recommendation.

State Employee Benefit Plan Wellness Incentives Discounts

We recommended the department comply with state accounting policy and Generally Accepted Accounting Principles by not recording revenues and expenses for contribution discounts at Health Care Benefits Division. In prior audits, the department did not concur with our recommendation and, through the audit period, had not changed their process. However, during the current audit, the department concurred with the recommendation and stated they would correct the entries in future years. We will not continue to follow up on this recommendation.

General Services Division Incorrect Contract Payments

We recommended the Department of Administration enhance review procedures to ensure contract payments are complete and accurate and follow the contract provisions. As part of our follow-up work, we identified four out of eight vendors reviewed who charged the department for rates greater than or less than allowed by their contracts. Reviews performed by contract managers did not identify the incorrect rates. This resulted in multiple vendor overpayments and underpayments throughout the audit period projected up to $20,000. Additionally, the department did not fully correct the overpayments and underpayments identified during the prior audit. Since we identified similar issues in the previous audit and did not identify any significant changes to the department's process, we concluded the recommendation was not implemented. Although we do not make a further recommendation in this report, the finding is still applicable, and we will follow up in the next audit.

Internal Service Funds

In accordance with §17-8-101(6), MCA, we reviewed the reasonableness of fees charged and fund equity balances in the department's internal service funds. The internal service fund type is used to account for the financing of goods or services provided by one agency to other agencies of state government on a cost reimbursement basis. Per state law, fees and charges for services deposited in the internal service fund type must be commensurate with costs. The department maintains 12 internal service funds.

In our analysis, we generally considered fees to be reasonable and commensurate with costs if a fund's working capital was positive and did not exceed 60 days of expense activity for the fund. The only exception to this was for the State Information Technology Services Division fund. For this fund, the legislature allows a 30-day working capital, so we used 30 days instead of 60 in our analysis. State accounting policy defines working capital as the amount of cash that would remain if all the current assets were converted, and all the current liabilities paid, at their book value. In addition to calculating working capital, we calculated an adjusted fund equity by excluding capital assets and noncash liabilities for pension and Other Post Employment benefits. This additional analysis allowed us to consider if the fund's resources are insufficient or excessive when compared to both current and noncurrent cash-based obligations. We consider adjusted fund equity to be reasonable if it was positive and also did not exceed the 60-day limit for working capital. Exceptions also exist for Health Care Benefits Division and Risk Management and Tort Defense as state law allows their funds to build a reserve. We considered whether the fund equity for these funds was reasonable as compared to actuarially determined reserve levels.

The overall results of our testing are summarized in the table below.

Table 2
Internal Service Fund Analysis
Fiscal Years 2021 and 2022

Fund Name and Code	Fees and Charges Not Reasonable		Fund Balance Not Reasonable	
	FY21	FY22	FY21	FY22
SABHRS - 06511	X	X	X	✓
ITSD - 06522	X	✓	X	X
Training - 06525	X	X	✓	X
Rent & Maintenance - 06528	✓	X	✓	X
Print & Mail - 06530	X	X	X	X
RMTD - 06532	✓	✓	✓	X
Management Services - 06534	✓	X	✓	✓
Continuity Emergency - 06535	X	*N/A	✓	*N/A
HCBD - 06559	X	X	X	X
HR Info - 06563	✓	✓	✓	✓
Warrant Writer - 06564	X	X	X	X
Workers' Compensation - 06575	X	X	✓	X

Source: Compiled by the Legislative Audit Division.

* In fiscal year 2022, the department reorganized the functions normally accounted for in this fund, allocating them out across other departmental functions and the Department of Military Affairs.

The following paragraphs provide more detail on funds with fees not commensurate with costs or with fund equity balances that are not reasonable.

Statewide Accounting, Budgeting, and Human Resources System

This fund provides for the financial and budgeting portion of the Statewide Accounting, Budgeting, and Human Resources System. Working capital was 76 days over at fiscal year-end 2021 and 21 days over at fiscal year-end 2022. Additionally, adjusted fund equity exceeded 60 days of working capital for fiscal year 2021. Adjusted fund equity did not exceed 60 days for fiscal year 2022. The department believes the rates for the next biennium along with inflationary and pay plan adjustments will result in working capital below 60 days.

State Information Technology Services Division

The fund manages information technology services for state government. Working capital was negative at the end of fiscal year 2021. The fund reported negative fund equity in both years, indicating resources in the fund are not adequate to meet its obligation. While the fund's equity has consistently been negative over the last few years, the negative amount has decreased significantly over the last four years, indicating the fund is trending towards compliance.

Intergovernmental Training

This fund provides a variety of training products and facilitation services to state agencies. Working capital was slightly over 60 days in 2021 and 147 days over in 2022. In 2022, the adjusted fund equity exceeded 60 days of expenditures, and therefore is not reasonable.

The Professional Development Center (PDC) was eliminated in the 2021 Legislative Session and will be closed on June 30, 2023. One of the PDC trainers retired in 2021 and the two remaining trainers focused on providing training rather than course development. Therefore, revenue remained consistent, while personal services expenses were reduced. In addition, as trainings transitioned to remote during the pandemic, the fund no longer rented the same training space, so rent expenses decreased. The fund is preparing for leave payouts for the staff once the PDC is closed.

Rent & Maintenance

The fund manages facilities' operations, security, grounds, and maintenance for the Capitol Complex. Working capital was 73 days of expenditures and revenues exceeded expenditures by over $900,000 in fiscal year 2022. Additionally, the cash balance in the fund in 2022 is sufficient to pay all non-cash liabilities with over $1 million to spare.

Per department officials, General Services Division was very conscious of spending due to the uncertainty created by the pandemic. The division saw challenges in procuring goods and services due to supply chain issues and contractor constraints. Additionally, in fiscal year 2022, there was high turnover resulting in approximately $800,000 in vacancy savings. The division is making efforts to fill all positions.

Print & Mail

This fund provides graphic design, scanning, printing, mailing, and delivery services to state agencies. Working capital exceeded 60 days by 23 days and 40 days in fiscal years 2021 and 2022, respectively. Revenues exceeded expenditures by over $450,000 in both fiscal years. Additionally, adjusted fund equity exceeded 60 days of expenditures in both years.

Per department personnel, Print & Mail saw similar pandemic-related issues as Rent & Maintenance. They anticipate the situation to normalize in the next biennium. Print & Mail also saw significant vacancies, resulting in roughly $300,000 in vacancy savings each year.

Risk Management Tort Defense

This fund provides loss prevention, insurance, claims adjudication, and tort litigation services to state agencies. At fiscal year-end 2022, the fund reported reserves in excess of actuarial determined reserve levels of approximately $94 million. In 2022, the division was awarded a recovery of over $78 million in a judgement against the state's former insurance carrier and an additional $62.5 million in settlement proceeds related to Libby Asbestos litigation. Per department personnel, there is a plan in place to eliminate the overage by reducing rates over the 2025 biennium.

Management Services

This fund provides centralized budget preparation, submission, and monitoring procedures for the department. The fund also provides for centralized legal and human resources services for the department. In fiscal year 2022, revenues exceeded expenses by over $75,000 and working capital exceeded 60 days of expenditures. The department believes the rates for the next biennium along with inflationary and pay plan adjustments will result in working capital below 60 days.

Continuity Emergency

This fund provided emergency management, continuity planning, and emergency communication and notification services to the state. Revenues exceeded expenditures by roughly $68,000 and working capital exceeded 60 days of expenditures. In fiscal year 2022, the department reorganized the continuity emergency functions, allocating them out across other departmental functions and Department of Military Affairs. As such, the internal service fund does not exist starting in fiscal year 2023.

Health Care Benefits Division

This fund provides group medical, dental, prescription drug, and vision benefits to state employees, retirees, and legislators. At the end of both fiscal years 2021 and 2022, the fund balance exceeds the amount of reserves recommended by the actuary. The division has not increased contributions in over five years and there was a two-month state share holiday in 2022 as required by legislation.

Per department staff, the division actively manages the fund, but there are many variables within the medical industry that can significantly affect their strategies. The pandemic was the cause of the high fund balances in both fiscal years. Plan participants had difficulty seeking care and many people decided to forego medical treatment. Plan participants have slowly started to resume medical care and expenses have been increasing. The division expects this increase to reduce the surplus and the level of reserves. The plan is also anticipating higher expenses being paid for more severe medical conditions that went undiagnosed during the pandemic.

Warrant Writer

This fund provides the warrant writer program to most state agencies for check writing and automatic deposit capabilities. In both fiscal years, working capital exceeded 60 days of expenditures by over 45 days. Additionally, adjusted fund balance exceeds 60 days of expenditures in both fiscal years. The department believes the rates for the next biennium along with inflationary and pay plan adjustments will result in working capital below 60 days.

Workers' Compensation

This fund performs workers' compensation oversight via workplace safety and return to work programs. In fiscal year 2021, working capital was nearly 100 days of expenditures. Working capital as well as adjusted fund balance were negative in 2022.

In fiscal year 2021, the bureau lost one of three FTEs, resulting in the excess capital. A 28 percent refund of an agency's annual fee was processed in May of that year. At the start of fiscal year 2022, a second position left, triggering a 60 percent refund of an agency's annual fee given the two vacant positions. However, the bureau chief unexpectedly retired at the end of fiscal year 2022. The payouts for this retirement drove the negative working capital.

Summary

As discussed above, we continued to find multiple funds where either fees were not commensurate with costs or fund equity balance was not reasonable. While there were multiple funds not in compliance, the department experienced unprecedented impacts on the operations of their internal service funds as a result of the COVID-19 pandemic. We continue to acknowledge the department has processes to monitor the fees charged and fund equity balance for its internal service funds. We believe, based on the monitoring processes and proposed changes, the department will make appropriate changes to ensure compliance with state law.

Chapter II – Findings and Recommendations

Service Organizations

The department does not obtain and review assurances over internal controls for multiple service organizations. Additionally, the department needed to ensure access to multiple service organization software platforms was reasonable.

The department contracts with multiple service organizations and software vendors as part of providing many services to other state agencies and state employees. During our audit, we identified multiple instances related to the Health Care and Benefits Division (HCBD) and State Information Technology Services Division (SITSD) where internal controls related to service organizations and software were insufficient.

HCBD manages the state's employee health insurance plans. They contract with several service organizations for enrollment and eligibility management services and medical, dental, or prescription insurance claim administration services. The majority of the state's insurance plan's financial activity is determined through the services these organizations provide.

SITSD implemented a billing platform software during the current audit period. The billing for services provided by SITSD ran through the billing software starting in July 2021. The primary source of revenue for SITSD is charges for services billed through the billing software. The division recorded approximately $58.9 million in revenues from these billings in fiscal year 2022. SITSD contracted with a new vendor for online payment processing effective January 2021. The vendor provides payment processing for a variety of state agencies.

System and Organization Controls (SOC) Reports

State Accounting policy indicates the department's responsibility in achieving its goals and objectives involves establishing internal control policies and procedures. This includes internal controls over the activity service organizations perform. A common method to ensure a service organization is meeting its obligations is to obtain an examination of the controls and processes of the service organization. This generally occurs by contracting with a certified public accounting firm that conducts the examination and discusses the results, which are accumulated into a SOC report. A SOC report provides users with assurance over the suitability and effectiveness of the service organization's controls and outlines any complementary controls the department needs to implement as a user of the system. The assurance provided by the SOC report depends on the implementation of these complementary controls, commonly referred to as user entity controls.

The service organizations HCBD contracts with receive SOC reports. However, the division needs a process in place to obtain the reports or review their contents. The three largest insurance claim service organizations receive a legislatively required audit every two years in addition to annual SOC audits. Per department personnel, HCBD relies heavily on the contracted claims audits of the service organizations to evaluate service organization effectiveness and accuracy. While these audits are important and contain valuable information, they are not a replacement for a SOC report. They do not provide assurance over system processing or include necessary controls for the department to implement such as managing access and ensuring transactions are complete and timely. By relying solely on claims audits, the division did not receive all of the information needed to fully implement internal controls necessary to detect or prevent misstatements on the financial records.

SITSD also did not have a process in place to obtain the SOC report for its new billing platform software. Division financial staff stated they believed the division's security staff was reviewing the SOC report. However, the security staff has not reviewed the SOC report as part of their business processes. As such, the division may not be aware of any processing integrity issues or whether they have all the necessary complementary user controls in place.

As required by SITSD's contract with the new payment processor, the vendor shall provide the state with proof the vendor meets or exceeds security requirements through a SOC report. The vendor has not provided a SOC report to the state. The department requested SOC reports from the vendor late in the audit period, but had yet to receive one. Without a SOC report to identify noncompliance with security policies, the state could be at risk of security issues and would not be aware of user controls the department is responsible for implementing.

> *"SOC reports are an essential aspect of internal control over services provided by service organizations."*

SOC reports are an essential aspect of internal control over services provided by service organizations. By obtaining and reviewing SOC reports, the department would be aware of any deficiencies identified, and other user entity controls the department is responsible for implementing.

Service Organization Software Access

As part of our audit testing, we reviewed access to service organization information systems at both HCBD and SITSD. As part of outlining user entity controls, SOC reports provide guidance and requirements for setting up system access. The following issues were identified:

- At SITSD, three former division staff still had an assigned access role within the new billing platform system through the audit period. This is contrary to state policy, which requires accounts to be disabled when no longer needed. The department did not implement a process to review access for the new system. They intended to do an annual review, but hadn't completed one yet. As a result, access was not removed for the terminated employees. The department did provide that by removing access to the state's active directory for the terminated employees, they are not able to access the system, even those who still had a profile. While this may be true, keeping these accounts active is not the best practice as it leaves the system vulnerable to outside access.

  Additionally, for the billing platform system, we identified four individuals at SITSD that were given incorrect access as they were assigned roles that gave them the ability to manage and change agency billing. Per the department, the individuals were assigned the wrong access role in error. As part of our audit work, we reviewed the individual's history in the system and determined risk was low that the users made changes to agency billing information.

- At HCBD, internal controls were insufficient to terminate employee access to the division's platform that collects member benefit elections and calculates the insurance premiums to collect from members. Per the department, the access list is reviewed quarterly to evaluate user access. We found access for one individual was not terminated for five months after the employee left the division. Due to turnover in the staff who request access termination, this request was not made timely. There needed to be more clarity in the office about who was responsible for requesting access termination in the platform.

Overall, without adequate review of access, there is a risk that terminated employees could access and edit information in the systems. Additionally, individuals with incorrect access roles could, intentionally or not, make changes in the systems that significantly impact the department.

Recommendation #1

We recommend the Department of Administration:

A. *Obtain and review service organization control reports for SITSD and HCBD contracted service organizations.*

B. *Review access to financial systems at SITSD and HCBD, to better ensure appropriate access roles are assigned and access is terminated when no longer necessary for job duties.*

Information Technology (IT) Capital Projects

The department does not ensure the expenditures charged to long-range IT appropriations are for the purpose of the projects appropriated by the legislature.

The Montana Legislature appropriates funds to the department for long-range information technology projects for state agencies. Per legislation, the money appropriated to the department is to be used only for the IT projects listed in legislation. Prior audits have included a recommendation to the department to ensure money appropriated for these projects is spent only on approved projects. While we concluded the department has partially implemented this recommendation, internal controls are still not adequate to ensure the expenditures charged to the appropriations are for the projects outlined by the legislature.

Currently, the department is granted the appropriation authority and keeps the authority until the specified agency is ready to begin the project and has submitted all of the required documentation. Agencies must submit a project plan for each milestone and calculate the costs for each milestone before requesting the transfer of authority. However, once costs are submitted for payments, the department does not review the underlying expenses to ensure they are reasonable for the project. Quarterly, agencies are required to report to the Legislative Finance Committee.

Since the 2013 Legislative Session, the legislature has appropriated over $140 million in long-range IT projects to the department. Per the department's internal tracking system, through fiscal year 2022 approximately $62 million has been spent with roughly $79 million remaining to be spent.

Additionally, the department was appropriated funds for the Department of Public Health and Human Services Medicaid Management Information System Replacement. Through 2022, $65.5 million was appropriated for this project and there is roughly $37.5 million remaining to be spent.

Since the funds are appropriated to the department, it is responsible for establishing internal controls over the use of the funds. Without adequate internal controls, the department is at risk of noncompliance with the long-range IT appropriations. There is risk agencies did not spend the appropriated funds on the designated projects. Per department staff, using their current process, it is difficult for them to know whether the expenditures recorded were for the appropriated project as they do not always receive the level of detailed support needed. The department is currently in the process of implementing a system and more infrastructure for governance. Department staff believes the new system will put them in a better position to more easily obtain and monitor support for the expenses charged by the agencies. The system will allow agencies to self-report information in the system. While the system may help, it is important for the department to implement a process to review and monitor the support provided.

Recommendation #2

We recommend the Department of Administration enhance internal controls to ensure the expenditures charged to the long-range IT appropriations are for the projects appropriated to the department by the legislature.

Expenditure Classification Misstatements

The department made multiple expenditure classification misstatement errors in fiscal years 2021 and 2022.

The department records a wide variety of financial activity on its accounting records in many different accounts and fund types. State Accounting policy guides all agencies on the account and fund categories to use for specific types of activity. During the audit period, we identified multiple instances where the department misclassified expenditure activity in the wrong account category when recording it on the accounting records. The related misstatements on the Schedule of Total Expenditures & Transfers-Out are the basis for the qualified opinions issued on the 2021 and 2022 financial schedules. The specific examples are discussed in more detail below.

Supplemental Retirement Payments

As state law requires, the department makes supplemental contribution payments from the General Fund to retirement systems. These payments totaled approximately $48 million and $49 million in fiscal years 2021 and 2022, respectively.

- Teachers Retirement System: The department pays a set $25 million each year, as well as 2.38 percent on earned compensation for active members participating in the system.
- Public Employee Retirement System: The department pays 0.1 percent on earned compensation for employees of local government entities and 0.37 percent on earned compensation for employees of school districts.

The department recorded the activity in a local assistance expenditure account during the audit period. Under state accounting policy, the local assistance account range should be used for disbursements from the state to units of local government to be used without specific use restrictions. While the payments to the retirement system may benefit local governments to a degree, the supplemental contributions are made directly to the retirement systems with a specific use restriction. Based on this, the local assistance account range is inappropriate for the activity. Under state accounting policy, financial interactions between the primary government and its component units, which includes the retirement systems, are known as an intra-entity activity. The retirement payments should be classified as an intra-entity expense, which is classified as a transfer on the Schedule of Total Expenditures & Transfers-Out.

Department staff recorded these payments as local assistance for several years based on initial discussions with budget staff on where to record the activity. The department did not evaluate the classification decision again once the initial decision was made.

Coronavirus Aid, Relief, and Economic Security (CARES) Act

The department received federal CARES Act funding in fiscal year 2021. The department distributed roughly $171 million to local governments from this funding. These payments were recorded as local assistance expenditures. To receive the funding, local governments had to apply to the department and the funding contained specific use restrictions. Since the program was a cost reimbursement grant program, a grant expenditure account should have been used.

American Rescue Plan Act (ARPA)

The department received and distributed approximately $43 million in federal ARPA funding to local governments in each fiscal year 2021 and 2022. The activity was recorded as local assistance from state sources. On the Schedule of Total Expenditures & Transfers-Out, local assistance activity is categorized as either from state sources or from federal sources. Given the distributions were from federal funding, the activity should be recorded as local assistance from federal sources.

The CARES Act and ARPA activity was new due to the COVID-19 pandemic. The department's review of the activity was not adequate to correctly classify the activity. Department staff indicated they considered state accounting policy and how other federal program activity was recorded but chose the wrong category. Overall, the department's internal controls were insufficient to ensure new types of significant payment activity were classified appropriately on the accounting records. We classified this as a material weakness in internal controls in the Report on Internal Control and Compliance on page B-1.

Recommendation #3

We recommend the Department of Administration:

A. *Classify expenditure activity in compliance with state accounting policy.*

B. *Enhance internal controls to ensure new significant activity is accurately classified in the state's accounting records.*

State Accounting Bureau Role in Agency Financial Reporting

The department's state accounting function does not have sufficient internal controls and processes to ensure compliance with state law requiring uniform accounting across state agencies and financial activity to be recorded before the books close at fiscal year-end.

Per state law, the department is responsible for prescribing and installing a uniform accounting and reporting system for all state agencies. All transactions necessary to present the receipt, use, and disposition of all money in accordance with generally accepted accounting principles should be input into this system before the accounts are closed at fiscal year-end. The department's State Financial Services Division maintains a statewide accounting structure with related policies and procedures, processes all payments, and performs bank reconciliations. The division also supports the state's enterprise accounting and budgeting systems. The department ensures the books close at year-end and records certain transactions for all state agencies including pension activity, cash closing entries, and leases implementation activity. One of the ways the department works to provide uniform accounting is by issuing accounting policies that discuss how specific financial activity should be recorded on the state's accounting records. If these policies are not clear or up to date, there is risk agencies could make accounting-related errors in their financial records.

During the audit, we identified multiple instances resulting in the department not being in full compliance with state law. Additionally, the department did not have sufficient internal controls in place to ensure that activity recorded on behalf of other state agencies was accurate and complete at fiscal year-end. The specific instances are discussed in more detail below.

- Pension activity required by governmental accounting standards is recorded for all state agencies prior to the end of the fiscal year. The department determines the entries made at each agency based on an analysis of the payment sources of pension contributions. The pension journal entries are calculated based on a point-in-time analysis of activity through 10 months of the fiscal year. When making the entries at fiscal year-end 2022, the department split activity across Department of Correction's funds using an inaccurate analysis of payment sources. At the time of the analysis, Department of Corrections made adjusting entries to their financial activity that skewed the analysis. There was no process to review whether the activity recorded at that time was an accurate representation of the activity for the year. This resulted in multiple misstatements on the accounting records that will impact Department of Corrections financial schedules for fiscal year 2022. The misstatements ranged from $2.4 million to $24.9 million.
- The department records all cash closing journal entries for all state agencies at year-end. As part of the process, the department closes all cash to a fund's designated responsible business unit or state agency. Due to legislative changes, the Board of Crime Control was moved from Department of Corrections to Department of Justice, effective July 1, 2021. While giving Department of Justice access to the Board of Crime Control's funds, the department incorrectly processed a change in responsible business unit early, resulting in misstatements at the two state agencies for fiscal year 2021. Misstatements of approximately $2.4 million were made on both Department of Corrections and Department of Justice's accounting records.
- The state implemented a new Governmental Accounting Standards Board statement in fiscal year 2022 that changed the accounting for lease transactions. The department made entries on behalf of all state agencies at fiscal year-end to implement the new standard. However,

they continued to make changes after the books closed that resulted in adjusting entries being made, which will be reflected in the state's Annual Comprehensive Financial Report (ACFR). Based on the adjusting entries, activity recorded on the accounting records at June 30, 2022, is not accurate. This impacts multiple state agencies, including Department of Administration. While the misstatements varied in amount at each agency, the misstatement at the Department of Administration was roughly $2.5 million. The department was focused on the ACFR presentation and did not consider the impact to the state's accounting records for fiscal year 2022 or the agency financial schedule presentations. Additionally, state accounting policy related to the new lease activity was not finalized by year-end for use by state agencies.

As described above, there were multiple instances during the audit period when the department needed to ensure uniform and accurate accounting across state agencies and that all financial activity was properly recorded on the accounting records at fiscal year-end. The state accounting bureau experienced some significant turnover in the last couple years, with few long-term staff remaining with experience in their roles within the bureau. As mentioned above, one of the department's priorities for the state accounting function is preparing the ACFR. While this is important, the bureau needs to consider the impact on all state agencies and the requirements for complete and accurate accounting records, regardless of the ACFR impact. Also, without uniform accounting and adequate timely guidance to agencies through state accounting policy, all state agencies are at risk of noncompliance and misstatements on their accounting records.

"...the bureau needs to consider the impact on all state agencies and the requirements for complete and accurate accounting records, regardless of the ACFR impact."

Recommendation #4

We recommend the Department of Administration:

A. *Comply with state law by ensuring uniform accounting across state agencies and all necessary transactions are properly recorded before the accounts close at fiscal year-end.*

B. *Enhance internal controls to ensure activity on the accounting records is accurate and complete before the accounts close at fiscal year-end and accounting policy is available to state agencies to ensure accurate accounting records.*

Disclosure Issue

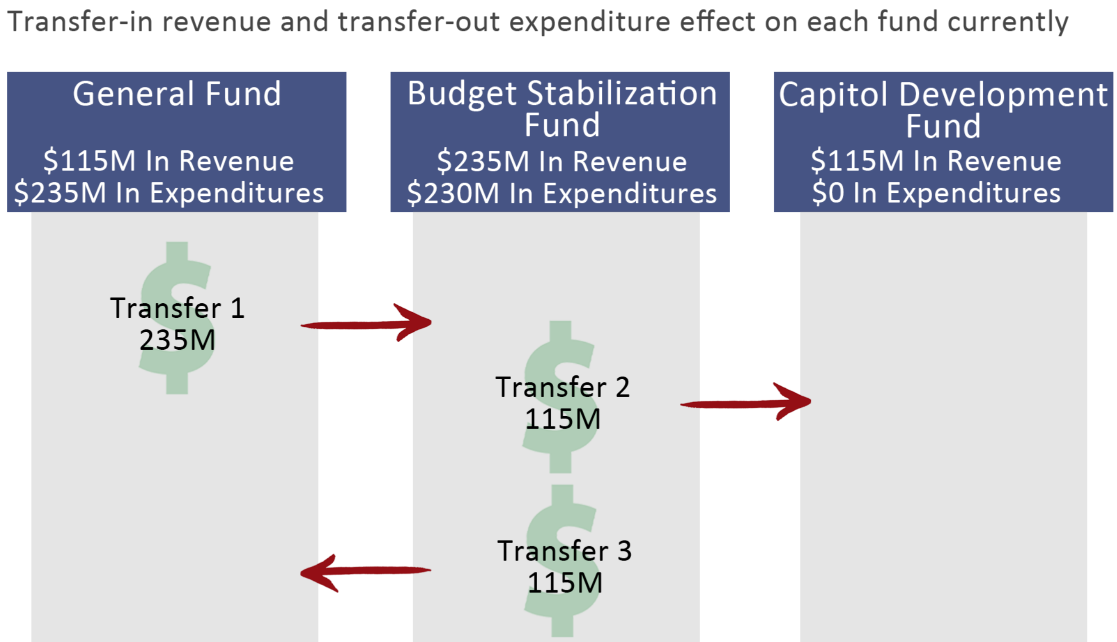
Budget Stabilization Transfers

Section 17-7-130, MCA, created a budget stabilization reserve fund to mitigate budget reductions when the state has a revenue shortfall. State law requires transferring excess revenue in the General Fund to the Budget Stabilization Fund. Beginning in fiscal year 2022, state law required transfers as described below:

- Once the General Fund is at the required operating reserve level, 75 percent of the remaining excess revenue is transferred to the budget stabilization reserve fund account.
- If the balance of the fund exceeds 4.5 percent of all General Fund appropriations in the second year of the biennium after the initial transfer, 50 percent of the excess is transferred back to the General Fund and 50 percent to the capital developments long-range building program account.

The figure below illustrates the amounts required to be transferred by state law in fiscal year 2022.

Figure 1
Amounts Required To Be Transferred by State Law
Fiscal Year 2022



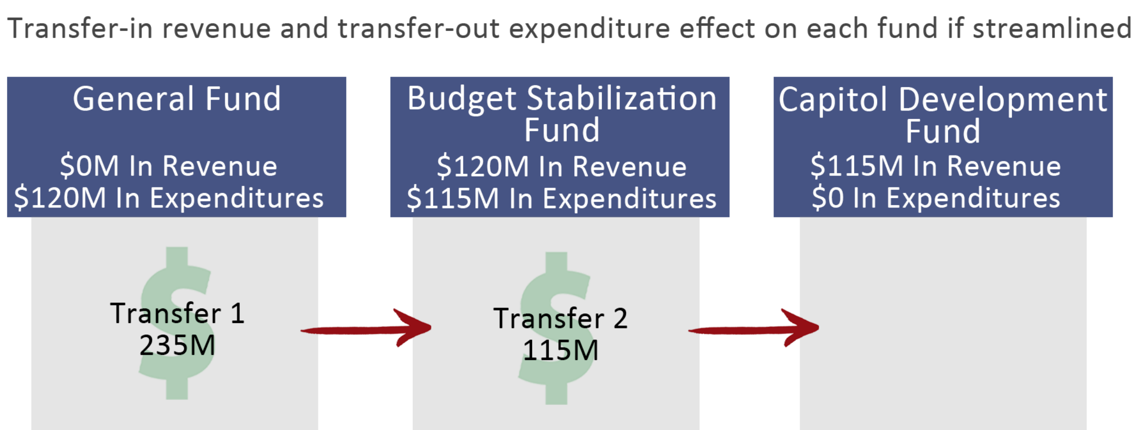
Source: Data compiled by the Legislative Audit Division from department accounting records.

When the department recorded the activity in 2022, they combined the General Fund and Budget Stabilization Fund transfers. This resulted in cash flowing to the correct funds. However, revenues and expenditures were initially understated in the accounting records. State law requires two separate transfers, so we expected to see two different transfers on the accounting records.

We identified this prior to fiscal year-end 2022, so the department corrected the misstatement, and the activity is correctly presented in the financial schedules. When discussing this with the department and Governor's Office budget staff, they agreed that the strict language in the state law requires separate transfers. Still, they believe the law intends for the transfers to be combined. As required by state law, the use of separate transfers inflates revenues and expenditures in both the General Fund and Budget Stabilization funds as reported on the financial schedules. They do not accurately represent the flow of cash in the fund. The department believes this could negatively impact budget projections for the future biennium when using revenue as recorded on the accounting records. The additional transfer activity needs to be adjusted to illustrate an accurate picture of revenues, adding unnecessary complexity to the process. This increases the risk of an unreliable analysis. The figure below shows how the department believes the law intended for the transfers to be made.

Figure 2

How the Department Believes the Law Intended for the Transfers To Be Made



Source: Data compiled by the Legislative Audit Division.

The revenues and expenditures reported in Figure 2 above are significantly less in the General Fund and the Budget Stabilization fund. This illustrates the way the current state law may inflate revenue and expenditure activity if the transfers are recorded as shown in Figure 1.

As part of our testing, we determine compliance with state laws as written. However, we acknowledge the potential inflation of revenues this creates and the impact on future financial and budget analysis. There may be an opportunity via legislative changes to align the language in state law more closely to the intent of the transfers. Since the misstatements were corrected and separate transfers were made for fiscal year 2023, we currently make no recommendation.

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
William Soller

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Report on the Audit of Financial Schedules

Opinions
We have audited the financial schedules of the Department of Administration, which are comprised of the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out for each of the fiscal years ended June 30, 2022, and 2021, and the related notes to the financial schedules.

Qualified Opinions on Regulatory Basis of Accounting
In our opinion, except for the effects of the matters described in the Basis for Qualified Opinions on Regulatory Basis of Accounting paragraph, the accompanying financial schedules for the fiscal years ended June 30, 2022, and 2021 present fairly, in all material respects, the results of operations and changes in fund equity for each of the fiscal years ended June 30, 2022, and 2021, in conformity with the basis of accounting described in Note 1.

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" section of our report, 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, 2022, and June 30, 2021, or changes in financial position for the years then ended.

Basis for Qualified Opinions on Regulatory Basis of Accounting
Expenditures recorded for the Director's Office and the State Financial Services Division programs are incorrectly classified between expenditure accounts, resulting in the following misstatements for fiscal years 2021 and 2022.

Financial Schedule Line Item	2021 Over (Under) Stated	2022 Over (Under) Stated
Director's Office		
Local Assistance – From State Sources	$48,224,504	$49,239,454
Transfers-out – Fund Transfers	($48,224,504)	($49,239,454)
State Financial Services Division		
Local Assistance – From State Sources	$43,056,980	$43,315,981
Local Assistance – From Federal Sources	$128,313,809	($43,315,981)
Grants – From Federal Sources	($171,370,789)	

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Schedules section of our report. We are required to be independent of the department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 of the financial schedules, the financial schedules are prepared by Department of Administration 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 and pervasive.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Schedules
Our objectives are to obtain reasonable assurance about whether the financial schedules as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial schedules.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial schedules, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial schedules.
- Obtain an understanding of internal control relevant to the audit 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. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Other Legal and Regulatory Requirements

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2022, on our consideration of the department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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

November 18, 2022

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Pension Trust Fund	Unexpended Plant Fund	Renewal & Replacement Fund
FUND EQUITY: July 1, 2021	$ 879,928,846	$ 160,359,810	$ (21,217)	$ 126	$ 264,368,392	$ 99,095	$ 144,782,536	$ 531,397	$ 16,817,646	$ (1,995,103)	$ (1,647,900)
ADDITIONS											
Budgeted Revenues & Transfers-In	40,803,725	8,360,801	15,055,311		123,076,569	127,026,121	454,853,881				
Nonbudgeted Revenues & Transfers-In	139,753,594	240,535,422	1,336,723	14,418,647	17,511,226	(711)	(1,257,416)	4,604,576	1,884,753		
Prior Year Revenues & Transfers-In Adjustments	343	326,310	(49,474)	(33,277)	2,071	22,327	756,557				
Direct Entries to Fund Equity	1,334,889,646	(2,851,851)	45,590,307		19,070,329	2,277,535	3,577,152			12,056,066	8,984,332
Total Additions	1,515,447,309	246,370,682	61,932,867	14,385,370	159,660,195	129,325,272	457,930,174	4,604,576	1,884,753	12,056,066	8,984,332
REDUCTIONS											
Budgeted Expenditures & Transfers-Out	115,695,798	15,681,019	60,727,856		37,445,965	110,578,056	362,483,308			10,898,106	7,487,249
Nonbudgeted Expenditures & Transfers-Out	296,213,899	254,449,575	119,454	14,418,773	4,375,365	16,472,647	11,648,480	4,190,722	3,470,481		
Prior Year Expenditures & Transfers-Out Adjustments	6,211	24,899	(49,474)	(33,277)	(80,591)	664,276	66,650				
Total Reductions	411,915,909	270,155,492	60,797,836	14,385,496	41,740,739	127,714,979	374,198,438	4,190,722	3,470,481	10,898,106	7,487,249
FUND EQUITY: June 30, 2022	$ 1,983,460,246	$ 136,574,999	$ 1,113,815	$ 0	$ 382,287,848	$ 1,709,389	$ 228,514,272	$ 945,251	$ 15,231,917	$ (837,144)	$ (150,816)

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

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise und	Internal Service Fund	Private Purpose Trust Fund	Pension Trust Fund	Unexpended Plant Fund	Renewal & Replacement Fund
FUND EQUITY: July 1, 2020	$ 498,628,509	$ 172,287,906	$ (1,448,844)	$ 0	$ 30,004,877	$ 1,623,723	$ 121,290,719	$ 473,122	$ 12,582,396	$ (3,254,176)	$ (103,584)
ADDITIONS											
Budgeted Revenues & Transfers-In	30,745,552	53,543,692	271,094,442		250,565,584	124,931,609	337,604,110				
Nonbudgeted Revenues & Transfers-In	5,804,397	3,953,454		23,347,185	29,843,462	7,913	1,144,541	2,812,218	7,661,423		
Prior Year Revenues & Transfers-In Adjustments	(64,584)	134,572	(1)		92,938	134,185	138,719				
Direct Entries to Fund Equity	755,858,042	25,096,794	44,125,012		8,525,261	84,865	548,993		12,935	16,392,995	2,866,644
Total Additions	792,343,408	82,728,511	315,219,452	23,347,185	289,027,246	125,158,572	339,436,363	2,812,218	7,674,358	16,392,995	2,866,644
REDUCTIONS											
Budgeted Expenditures & Transfers-Out	105,632,235	36,307,690	313,675,132		52,365,964	112,634,851	317,481,052		1,000	15,133,921	4,410,960
Nonbudgeted Expenditures & Transfers-Out	305,420,880	53,858,837	116,693	23,347,058	2,299,992	14,028,525	(1,271,364)	2,753,942	3,439,108		
Prior Year Expenditures & Transfers-Out Adjustments	(10,044)	4,490,081			(2,225)	19,823	(265,143)		(1,000)		
Total Reductions	411,043,071	94,656,608	313,791,825	23,347,058	54,663,731	126,683,199	315,944,546	2,753,942	3,439,108	15,133,921	4,410,960
FUND EQUITY: June 30, 2021	$ 879,928,846	$ 160,359,810	$ (21,217)	$ 126	$ 264,368,392	$ 99,095	$ 144,782,536	$ 531,397	$ 16,817,646	$ (1,995,103)	$ (1,647,900)

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 ADMINISTRATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Pension Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS										
Licenses and Permits		$ 2,432,885				$ 9,602				$ 2,442,487
Charges for Services	$ 9,585,743	4,115,879			$ 117,422	10,109,485	$ 293,509,339		$ 154,716	317,592,584
Investment Earnings	11,775,808	33,132			453,885	4,998	(908,796)		(2,686,221)	8,672,806
Fines and Forfeits	3,551,424					6,076	172,938			3,730,438
Monetary Settlements							141,137,493			141,137,493
Capital Contributions						872,826				872,826
Sale of Documents, Merchandise and Property		1,160				116,044,523	27,164			116,072,848
Rentals, Leases and Royalties							345			345
Contributions and Premiums									4,415,652	4,415,652
Grants, Contracts, and Donations		133,556			2,698			$ 4,604,576	606	4,741,436
Transfers-in	154,919,647	238,316,659	$ 1,625,048	$ 14,418,647	140,015,861		94,778			549,390,639
Capital Asset Sale Proceeds	1,637									1,637
Inception of Lease/Installment Contract	119,399	2,456,218								2,575,617
Proceeds of Refunding Bonds				(33,277)						(33,277)
Miscellaneous	294,332	1,733,044				227	15,661,125			17,688,728
Federal	309,673		14,717,512				4,658,636			19,685,821
Total Revenues & Transfers-In	180,557,662	249,222,533	16,342,560	14,385,370	140,589,866	127,047,737	454,353,021	4,604,576	1,884,753	1,188,988,079
Less: Nonbudgeted Revenues & Transfers-In	139,753,594	240,535,422	1,336,723	14,418,647	17,511,226	(711)	(1,257,416)	4,604,576	1,884,753	418,786,814
Prior Year Revenues & Transfers-In Adjustments	343	326,310	(49,474)	(33,277)	2,071	22,327	756,557			1,024,858
Actual Budgeted Revenues & Transfers-In	$ 40,803,725	$ 8,360,801	$ 15,055,311	$ 0	$ 123,076,569	$ 127,026,121	$ 454,853,881	$ 0	$ 0	$ 769,176,408

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

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Pension Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS										
Licenses and Permits		$ 1,974,689				$ 27,253				$ 2,001,942
Charges for Services	$ 9,188,000	1,631,173			$ 477,104	11,839,857	$ 320,986,905		$ 147,503	344,270,542
Investment Earnings	5,115,374	81,005			24,106	7,154	793,019		3,360,546	9,381,205
Fines and Forfeits	3,480,347					13,560	29,860			3,523,768
Capital Contributions						882,559	157,600			1,040,159
Sale of Documents, Merchandise and Property		97,935				112,291,031	321,124			112,710,090
Contributions and Premiums									4,151,620	4,151,620
Grants, Contracts, and Donations		45,980			(2,698)			$ 2,812,218	1,755	2,857,255
Transfers-in	18,075,431	4,821,560	$ 254,501,538	$ 10,889,132	280,003,471	5,613	332,671			568,629,416
Bond Proceeds		47,203,501								47,203,501
Capital Asset Sale Proceeds	37,829									37,829
Proceeds of Refunding Bonds		85,224		12,458,053						12,543,277
Miscellaneous	259,195	1,690,650				6,679	11,748,569			13,705,092
Federal	329,189		16,592,903				4,517,623			21,439,715
Total Revenues & Transfers-In	36,485,365	57,631,717	271,094,441	23,347,185	280,501,985	125,073,707	338,887,371	2,812,218	7,661,423	1,143,495,411
Less: Nonbudgeted Revenues & Transfers-In	5,804,397	3,953,454		23,347,185	29,843,462	7,913	1,144,541	2,812,218	7,661,423	74,574,593
Prior Year Revenues & Transfers-In Adjustments	(64,584)	134,572	(1)		92,938	134,185	138,719			435,830
Actual Budgeted Revenues & Transfers-In	$ 30,745,552	$ 53,543,692	$ 271,094,442	$ 0	$ 250,565,584	$ 124,931,609	$ 337,604,110	$ 0	$ 0	$ 1,068,484,988

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 ADMINISTRATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	Architecture & Engineering Division	Corrections	Departments & Agencies	Directors Office	Division of Banking & Financial Ins	DPHHS	General Services Division	Health Care & Benefits Division	Montana State Lottery	Montana Tax Appeal Board	Risk Management & Tort Defense Division	State Financial Services Division	State Human Resources Division	State IT Services Division	University System	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT																
Personal Services																
Salaries	$ 1,531,161			$ 1,532,352	$ 2,455,385		$ 3,913,255	$ 1,021,623	$ 1,981,779	$ 364,551	$ 1,269,660	$ 4,007,278	$ 2,790,953	$ 14,226,763		$ 35,094,761
Hourly Wages													3,325			3,325
Other Compensation	300			1,352					1,600	9,450						12,702
Employee Benefits	458,517			367,088	756,604		1,188,564	260,751	551,879	117,245	287,276	1,104,107	728,955	3,235,184		9,056,169
Personal Services-Other				(36,732)			3,161	(40,359)	17,675		(80,013)	(38,331)	(20,992)	(122,687)		(318,278)
Total	1,989,978			1,864,060	3,211,988		5,104,979	1,242,014	2,552,934	491,247	1,476,923	5,073,054	3,502,242	17,339,260		43,848,679
Operating Expenses																
Other Services	1,256,165			232,064	443,916		2,863,477	16,889,437	15,250,338	41,455	12,540,933	960,606	832,894	2,772,864		54,084,150
Supplies & Materials	53,397		$ 35,685	50,346	72,213		596,119	27,798	342,468	6,282	35,285	201,030	113,518	1,280,684		2,814,823
Communications	32,187			41,550	44,380		4,594,859	97,817	715,515	12,771	24,652	404,333	53,524	6,117,255		12,138,844
Travel	31,127			10,218	90,164		13,110	8,678	29,467	2,806	10,182	13,520	19,470	122,105		350,847
Rent	76,979			79,790	1,992		422,387	138,388	7,586		2,875	148,326	149,401	806,339		1,834,064
Utilities					8,136		2,071,352		18,232	1,752	3,636			108,567		2,211,674
Repair & Maintenance	5,328			157,899	62,497		1,693,305	184	23,651	146	2,931	2,735,492	918,636	24,422,139		30,022,209
Other Expenses	97,291		228,477	333,855	246,629		2,038,121	721,069	78,958,390	19,830	374,210	2,831,404	246,303	2,870,302	$ 14,724,220	103,690,101
Goods Purchased For Resale							3,070,878		1,180,263							4,251,141
Total	1,552,474		264,162	905,722	969,927		17,363,609	17,883,373	96,525,910	85,042	12,994,703	7,294,711	2,333,746	38,500,255	14,724,220	211,397,853
Equipment & Intangible Assets																
Equipment	(6,604)		47,264				77,534								653,419	771,612
Intangible Assets					2,456,218					119,399						2,575,617
Total	(6,604)		47,264		2,456,218		77,534			119,399					653,419	3,347,229
Capital Outlay																
Buildings		$ 3,053,999	26,027,157			$ 6,454,973									23,456,182	58,992,311
Other Improvements			3,228						(13,529)							(10,301)
Total		3,053,999	26,030,385			6,454,973			(13,529)						23,456,182	58,982,010
Local Assistance																
From State Sources				49,239,454						589		43,315,981				92,556,023
From Federal Sources				18,344,171								(56,127)				18,288,044
Total				67,583,625						589		43,259,854				110,844,067
Grants																
Grant To Governmental Entities											146,629					146,629
Total											146,629					146,629
Benefits & Claims																
From State Sources								214,166,233					404,182			214,570,415
Insurance Payments								6,213,170			3,318,608					9,531,778
Total								220,379,403			3,318,608		404,182			224,102,193
Transfers-out																
Fund transfers	2,150,000	42,648	5,253,797	597,773,799		90,115	526,795		16,811,224		20,884,102	6,666,130		1,745,550	132,796	652,076,955
Intra-Entity Expense				5,900,000												5,900,000
Total	2,150,000	42,648	5,253,797	603,673,799		90,115	526,795		16,811,224		20,884,102	6,666,130		1,745,550	132,796	657,976,955
Debt Service																
Bonds				14,388,396												14,388,396
Loans							29,128							9,540		38,667
Capital Leases														122,615		122,615
Lease Liability					162,294		1,512		15,726	40,764	5,986					226,282
Total				14,388,396	162,294		30,640		15,726	40,764	5,986			132,154		14,775,960
Post Employment Benefits																
Other Post Employment Benefits				(2,151)			113,747	19,182	66,382		20,642	39,597	22,239	294,384		574,022
Employer Pension Expense				(282,527)			(13,253)	(73,580)	241,707		77,840	154,450	(42,485)	897,698		959,851
Total				(284,679)			100,494	(54,398)	308,089		98,483	194,046	(20,245)	1,192,082		1,533,872
Total Expenditures & Transfers-Out	$ 5,685,848	$ 3,096,647	$ 31,595,607	$ 688,130,924	$ 6,800,427	$ 6,545,088	$ 23,204,051	$ 239,450,392	$ 116,200,354	$ 737,040	$ 38,925,433	$ 62,487,796	$ 6,219,924	$ 58,909,301	$ 38,966,616	$ 1,326,955,447
EXPENDITURES & TRANSFERS-OUT BY FUND																
General Fund		$ 21,493		$ 403,562,717						$ 737,040		$ 5,475,522	$ 2,134,840	$ (15,703)		$ 411,915,909
State Special Revenue Fund	$ 2,307,805	42,648	$ 4,532,303	253,588,120	$ 6,800,427	$ 58,112	$ 160,000		$ 850		$ 54,878	2,927,295		(434,115)	$ 117,169	270,155,492
Federal Special Revenue Fund	1,228,043		934,602	14,795,123		73,497						43,259,854		491,091	15,627	60,797,836
Debt Service Fund				14,385,496												14,385,496
Capital Projects Fund	2,150,000	913,610	24,332,798			6,413,479								2,195,550	5,735,303	41,740,739
Enterprise Fund			1,567,428				1,655,780	$ 7,151,751	116,199,504			702,358		438,158		127,714,979
Internal Service Fund		2,118,896	228,477	1,799,468			21,388,271	228,828,160			38,870,555	5,932,045	4,085,085	56,234,320	14,713,162	374,198,438
Private Purpose Trust Fund												4,190,722				4,190,722
Pension Trust Fund								3,470,481								3,470,481
Unexpended Plant Fund															10,898,106	10,898,106
Renewal & Replacement Fund															7,487,249	7,487,249
Total Expenditures & Transfers-Out	5,685,848	3,096,647	31,595,607	688,130,924	6,800,427	6,545,088	23,204,051	239,450,392	116,200,354	737,040	38,925,433	62,487,796	6,219,924	58,909,301	38,966,616	1,326,955,447
Less: Nonbudgeted Expenditures & Transfers-Out	2,148,462	8,849	20,288	559,993,176	2,452,932	678	405,363	9,518,222	16,930,072	118,954	7,498,660	6,842,586	(156,940)	(421,905)		605,359,396
Prior Year Expenditures & Transfers-Out Adjustments	450	72,803	(47,189)	(26,623)	(51)	(721)	(33,746)	61,065	625,414		18,703	(56,127)		(15,282)		598,695
Actual Budgeted Expenditures & Transfers-Out	3,536,936	3,014,994	31,622,509	128,164,371	4,347,546	6,545,131	22,832,434	229,871,105	98,644,868	618,086	31,408,071	55,701,337	6,376,865	59,346,488	38,966,616	720,997,357
Budget Authority	11,578,794	15,148,167	346,425,370	131,251,473	4,423,922	94,502,780	23,505,626	237,283,196	103,937,097	695,344	35,189,569	56,340,802	6,697,931	163,960,382	356,356,023	1,587,296,477
Unspent Budget Authority	$ 8,041,858	$ 12,133,173	$ 314,802,861	$ 3,087,102	$ 76,376	$ 87,957,649	$ 673,193	$ 7,412,091	$ 5,292,229	$ 77,258	$ 3,781,498	$ 639,465	$ 321,066	$ 104,613,894	$ 317,389,408	$ 866,299,120
UNSPENT BUDGET AUTHORITY BY FUND																
General Fund				$ 208,975						$ 77,258		$ 364,466	$ 97,851	$ 107,383		$ 855,933
State Special Revenue Fund	$ 694,901	$ 397,447	$ 48,384,563	2,661,925	$ 76,376	$ 16,158,350			$ 4,150		$ 40,622	483		7,075,134	$ 622,052	76,116,002
Federal Special Revenue Fund	7,346,957	3,000,000	76,462,900	6,946		24,524,242						8,262		89,367,827	3,781,299	204,498,433
Capital Projects Fund		7,235,330	189,056,713			47,275,058								4,064,521	78,635,558	326,267,180
Enterprise Fund		326,883	866,398				$ 71,159	$ 766,204	5,288,079			103,807		1,297,319		8,719,850
Internal Service Fund		1,173,512	24,697	209,257			602,033	6,645,887			3,740,876	162,447	223,215	2,701,710	18,104,657	33,588,290
Pension Trust Fund			7,591													7,591
Unexpended Plant Fund															149,463,458	149,463,458
Renewal & Replacement Fund															66,782,384	66,782,384
Unspent Budget Authority	$ 8,041,858	$ 12,133,173	$ 314,802,861	$ 3,087,102	$ 76,376	$ 87,957,649	$ 673,193	$ 7,412,091	$ 5,292,229	$ 77,258	$ 3,781,498	$ 639,465	$ 321,066	$ 104,613,894	$ 317,389,408	$ 866,299,120

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

	Architecture & Engineering Division	Corrections	Departments & Agencies	Directors Office	Division of Banking & Financial Ins	DPHHS	General Services Division	Governor Elect Program	Health Care & Benefits Division	Montana State Lottery	Montana Tax Appeal Board	Risk Management & Tort Defense Division	State Financial Services Division	State Human Resources Division	State IT Services Division	University System	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT																	
Personal Services																	
Salaries	$ 1,229,350			$ 2,335,358	$ 2,483,461		$ 4,045,267	$ 41,460	$ 1,093,220	$ 1,889,882	$ 351,246	$ 1,308,793	$ 3,856,895	$ 2,693,250	$ 14,302,799		$ 35,630,980
Other Compensation				650						1,050	5,625						7,325
Employee Benefits	396,588			597,722	854,838		1,357,862	18,855	308,256	595,612	119,505	336,588	1,205,484	1,205,484	3,601,577		10,151,066
Personal Services-Other				(37,155)			(7,227)		(851)	(5,625)		46,569	77,165	21,815	226,936		321,627
Total	1,625,938			2,896,575	3,338,298		5,395,901	60,315	1,400,625	2,480,919	476,376	1,691,950	5,139,543	3,473,245	18,131,312		46,110,998
Operating Expenses																	
Other Services	144,546			442,334	168,663		3,229,424	5,052	14,822,597	13,766,094	28,878	8,874,954	830,132	682,796	5,184,088		48,179,559
Supplies & Materials	21,899		$ 226,070	76,004	58,738		537,502	657	24,379	158,982	15,746	30,365	128,314	145,242	1,366,900		2,790,799
Communications	28,862			50,244	66,027		5,081,131	33	94,218	717,208	10,603	23,357	403,569	49,305	6,544,127		13,068,685
Travel	10,862			1,746	15,995		3,748	3,552	44	19,191	993	2,312	41	141	48,263		106,887
Rent	68,331			90,227	177,106		349,795		288,063	222,789	45,600	89,068	135,317	148,380	786,080		2,400,758
Utilities							1,907,455			17,677					112,466		2,037,599
Repair & Maintenance	250			570,582	48,851		1,107,301	509	193	12,136	174	2,134	1,524,494	795,519	20,267,845		24,329,990
Other Expenses	181,647		40,171	312,573	219,947		1,812,408		794,912	80,519,598	22,014	426,850	3,021,580	198,274	6,228,092	$ 4,669,900	98,447,967
Goods Purchased For Resale							3,068,679			1,026,157		(5)					4,094,831
Total	456,397		266,241	1,543,711	755,327		17,097,445	9,804	16,024,408	96,459,831	124,009	9,449,036	6,043,448	2,019,656	40,537,862	4,669,900	195,457,073
Equipment & Intangible Assets																	
Equipment				157,600						13,529					200,979	(194,845)	177,263
Total				157,600						13,529					200,979	(194,845)	177,263
Capital Outlay																	
Land & Interest In Land																	
Buildings		$ 2,269,431	15,751,450			$ 8,067,243										46,724,670	72,812,793
Other Improvements			207,912														207,912
Total		2,269,431	15,959,362			8,067,243										46,724,670	73,020,705
Local Assistance																	
From State Sources				48,224,504							1,012		43,056,980				91,282,496
From Federal Sources				18,528,640									171,370,789				189,899,429
Total				66,753,144							1,012		214,427,769				281,181,925
Grants																	
From State Sources															17,111,089		17,111,089
From Federal Sources				81,770,778													81,770,778
Grant To Governmental Entities		750,000										478,228					1,228,228
Total		750,000		81,770,778								478,228			17,111,089		100,110,094
Benefits & Claims																	
From State Sources									196,322,867					324,957			196,647,824
Insurance Payments									682,424			7,661,868					8,344,292
Other Financing Uses/Deduction				12,424,776													12,424,776
Total				12,424,776					197,005,291			7,661,868		324,957			217,416,892
Transfers-out																	
Fund transfers	2,250,000	1,277	8,508,404	394,178,421		4,466,862	321,491			13,300,316		294,271	5,183,259		450,030		428,954,331
Intra-Entity Expense				7,300,000													7,300,000
Total	2,250,000	1,277	8,508,404	401,478,421		4,466,862	321,491			13,300,316		294,271	5,183,259		450,030		436,254,331
Debt Service																	
Bonds				11,249,407													11,249,407
Loans							32,046								13,831		45,877
Capital Leases				94	1,864		18,330		113			75	2,988	429	163,172		187,065
Total				11,249,502	1,864		50,376		113			75	2,988	429	177,004		11,482,350
Post Employment Benefits																	
Other Post Employment Benefits				(76,298)			263,073		(271,227)	174,315		(24,758)	72,699	(165,697)	200,219		172,326
Employer Pension Expense				283,232			642,787		195,211	301,344		208,834	349,723	277,392	2,225,490		4,484,013
Total				206,934			905,861		(76,015)	475,659		184,075	422,422	111,694	2,425,709		4,656,339
Total Expenditures & Transfers-Out	$ 4,332,335	$ 3,020,708	$ 24,734,007	$ 578,481,441	$ 4,095,489	$ 12,534,105	$ 23,771,074	$ 70,119	$ 214,354,421	$ 112,730,254	$ 601,396	$ 19,759,502	$ 231,219,429	$ 5,929,981	$ 79,033,983	$ 51,199,725	$ 1,365,867,970
EXPENDITURES & TRANSFERS-OUT BY FUND																	
General Fund		$ 128,507		$ 399,530,565				$ 70,119			$ 601,396		$ 5,637,567	$ 1,630,640	$ 3,444,277		$ 411,043,071
State Special Revenue Fund	$ 2,082,335	78,315	$ 7,774,355	57,415,960	$ 4,095,489	$ 1,898,545	$ 85,000			$ 83,252		$ 294,271	2,716,109		17,982,976	$ 150,000	94,656,608
Federal Special Revenue Fund			1,091,534	95,434,940		2,703,868							214,432,234		129,250		313,791,825
Debt Service Fund				23,347,058													23,347,058
Capital Projects Fund	2,250,000	1,896,378	15,761,774			7,931,693										26,823,886	54,663,731
Enterprise Fund			66,174				1,408,912		$ 7,213,048	112,647,002			540,586		4,807,478		126,683,199
Internal Service Fund		917,507	40,171	2,752,917			22,277,162		203,702,266			19,465,231	5,138,991	4,299,342	52,670,002	4,680,957	315,944,546
Private Purpose Trust Fund													2,753,942				2,753,942
Pension Trust Fund									3,439,108								3,439,108
Unexpended Plant Fund																15,133,921	15,133,921
Renewal & Replacement Fund																4,410,960	4,410,960
Total Expenditures & Transfers-Out	4,332,335	3,020,708	24,734,007	578,481,441	4,095,489	12,534,105	23,771,074	70,119	214,354,421	112,730,254	601,396	19,759,502	231,219,429	5,929,981	79,033,983	51,199,725	1,365,867,970
Less: Nonbudgeted Expenditures & Transfers-Out	2,249,411	8,077	36,980	379,604,049	(1,121)	6,829	999,390		3,957,221	13,508,481	(180)	(3,863,097)	5,651,521	(3,497)	1,839,609		403,993,672
Prior Year Expenditures & Transfers-Out Adjustments	(52,491)	(60,612)	(64,778)	(1,144)		100,000	(40,162)		87,559	19,134		(96,560)	669	3,384	4,336,493		4,231,492
Actual Budgeted Expenditures & Transfers-Out	2,135,415	3,073,243	24,761,804	198,878,535	4,096,610	12,427,277	22,811,846	70,119	210,309,641	99,202,639	601,576	23,719,160	225,567,240	5,930,094	72,857,881	51,199,725	957,642,805
Budget Authority	2,497,504	9,750,377	204,777,551	207,138,437	4,348,329	44,493,527	24,166,977	75,000	214,108,758	101,342,061	728,030	29,846,865	227,095,943	6,491,784	129,783,988	201,896,567	1,408,541,699
Unspent Budget Authority	$ 362,089	$ 6,677,134	$ 180,015,747	$ 8,259,902	$ 251,719	$ 32,066,250	$ 1,355,131	$ 4,881	$ 3,799,118	$ 2,139,422	$ 126,454	$ 6,127,705	$ 1,528,703	$ 561,690	$ 56,926,107	$ 150,696,842	$ 450,898,894
UNSPENT BUDGET AUTHORITY BY FUND																	
General Fund		$ 21,493		$ 159,609				$ 4,881			$ 126,454		$ 81,173	$ 83,561	$ 228,952		$ 706,122
State Special Revenue Fund	$ 362,089	329,095	$ 37,895,763	1,987,432	$ 251,719	$ 11,105,462				$ 116,748		$ 76,230	3,123		10,126,714	$ 739,221	62,993,597
Federal Special Revenue Fund		1,000,000	44,095,694	5,834,819		914,157							132,036		41,148,829	2,046,926	95,172,461
Capital Projects Fund		2,266,746	96,629,699			20,046,631									3,939,830	11,274,953	134,157,860
Enterprise Fund		326,883	1,133,826				$ 66,769		$ 666,045	2,022,674			146,720		601,832		4,964,750
Internal Service Fund		2,732,917	253,174	278,041			1,288,362		3,133,072			6,051,476	1,165,650	478,129	879,950	1,954,154	18,214,926
Pension Trust Fund			7,591														7,591
Unexpended Plant Fund																112,832,564	112,832,564
Renewal & Replacement Fund																21,849,024	21,849,024
Unspent Budget Authority	$ 362,089	$ 6,677,134	$ 180,015,747	$ 8,259,902	$ 251,719	$ 32,066,250	$ 1,355,131	$ 4,881	$ 3,799,118	$ 2,139,422	$ 126,454	$ 6,127,705	$ 1,528,703	$ 561,690	$ 56,926,107	$ 150,696,842	$ 450,898,894

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 Administration
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2022

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, Capital Projects, Debt Service). 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 (Private-Purpose Trust, Pension and Other Employee Benefit Trust) and Plant (Unexpended and Renewal & Replacement) 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 were prepared from the transactions posted to the state's accounting system without adjustment.

To reflect the total department operations, the financial schedules present the combined operations of two separate business units, Department of Administration and Long-Range Building, identified on the state's accounting system.

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. Department General Fund activity includes statutory transfers related to activity such as debt service for general obligation bonds, contributions to the retirement systems, and the Budget Stabilization Fund. Other General Fund activity is related to operations for the office of Labor Relations, State Procurement Bureau, State Accounting and Financial Reporting Section, the Human Resources Policy and Programs Bureau and the Montana Tax Appeal Board.

- **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include the Budget Stabilization Fund, funds for HB652 bond proceeds, Architecture and Engineering Construction, State Procurement, Banking and Financial Institutions Division, and Mineral Impact.
- **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. In response to the COVID-19 pandemic, DOA recorded significant activity related to Coronavirus Relief Funds (CRF) and the American Rescue Plan Act (ARPA) funds. The department also has Federal Special Revenue Funds that include Federal Forest Reserve and Taylor Grazing Act funds.
- **Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses this fund primarily for the Long-Range Building Program.
- **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund to account for activity in the Long-Range Building Program and for Long-Range Information Technology projects.

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. The department administers twelve Internal Service Funds, the three largest of which are State Information Technology Services Division, Group Benefits, and Agency Insurance.
- **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 Flexible Spending, Local Government Services, State Lottery, and Surplus Property.

Fiduciary Fund Category

- **Pension and Other Employee Benefit Trust Funds** – to account for resources required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other employee benefit plans. Department pension trust funds include the Voluntary Employee Beneficiary Association Trust.

- **Private-Purpose Trust Funds** – to account for all fiduciary activities that are not required to be reported in a pension fund or an investment trust fund and are held in a trust (or trust equivalent arrangement), where the principal and income benefit individuals, private organizations, or other governments. Department private-purpose trust funds include Stale-Dated Warrants.

Plant Fund Category

- **Plant Funds** - to account for transactions related to construction of university properties. Because the Architecture and Engineering Division expends funds for university construction projects, the department records activity in the following sub-funds:
  - ◊ **Unexpended Plant Funds** – comprised of amounts which have been appropriated or designated for construction or purchase of university improvements, buildings, and equipment.
  - ◊ **Renewal and Replacement Funds** – provide resources for the remodeling or replacement of university properties.

Changes in Accounting Policy

Beginning in Fiscal Year 2022, the State of Montana implemented GASB 87 – Leases, which generally requires long-term leases to be recorded as a liability and a corresponding right-to-use lease asset. Since these leases are accounted for as long-term debt, governmental funds will show a Non-Budgeted, Inception of Lease/Installment Contract category on the Schedule of Revenues and Transfers-in and a corresponding Non-Budgeted Expenditure on the Schedule of Total Expenditures and Transfers-out for the purchase of the leased asset. In the year of implementation, this activity will be significant.

In the Schedule of Total Expenditures and Transfers-out, readers may also see a shift from Operating Expenses - Rent to a Debt Service – Lease Liability.

2. General Fund Equity Balance

The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department's total assets placed in the fund exceed outstanding liabilities, resulting in positive ending fund equity balances for each of the fiscal years ended June 30, 2021, and June 30, 2022. As stated in note 3, the department is the administrator of the General Fund.

As a result, the cash balances in the General Fund at fiscal year-end for all other state agencies are closed and recorded on the department's accounting records.

3. Direct Entries to Fund Equity

Direct entries to fund equity include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. Also, direct entries can be correction of certain errors.

Though the department is the administrator of the General Fund, it is not the only agency making entries to the General Fund. The direct entry to fund equity in the amount of $755,858,042 in FY 2021 and $1,334,889,646 in FY 2022 reflects the department closing cash balances of other agencies sharing the General Fund. The General Fund's fund equity balances shown on the Schedule of Changes in Fund Equity and Property Held in Trust in FY 2021, and the Schedule of Changes in Fund Equity in FY 2022, reflect only the department's activity and closing cash balances from other agencies, and not the total fund equity of the state's General Fund.

4. Governor's Office Coronavirus Aid, Relief, and Economic Security Act (CARES Act)

Under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, DOA received and distributed a total of $193,302,684 from US Treasury to cities, counties, and towns (sub- recipients). Of the total $170,981,744 was distributed to the sub-recipients between July 2020 and June 2022.

$81,770,778 of the Governor's Covid Relief Funds from the CARES Act was distributed to K-12 Public Schools for COVID-19 related costs incurred from March 1, 2020, through December 30, 2020.

5. American Plan Rescue Act (ARPA)

Under the American Plan Rescue Act (ARPA) DOA received and distributed a total of $86,350,355 from US Treasury to non-entitlement units (NEUs) of Montana local governments between July 2020 and June 2022.

ARPA was appropriated in HB632 of the 67th legislature. Agencies either transfer federal spending authority or an MOU is put in place, and agencies transfer the cash for administrative authority for federal grants that they receive directly.

The 67th legislature approved the ConnectMT Act and authorized the broadband infrastructure deployment program to the Department of Commerce (DOC). DOC and DOA entered an MOU to delegate the implementation of the program to DOA and place it functionally under A&E. Funding for the program is from ARPA and potentially from the Infrastructure Investment and Jobs Act (IIJA). The program is overseeing the grant awards and grant contracts to expand broadband throughout the state. There are no state funds as part of the grants for construction and the state will not own the infrastructure assets once complete.

6. Unspent Budget Authority

The Schedule of Total Expenditures and Transfers Out for FY 2021 and FY 2022 reflects that Corrections, Departments & Agencies, DPHHS, and University System have material unspent budget authority related to active projects administered by the Long-Range Building Program. The committed cost of a project is encumbered when the project is started, although many projects are not completed in one fiscal year, resulting in unspent budget authority amounts on the schedule. The unspent budget amounts represent estimated costs to complete all projects.

17-7-212, MCA states that the remaining balances on capital projects previously approved by the legislature, are re-appropriated for the purposes of the original appropriation until the projects are completed.

There are some capital building projects where budget authority will be reported twice. For example, where authority is necessary for the fund transfer from one fund into another fund, and authority is also necessary for the expenditure of those funds received. The department follows M.O.M. 302XV for these projects costing more than $500,000.

Similarly, the State Information Technology Services Division (SITSD) had material unspent budget authority in both years for Long-Range Information Technology Projects (LRITP) which were not completed. Much of this spending authority will be transferred to the administering agency when the LRITP is approved by SISTD.

2-17-560, MCA allows for the re-appropriation of LRITP until completion of the projects.

Material unspent budget authority in the Director's Office for FY 2021 was due to reduced Federal Secure Rural Schools (Forest Reserve) program funding and State Mineral Impact funding, which also attributed to most of the unspent budget authority in FY 2022.

Material unspent budget authority in FY 2021 and FY 2022 for the Risk Management Tort Defense is due to anticipated expenses related to a large property loss in FY 2019 that were not realized and lower than average legal expenses.

Material unspent budget authority in FY 2021 and FY 2022 for Healthcare and Benefits Division is due to cost savings in both the medical and pharmacy plans.

Material unspent budget authority in FY2021 and FY2022 for Lottery is due to expenditures being lower than expected for vehicles, travel, and advertising.

7. Transfer Activity

As the State Treasurer, the Department statutorily transfers a significant amount of money from, and to, the General Fund. These transfers involve other funds within state government.

Transfers-Out

The General Fund transfers out activity includes moving funds to the Department's debt service funds for general obligation bonds; state contributions to the Montana Public Employees Retirement System, the Teachers Retirement System, Budget Stabilization fund, Department of Natural Resource and Conservation's fire, water adjudication; motor vehicle revenue to various state agencies; and the Old Fund administered by the Montana State Fund.

The total transfers-out in the Director's Office were $401,478,421 in FY 2021 and $603,673,799 in FY 2022. General Fund transfers-out totaled $350,413,525 in FY2021 and $353,678,378 in FY 2022. Contributing to the reflected increase in total transfers was the general fund transfer of $234.9 million into the Budget Stabilization fund and subsequent $230.2 million transfer out from the Budget Stabilization Fund to the general and Capital Development funds, for $115.1 million each.

The 66th legislature approved a change in Long-range Building Program's (LRBP) funding structure and created a capital development account. Revenue and expenditures for project's funded from this account are in the 05031 capital projects fund. Beginning in FY 2022, the new structure includes annual transfers of excess funds in the Budget Stabilization Fund. In FY 2022, $115,084,337 was transferred to the capital development account.

Transfers-In

The General Fund Transfers-in were $18,075,431 in FY 2021 and $154,919,647 in FY 2022. The significant increase is primarily due to the FY22 transfer of $115.1 million from the budget stabilization fund to the general fund stipulated in 17-7-130 MCA. The $20.8 million reimbursement to the general fund from the Libby Judgement proceeds also contributed to the significant increase in transfers-in from FY21 to FY22.

The Montana Lottery, which is attached to the Department of Administration, transfers net profits to the General Fund and, as required, to the Office of Commissioner of Higher Education (OCHE) for STEM scholarships. The transfer amounts for FY 2021 were $12,300,316 to the General Fund and $1,000,000 to OCHE. For FY 2022, the transfer amounts were $15,311,224 to the General Fund and $1,500,000 to OCHE.

Supplemental appropriations from the General Fund were provided in 2013 and 2015 to pay for large property and liability losses in support of the RMTD fund. In 2022, the state received a significant sum for judgment/settlement proceeds associated with an insurance policy obtained by RMTD. These proceeds were $141.1 million and were recorded in the RMTD proprietary fund. To make the General Fund whole in relation to the supplemental appropriations received, a transfer was made to the General Fund in the amount of the infusion, plus lost interest had the money not been paid from the General Fund.

8. Reorganization

The following organizational changes were made within the Department of Administration.
State Continuity and Emergency Management Office

The State Continuity Emergency Management Office was reorganized into three components—continuity planning, emergency management, and emergency communications and notification. Effective July 1, 2021, the continuity planning component transitioned to the Department of Military Affairs; campus emergency management was transitioned to the General Services Division; and emergency communications and notification to the State Information Technology Services Division.

Office of Labor Relations

On September 29, 2021, Executive Order 15-2021 was executed designating the Administrator of the State Human Resource Division as the Chief Labor Negotiator. In alignment with this change, the Office of Labor Relations was moved from the Director's Office to the State Human Resources Division.

SITSD Procurement Staff

In July 2021 the SITSD procurement group was transitioned to the State Procurement Bureau to bring all procurement and contracting staff together into one bureau to support and provide enterprise procurement services resulting in process efficiencies. Upon analysis of duties and responsibilities of the group, it was determined that this group would be better suited to transition back to SITSD, which occurred in July 2022. Further assessment of IT procurement processes will be completed as part of the larger Procurement Reform initiative, currently underway.

Chief Data Officer

The Chief Data Officer office was created at the beginning of FY2022 and resides in the Director's Office. The office provides subject matter experts to work in collaboration with state agencies to enable digital transformation and data modernization efforts within state government. The office works in close partnership with agency leaders to drive the development and deployment of the enterprise data vision and strategies; oversee data management, data analytics, and data governance; ensure data quality; and recommend best practices in establishing agency performance measures.

9. University System Funds

The Unexpended Plant Fund and Renewal & Replacement Fund categories show negative ending fund balances for the department in the FY 2021 Schedule of Changes in Fund Equity and Property Held in Trust and FY 2022 Schedule of Changes in Fund Equity due to the sharing of the related funds with the University System. The negative balance reflects only the department's activity, and not the total fund equity or activity for these shared funds.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance With *Government Auditing Standards*

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Administration for each of the fiscal years ended June 30, 2022, and 2021, and the related notes to the financial schedules, and have issued our report thereon dated November 18, 2022. Our report includes qualified opinions on the financial schedules for both fiscal years 2022 and 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 the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described below to be material weaknesses.

- As described in Recommendation #3, the department's internal controls were not sufficient to ensure expenditure activity related to the Coronavirus Relief Fund and American Rescue Plan Act were classified in the correct expenditure accounts.

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 the attention by those charged with governance. We consider the deficiencies described below to be a significant deficiency.

- As described in Recommendation #1, the department does not have internal controls in place to obtain and review SOC reports for service organizations for the Health Care Benefits Division and State Information Technology Services Division. Additionally, we identified multiple instances where internal controls were not sufficient to ensure proper access roles were assigned or to terminate access timely in financial related information systems used by the department in the Health Care Benefits Division and Information Technology Services Division.

Compliance and Other Matters

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

Department of Administration 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

November 18, 2022

Department of Administration

Department Response

MONTANA DEPARTMENT OF ADMINISTRATION

Director's Office
Greg Gianforte, Governor
Misty Ann Giles, Director

February 8, 2023

Angus Maciver, Legislative Auditor
Legislative Audit Division
P.O. Box 201705
Helena, MT 59620

RE: Financial Compliance Audit #22-13: Department of Administration for the Two Fiscal Years Ended June 30, 2022.

Dear Mr. Maciver,

The Department of Administration (DOA) has reviewed the Financial Compliance Audit for the two fiscal years ending June 30, 2022.

Thank you to you and your staff for your work and professionalism during this audit. We view the audit process as an opportunity to improve the department's operation and performance.

Our responses to the recommendations are as follows:

Recommendation #1: *We recommend the department implement controls to obtain and review service organization control reports and enhance controls over access to financial systems at SITSD and HCBD.*

Department Response: Concur. The department agrees and will ensure a review process is in place, and well documented. The HCBD portion has already implemented a process. SITSD is working with the Contracts and Vendor Management section to have a review process in place by June 30, 2023 to ensure receipt and review of SOC reports when required in contracts.

Recommendation #2: *We recommend the department enhance internal controls to ensure the expenditures charged to the long-range IT appropriations are for the projects appropriated to the department by the legislature.*

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Department Response: Concur. Steps have been put into place to require agencies to submit a project plan for CIO approval for each project milestone and calculate the costs for each milestone before requesting a LRIT transfer for that amount. SITSD is in the process of implementing a new tool that will require more detailed financial information from the agencies and provide more control. The expected timeline for having this system and capability in place is December 31, 2023.

Recommendation #3: *We recommend the department ensure expenditure activity is accurately classified in compliance with state accounting policy and enhance internal controls to ensure new significant activity is accurately classified in the state's accounting records.*

Department Response: Partially concur. While we agree the activity was recorded using the incorrect expenditure classification, we do not believe it is due to a lack of internal controls. The account was chosen because of prior management interpretation of MOM policy and knowledge on how other federal programs are administered. Management also worked with the Office of Budget and Program Planning to request spending authority in an appropriate account classification, for both programs. Programs administered under CARES and ARPA for local governments were one-time only programs that have been completed.

Recommendation #4: *We recommend the department enhance internal controls to comply with state law by ensuring uniform accounting across state agencies, all necessary transactions are recorded before the accounts close at fiscal year-end, and adequate accounting policy is available to state agencies.*

Department Response: Concur. The Statewide Accounting Bureau (SAB) will enhance internal controls in the areas identified. For pensions, we have identified analytical procedures that will be performed before the SABHRS close process. For the cash closing entries, we have added an item to the FYE checklist to ensure a final review. While the GASB 87 implementation has already been completed, SAB will add an item to our implementation checklists to finalize draft policies and ensure blue book considerations are reviewed in the planning stages for future implementations. All actions will be implemented by July 2023.

We look forward to implementing corrective measures on the recommendations with which we concur and appreciate your consideration of our comments.

Sincerely,

Misty Ann Giles, Director

c: Kristin Reynolds, Chief Financial Officer
Kevin Gilbertson, Chief Information Officer
Cheryl Grey, Administrator
Amy Jenks, Administrator