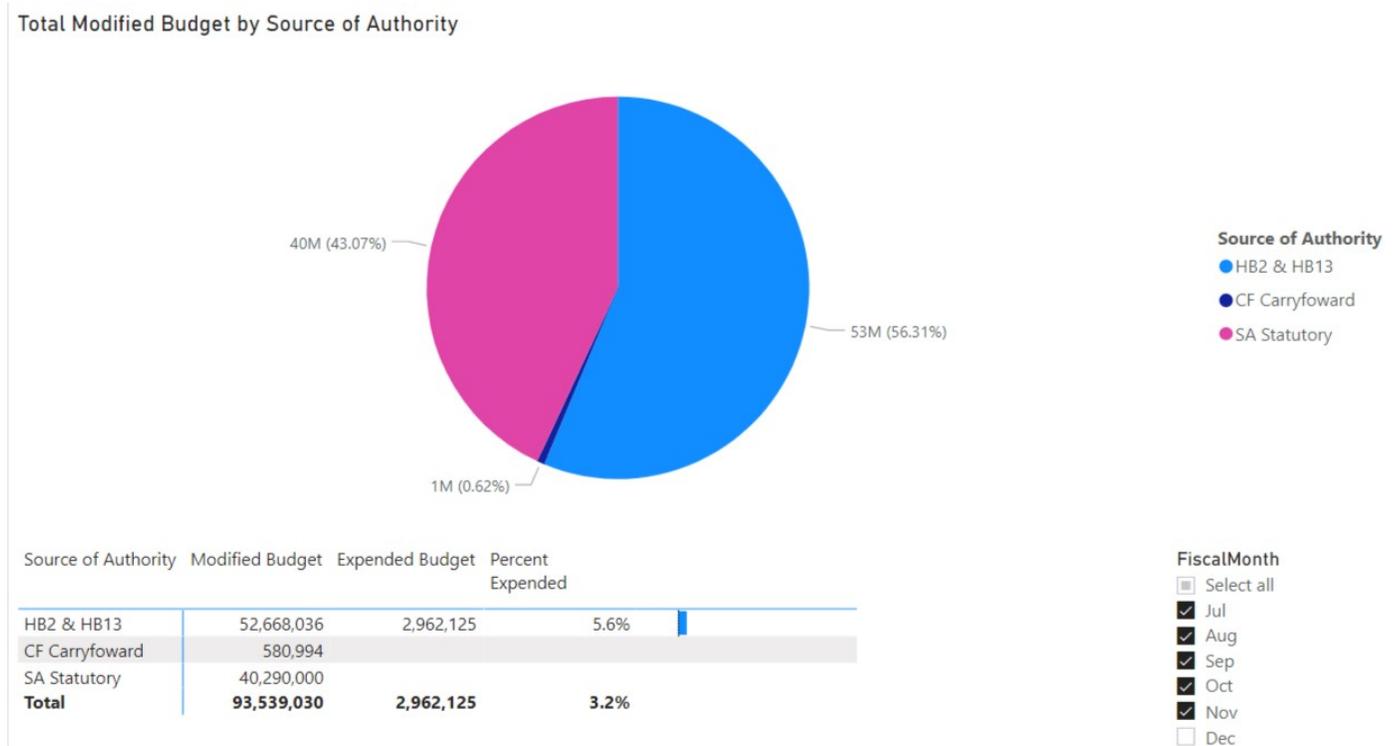


# STATE AUDITOR'S OFFICE (SAO)

## TOTAL APPROPRIATION AUTHORITY

The total appropriation authority for the agency is shown in the pie chart below. HB 2 and HB 13 provide 56.3% of the total authority for this agency. All types of appropriation authority for this agency are described below, including total budget and the percent expended by source of authority.



## Carryforward

Statute allows state agencies to reappropriate up to 30.0% of unexpended general appropriations act funds for personal services, operating expenses, or equipment by fund types for two years for any purpose, except increases in pay, that is consistent with the goals and objectives of the agency. Generally, agencies utilize the funds for one-time-only expenses such as retirement termination payouts or equipment purchases.

The State Auditor's Office has carryforward appropriation authority for FY 2020 of \$580,994 available for expenditure in FY 2022 including:

- \$180,000 budgeted as personal services in the Centralized Services Division
- \$270,994 budgeted as personal services in the Insurance Division
- \$130,000 with \$80,000 budgeted as personal services and \$50,000 as operating expenses in the Securities Division

## **Statutory Appropriations**

The State Auditor's Office is responsible for passing through funding for local police and firefighter retirement programs. The retirement programs are funded from general insurance (33-2-705, MCA) and firefighter insurance premium taxes (50-3-109, MCA). The premium taxes are deposited into the general fund and then a portion is transferred to the State Auditor's Office for distribution to local governments. In FY 2022, SAO is budgeted for the following pensions distributions to local governments:

- \$18.0 million for municipal police retirement contributions
- \$18.4 million for municipal firefighter retirement contributions
- \$440,000 for firefighter relief association contributions
- \$3.0 million for volunteer firefighter retirement contributions
- \$300,000 for city police retirement fund contributions

Historically the payments are made at the end of the fiscal year.

## HB 2 BUDGET MODIFICATIONS

The following chart shows the HB 2 budget as passed by the legislature, including the pay plan, and the HB 2 modified budget through November 30, 2021. Net modifications to the budget include operating plan changes from one expenditure account to another, program transfers, reorganizations, and agency transfers of authority. The **positive modifications** and **negative modifications** are shown by program, expenditure account, and fund type.

### Legislative Budget Compared to Modified Budget - HB 2 Only

Agency Name	Legislative Budget	Modified Budget	Net Modifications
<input type="checkbox"/> <b>State Auditor's Office</b>	<b>52,668,036</b>	<b>52,668,036</b>	<b>0</b>
CENTRAL MANAGEMENT	1,995,369	2,046,668	51,299
INSURANCE	49,311,318	49,272,265	-39,053
SECURITIES	1,361,349	1,349,103	-12,246
<b>Total</b>	<b>52,668,036</b>	<b>52,668,036</b>	<b>0</b>

Acct & Lvl 1 DESC	Legislative Budget	Modified Budget	Net Modifications
<input type="checkbox"/> 61000 Personal Services	6,314,390	6,314,390	0
<input type="checkbox"/> 62000 Operating Expenses	2,314,509	2,308,769	-5,740
<input type="checkbox"/> 63000 Equipment & Intangible Assets	7,994	7,994	
<input type="checkbox"/> 66000 Grants	44,031,143	44,031,143	
<input type="checkbox"/> 69000 Debt Service		5,740	5,740

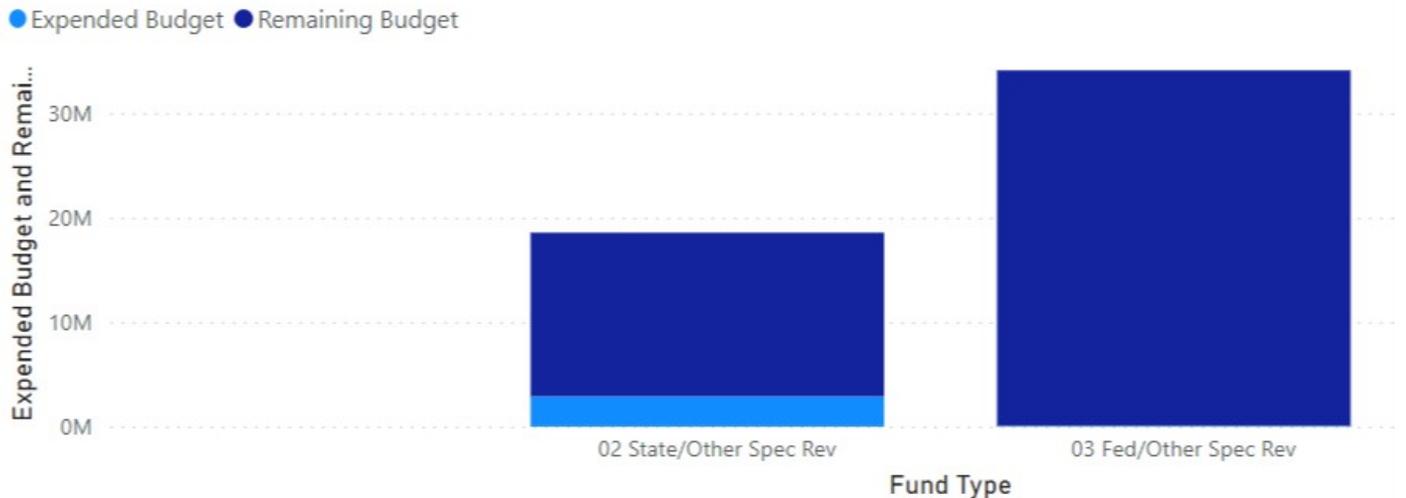
Fund Type	Legislative Budget	Modified Budget	Net Modifications
<input type="checkbox"/> 02 State/Other Spec Rev	18,568,036	18,568,036	0
<input type="checkbox"/> 03 Fed/Other Spec Rev	34,100,000	34,100,000	

The State Auditor's Office transferred \$5,740 from operating expenses to debt service for principal and interest payments for copier leases as required by state accounting policy.

## HB 2 APPROPRIATION AUTHORITY

The following chart shows the appropriated budget for the agency compared to expenditures through November 30, 2021.

Expended Budget and Remaining Budget by Fund Type - HB 2 Only



acclv1_descr	Modified Budget	Expended Budget	Percent Expended
Personal Services	6,314,390	2,220,044	35.2%
Operating Expenses	2,308,769	666,414	28.9%
Equipment & Intangible Assets	7,994		
Grants	44,031,143	73,775	0.2%
Debt Service	5,740	1,893	33.0%

Program Name	Modified Budget	Expended Budget	Percent Expended
CENTRAL MANAGEMENT	2,046,668	652,517	31.9%
INSURANCE	49,272,265	1,818,681	3.7%
SECURITIES	1,349,103	490,927	36.4%
<b>Total</b>	<b>52,668,036</b>	<b>2,962,125</b>	<b>5.6%</b>

The State Auditor's Office is funded in FY 2022 with:

- 35.3% state special revenues generated from insurance licensure fees, examination fees, penalties, and portfolio notice filing fees

- 64.7% federal special revenues which are received for the Montana Reinsurance Program. The Montana Reinsurance Program utilizes annual assessments on health insurance plan premiums as a match for federal funds to offset expenses of health insurers associated with high cost individuals who incur high cost claims

## Personal Services

Personal services make up 12.0% of the modified HB 2 budget in FY 2022. As of November 30, 2022, SAO has expended 35.2% of their personal services budget.

The following chart shows the positions within the agency that are vacant as of November 1, 2021.



As shown above 14.7% of the HB 2 FTE are vacant as of November 1, 2021 with:

- 4.00 FTE of 15.00 FTE or 26.7% vacant in the Central Management Division including an accountant, an information technology systems administrator, a computer systems analyst, and an information technology systems analyst supervisor
- 4.00 FTE of 44.00 FTE or 9.0% vacant in the Insurance Division including a compliance specialist, a program manager, a financial examiner, and one exempt staff position
- 2.50 FTE of 12.50 FTE or 20.0% vacant in the Security Division including a compliance specialist, and two exempt staff positions

SAO has been recruiting for the vacant positions and has hired an accountant and an IT systems analyst supervisor as of November 29, 2021.

## Operating Expenses

Operating expenses make up 4.4% of the HB 2 modified budget in FY 2022 with spending at 28.9% at the end of November. The following chart shows operating expenses by budget and expenditures.

State Auditor's Office Operating Expenses FY 2022				
Expenditure Category	Budget	Expenditures	Remaining	% Expended
Other Services	\$972,365	\$210,242	\$762,123	21.6%
Supplies and Materials	271,475	61,724	209,751	22.7%
Communications	149,749	34,075	115,674	22.8%
Travel	174,895	32,365	142,530	18.5%
Rent	506,830	261,597	245,233	51.6%
Repair and Maintenance	3,790	429	3,361	11.3%
Other Expenses	<u>229,665</u>	<u>65,981</u>	<u>163,684</u>	<u>28.7%</u>
	<u>\$2,308,769</u>	<u>\$666,413</u>	<u>\$1,642,356</u>	<u>28.9%</u>

As shown, while spending is slightly higher than anticipated in the budget for rent, other expenditure categories are lower than anticipated, drawing the overall spending for operating expense below levels anticipated in the budget.

## Grants

The 2019 Legislature enacted SB 125, which established the Montana Reinsurance Program (MRP). State special revenue of \$9.9 million and federal special revenue of \$34.1 million for MRP is appropriated in FY 2022.

MRP lowers premium rates by limiting the liability of insurers for higher cost claims within a specific range, \$40,000 to \$101,750. The establishment of MRP required a Section 1332 waiver of the Affordable Care Act, which was granted by the Centers for Medicare and Medicaid Services (CMS) in August 2019. The waiver was authorized for calendar years 2020 through 2024.

MRP is funded through:

- 1.2% assessment on participating healthcare insurers
- Federal pass through funds granted by CMS

In FY 2021, the State Auditor's Office collected \$10,032,581 in assessments from participating healthcare insurers for high cost claims made in calendar year 2020. These funds will be used to make reimbursements in FY 2022. The participating healthcare insurers had until August 15, 2021 (FY 2022) to submit claims to the MRP administrator for reinsurance payments. If the healthcare insurer incurred claim costs on a member above \$40,000 the insurer then requested reimbursement for 60.0% of the costs up to the cap of \$101,750.

As of November 30, 2021, the State Auditor's Office has not made reimbursement payments to the MRP administrators. The MRP administrator has calculated the total reimbursements due to health insurers for calendar year 2020 to be \$25,066,760. SAO anticipates paying the MRP administrator on December 5 including:

- \$7,774,711 in state special revenue
- \$17,292,049 in federal special revenue

State special revenue funding that is not utilized in any given year is used to lower assessments in future years.

## **OTHER ISSUES**

### **Required Reports**

The State Auditor's Office did not have any budget amendments, operating plan changes, or program transfers that require reporting to the Legislative Finance Committee.

Statute requires state agencies report on civil claims or complaints received each quarter. The State Auditor's Office reports the following cases filed in district courts:

- Reservation Operations Center, LLC v. Scottsdale Insurance Company, et. al. – alleges failure of state to serve process on a foreign insurer
- Winsor v. State of Montana, et. al. – alleges violations of various statutes and tort law in connection with termination of employment
- Rupnow v. Office of the Montana State Auditor, et. al. – alleges malicious prosecution, abuse of process, and violation of Montana constitutional rights related to maintenance of criminal prosecution
- Victory v. Office of the Montana State Auditor, et. al. – alleges violations of constitutional rights and other claims related to withholding allegedly owed premium tax refund