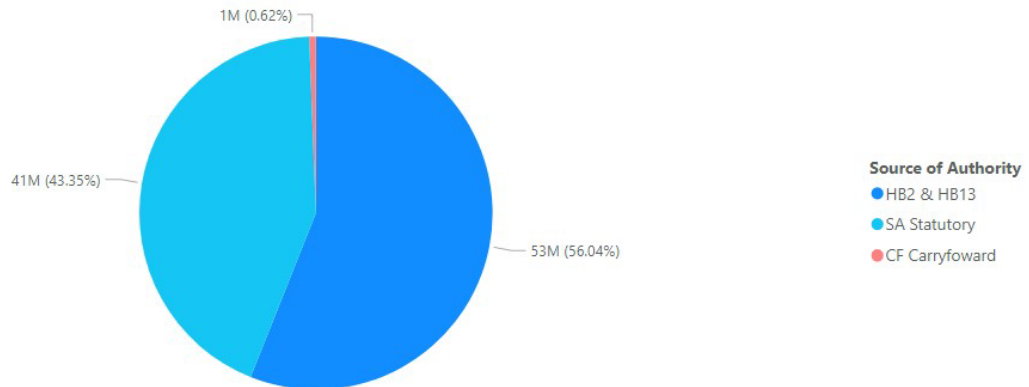


STATE AUDITOR'S OFFICE (SAO)

TOTAL APPROPRIATION AUTHORITY

The total appropriation authority for the agency is shown in the pie chart below. HB 2 and HB 13 provide 56.0% 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.

Total Modified Budget by Source of Authority



Source of Authority	Modified Budget	Expended Budget	Percent Expended
HB2 & HB13	52,668,036	29,737,744	56.5%
CF Carryforward	580,994		
SA Statutory	40,740,000	341,706	0.8%
Total	93,989,030	30,079,450	32.0%

Report Period

- Jul
- Aug
- Sep
- Oct
- Nov
- Dec
- Jan
- Feb

Carryforward

Statute allows state agencies to reappropriate up to 30.0% of unexpended prior-year HB 2 funds for personal services, operating expenses, and 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

As shown in the figure above, the State Auditor's Office has not expended any of the carryforward appropriations as of the end of February.

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 pension 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 in the last half 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 from December 1, 2021 through February 28, 2022. 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	December Modified Budget	March Modified Budget	Net Modifications
State Auditor's Office	52,668,036	52,668,036	
CENTRAL MANAGEMENT	2,046,668	2,046,668	
INSURANCE	49,272,265	49,272,265	
SECURITIES	1,349,103	1,349,103	
Total	52,668,036	52,668,036	

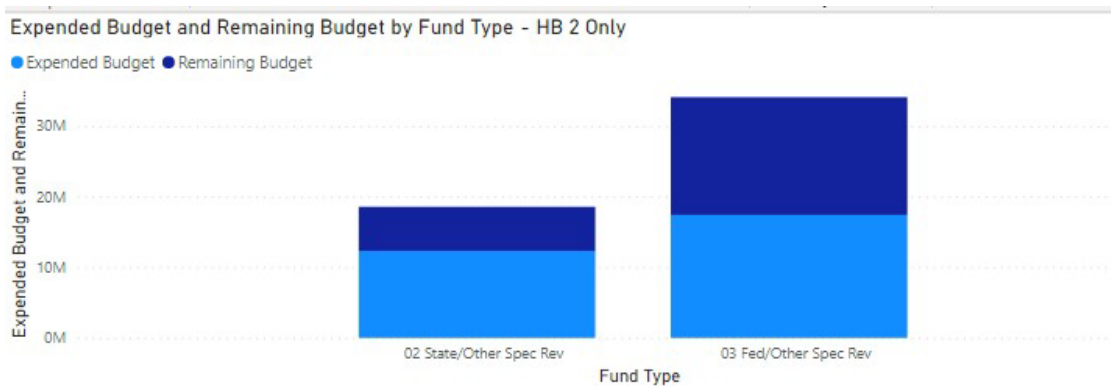
Acct & Lvl 1 DESC	December Modified Budget	March Modified Budget	Net Modifications
61000 Personal Services	6,314,390	6,314,390	
62000 Operating Expenses	2,308,769	2,308,769	
63000 Equipment & Intangible Assets	7,994	7,994	
66000 Grants	44,031,143	44,031,143	
69000 Debt Service	5,740	5,740	

Fund Type	December Modified Budget	March Modified Budget	Net Modifications
02 State/Other Spec Rev	18,568,036	18,568,036	
03 Fed/Other Spec Rev	34,100,000	34,100,000	

Since December, the State Auditor's Office has not modified its HB 2 budget.

HB 2 APPROPRIATION AUTHORITY

The following chart shows the appropriated budget for the agency compared to expenditures through February 28, 2022.



acclv1_descr	Modified Budget	Expended Budget	Percent Expended
Personal Services	6,314,390	3,556,066	56.3%
Operating Expenses	2,306,769	966,935	42.7%
Equipment & Intangible Assets	7,994		
Grants	44,031,143	25,190,975	57.2%
Debt Service	5,740	3,767	65.6%

Program Name	Modified Budget	Expended Budget	Percent Expended
CENTRAL MANAGEMENT	2,046,668	1,037,904	50.7%
INSURANCE	49,272,265	27,939,130	56.7%
SECURITIES	1,349,103	760,710	56.4%
Total	52,668,036	29,737,744	56.5%

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

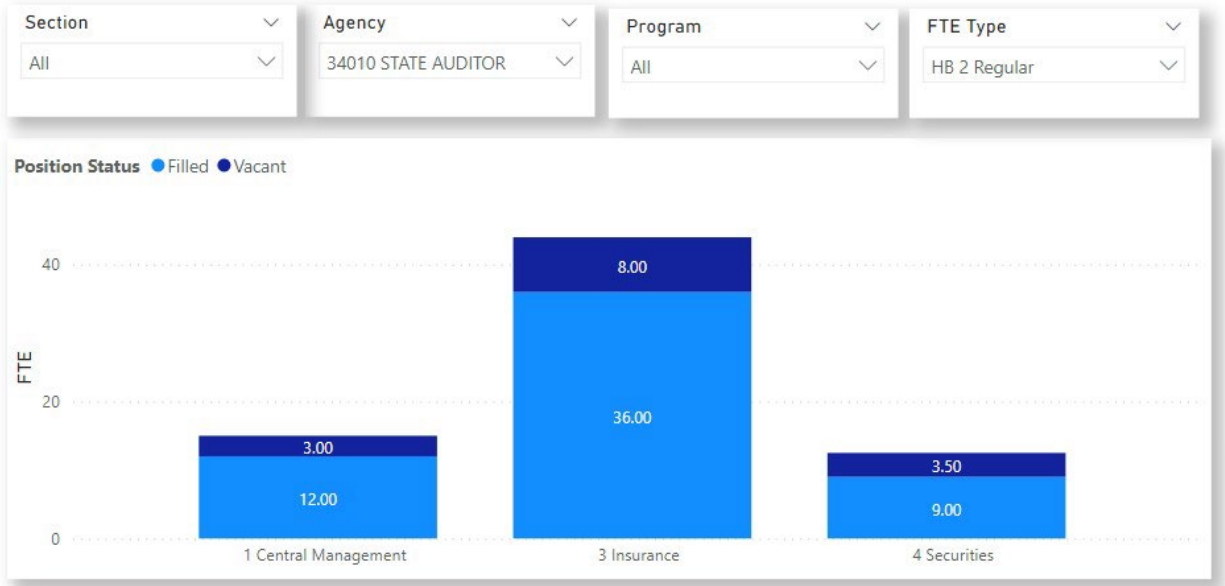
- 35.3% state special revenues generated from insurance licensure fees, examination fees, health insurance plan premiums, penalties, and portfolio notice filing fees
- 64.7% federal special revenues, which are received for the Montana Reinsurance Program. The Montana Reinsurance Program utilizes annual assessments on health insurance plan premiums, deposited into the state special revenue fund, as a match for federal funds. Both the state and federal special revenues are used 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 February 28, 2022, SAO has expended 56.3% of its personal services budget.

The following chart shows the positions within the agency that are vacant as of February 1, 2022.

Vacancies - House Bill 2



As shown above, 20.3% of the HB 2 FTE are vacant as of February 28, 2022, with:

- 3.00 FTE of 15.00 FTE, or 20.0%, vacant in the Central Management Division including an accountant, an information technology (IT) systems administrator, and a computer systems analyst. Since February 1, the SAO has hired a new accountant. The IT manager is currently evaluating staffing for information technology
- 8.00 FTE of 44.00 FTE, or 18.2%, vacant in the Insurance Division including the Deputy Chief Counsel, a compliance specialist, a financial examiner, a license examiner specialist, an insurance claims examiner, two lawyers, and one exempt staff position. Since February 1, SAO has hired a Deputy Chief Counsel, one attorney, and a license exam specialist. SAO anticipates filling the majority of the remaining positions in the next few months
- 3.50 FTE of 12.50 FTE, or 28.0%, vacant in the Security Division including a compliance specialist, a financial examiner, and two exempt staff positions. SAO anticipates filling the majority of the remaining positions in the next few months

Next Steps for Personal Services Reporting

In upcoming Quarterly Financial Reports, the LFD will begin the process of a more comprehensive look at personal services. The LFD will compare two executive “snapshots” -- July 2020 and July 2022. The analysis will identify adjustments adopted by the legislature in 2021 and modifications made by the agencies, within the confines of budget law.

The September Quarterly Financial Report will provide the complete comparison from July 2020 to July 2022. Ultimately, the analysis will result in a description of all the components that will be part of the executive’s decision package one (DP 1) 2025 biennium budget request. This work will prepare legislators for budget deliberations in the 2023 session. For a review of how DP 1 works and snapshot components, please read this [short brochure](#) from 2019.

Operating Expenses

Operating expenses make up 4.4% of the HB 2 modified budget in FY 2022 with spending at 42.7% at the end of February.

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 of state special revenue 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 was allowed to request reimbursement for 60.0% of the costs up to the cap of \$101,750.

As of February 28, 2022, the State Auditor's Office made \$25.2 million in reimbursement payments to participating healthcare insurers. The MRP reimbursements were paid using the following funds:

- \$7,774,711 in state special revenue
- \$17,416,264 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 the 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