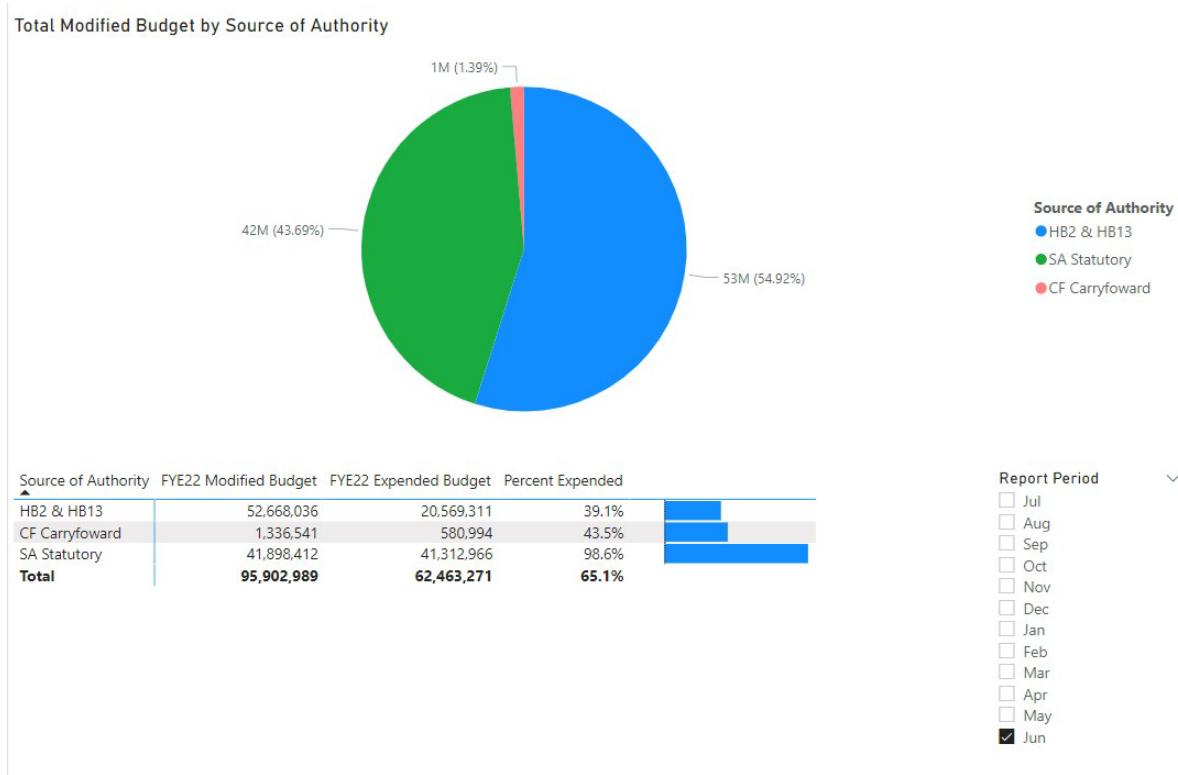


# STATE AUDITOR'S OFFICE (SAO)

## TOTAL APPROPRIATION AUTHORITY

The total appropriation authority for the agency is shown in the pie chart below. HB 2 and HB 13 provide 54.9% 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 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 (SAO) has carryforward appropriation authority from FY 2020 of \$580,994 in state special revenue available for expenditure in FY 2022 including:

- \$180,000 budgeted as personal services in the Central Management 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 expended all the FY 2020 carryforward appropriations as of the end of June for regular salaries and legal costs. The use of carryforward authority for regular salaries reduced the amount of HB 2 expenditures for personal services.

The SAO has carryforward authority from FY 2021 of \$755,547 in state special revenue including:

- \$315,000 budgeted as \$115,000 in personal services and \$200,000 in operating expenses in the Central Management Division
- \$315,547 budgeted as personal services in the Insurance Division
- \$125,000 budgeted as \$75,000 in personal services and \$50,000 in operating expenses in the Securities Division

As of the end of FY 2022, the SAO had not spent any of the FY 2021 carryforward authority, which remains available for expenditure in FY 2023.

## **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 by 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 June, SAO increased the appropriations for municipal firefighter retirement contributions by \$1.0 million and municipal police retirement contributions by \$122,208.

In FY 2022, SAO paid the following pension distributions to local governments:

- \$18.1 million for municipal police retirement contributions
- \$19.4 million for municipal firefighter retirement contributions
- \$393,603 for firefighter relief association contributions
- \$2.9 million for volunteer firefighter retirement contributions
- \$167,271 for city police retirement fund contributions

Historically, the majority of the payments are made in the last quarter of the fiscal year.

In addition, statutory appropriations include securities restitution payments paid to victims of securities crimes. In FY 2022 SAO paid \$341,706 in benefits for restitution in securities cases.

## 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 June 1, 2022 through fiscal year end. 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	June Modified Budget	FYE22 Modified Budget	Net Modifications
State Auditor's Office	<b>52,668,036</b>	<b>52,668,036</b>	<b>0</b>
CENTRAL MANAGEMENT	2,055,848	2,055,848	0
INSURANCE	49,272,265	49,272,265	0
SECURITIES	1,339,923	1,339,923	0
<b>Total</b>	<b>52,668,036</b>	<b>52,668,036</b>	<b>0</b>

Acct & Lvl 1 DESC

Acct & Lvl 1 DESC	June Modified Budget	FYE22 Modified Budget	Net Modifications
61000 Personal Services	6,314,390	6,107,390	-207,000
62000 Operating Expenses	2,308,769	1,998,769	-310,000
63000 Equipment & Intangible Assets	7,994	7,994	0
66000 Grants	44,031,143	44,031,143	0
69000 Debt Service	5,740	522,740	517,000

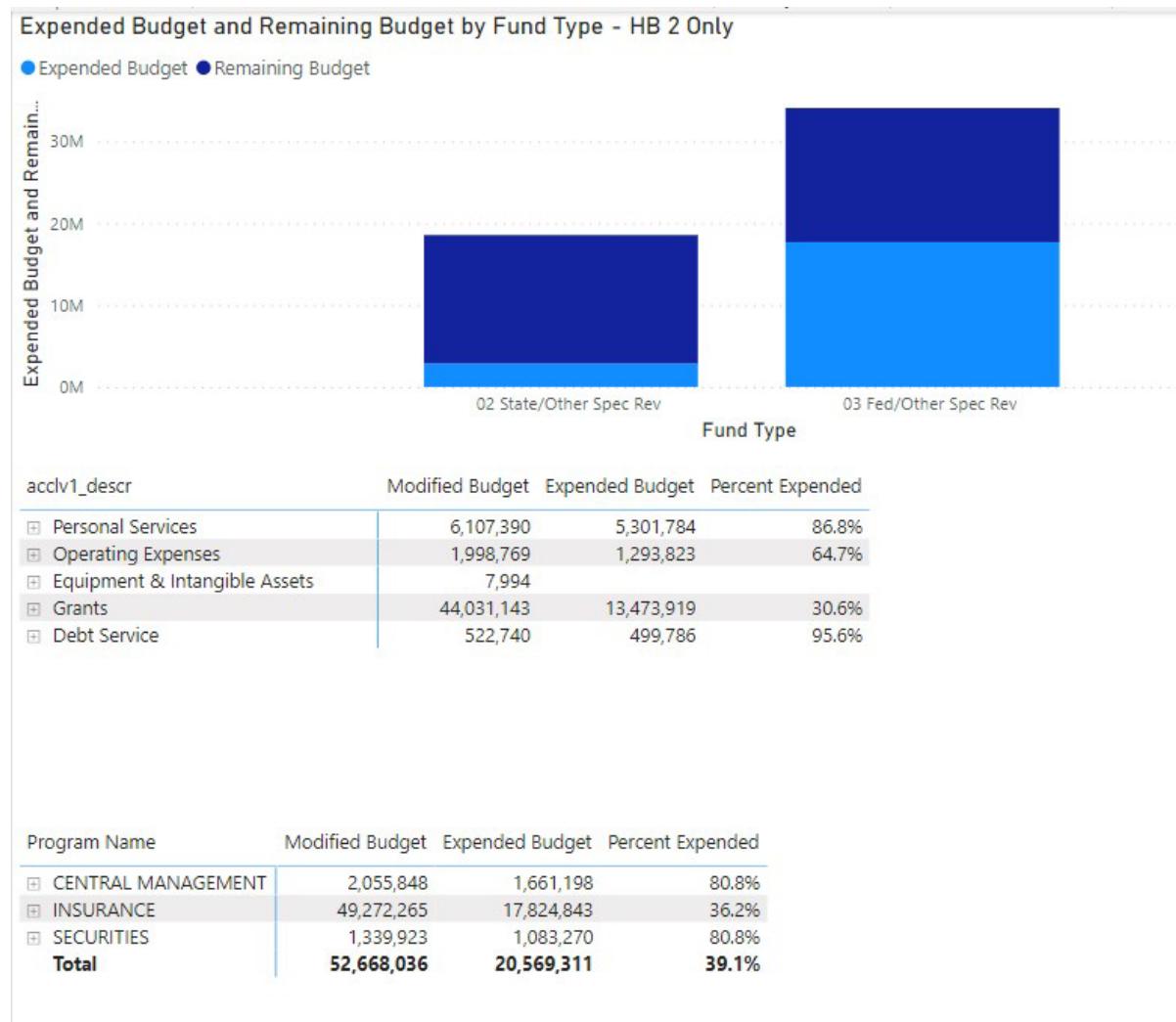
Fund Type

Fund Type	June Modified Budget	FYE22 Modified Budget	Net Modifications
02 State/Other Spec Rev	18,568,036	18,568,036	0
03 Fed/Other Spec Rev	34,100,000	34,100,000	0

The State Auditor's Office transferred \$207,000 in personal services and \$310,000 in operating expenses to debt service to correctly record expenses for leases in accordance with recent guidance issued by the Department of Administration.

## HB 2 APPROPRIATION AUTHORITY

The following chart shows the appropriated budget for the agency compared to expenditures through June 30, 2022.



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

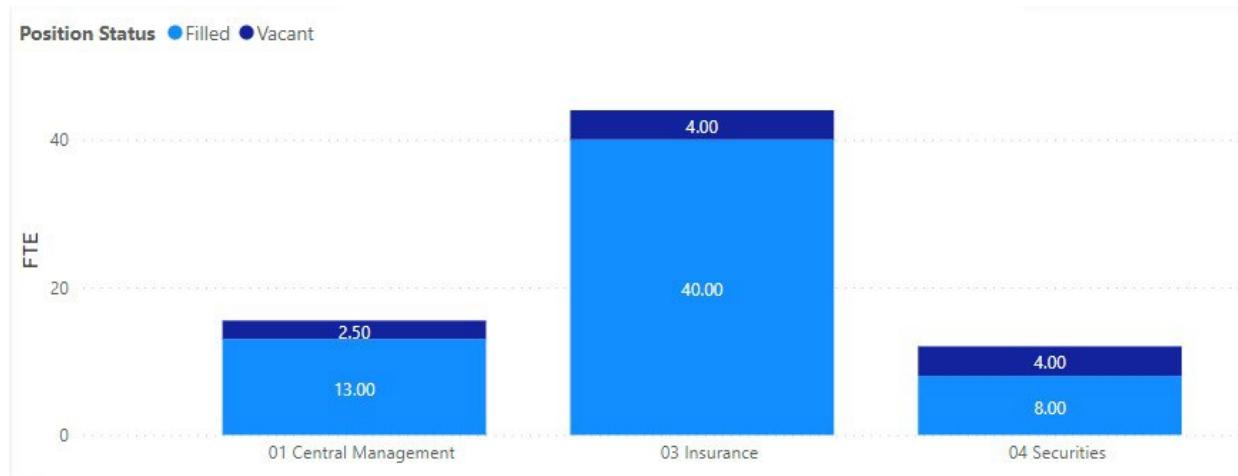
- 35.3% state special revenues generated from insurance licensure fees, examination fees, health insurance plan premiums, penalties, and portfolio notice filing fees
- 64.7% federal special revenues, which are received for the Montana Reinsurance Program

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 11.6% of the modified HB 2 budget in FY 2022. As of June 30, 2022, SAO has expended 86.8% of its personal services budget. As discussed in the narrative on carryforward appropriations, SAO used \$530,994 in FY 2020 carryforward authority for regular salaries in June. If SAO had used HB 2 appropriations for the salaries as budgeted, expenditures would have been 95.5% expended.

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



As shown above, 14.7% of the HB 2 FTE are vacant as of August 1, 2022, with:

- 2.50 FTE of 15.50 FTE, or 16.1%, vacant in the Central Management Division including an information technology (IT) systems administrator, a computer systems analyst, and a human resource assistant. The SAO is currently evaluating staffing and may fill the remaining vacancies in FY 2023
- 4.00 FTE of 44.00 FTE, or 9.1%, vacant in the Insurance Division including a financial examiner, two actuaries, and one exempt staff position. SAO anticipates filling the financial examiner position and the actuaries in FY 2023
- 4.00 FTE of 12.00 FTE, or 33.3%, vacant in the Security Division including a financial examiner, a compliance technician, a compliance manager, and an exempt staff position. SAO anticipates filling the majority of the positions in FY 2023

### ***Turn over***

Since July 1, 2021, there have been 20 State Auditor's Office employees, or 28.0% of the FTE that have left employment including:

- 7 that left state employment
- 7 that transferred to another state agency
- 6 that retired

### ***Utilization Rate***

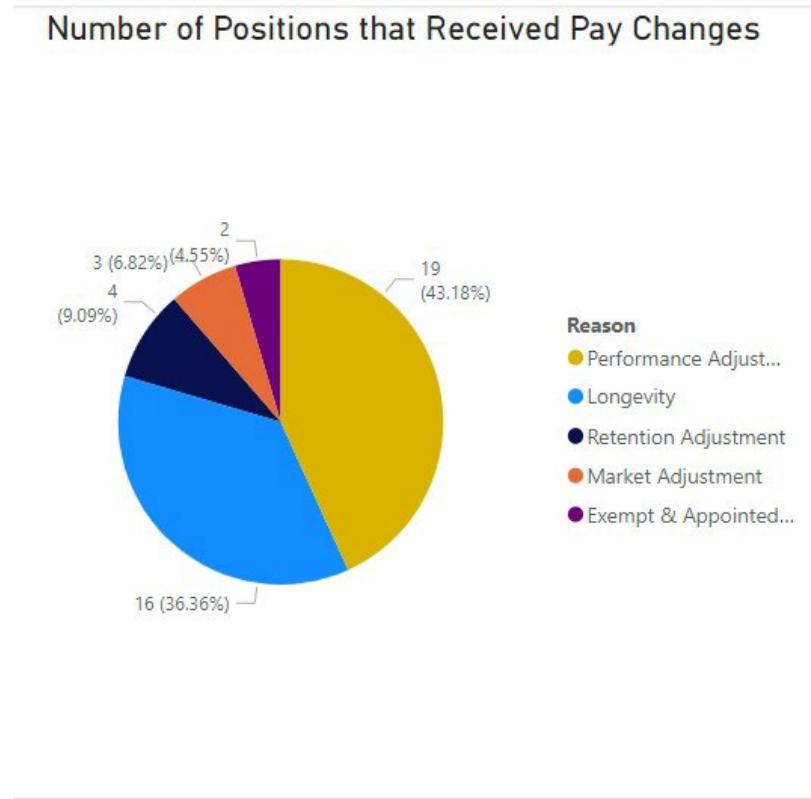
Of the total personal services budgeted in FY 2022, the divisions have utilized the following:

- Central Management Division – 79.9%
- Insurance Division – 87.4%

- Securities Division – 74.8%

### **Pay Rate Changes**

The following figure shows pay adjustments within the State Auditor's Office in FY 2022. The following figure includes both legislatively approved pay changes and management decisions.



### **Operating Expenses**

Operating expenses make up 3.8% of the HB 2 modified budget in FY 2022. As of June 30, 2022, SAO has expended 64.7% of its operating expenses 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 of state special revenue in assessments from participating healthcare insurers for high cost claims made in calendar year 2020. These funds were 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 May 31, 2022, the State Auditor's Office made \$25.4 million in reimbursement payments to participating healthcare insurers. The MRP reimbursements were paid using the following funds:

- \$7,818,990 in state special revenue
- \$17,576,911 in federal special revenue

State special revenue funding that is not utilized in any given year is used to lower assessments in future years. In FY 2022, the State Auditor's Office collected \$9,869,137 in assessments from participating healthcare insurers which will be used to make reimbursements for calendar year 2021.

The Montana Reinsurance Program is considered a component unit of the State of Montana. A component unit is defined as an organization whose relationship with the agency is such that not including their financial activities in the state's financial statements is misleading. The revenues collected through the 1.2% premium assessment are considered assets of the program. The assets are classified on the financial records as property held in trust meaning that the revenues are held for the Montana Reinsurance Program and the beneficiaries of the program. SAO made the financial entries into the system at the end of the fiscal year to classify the assets as property held in trust, as a result, the fund will show no fund balance going forward.

## **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. January through March 2022 the State Auditor's Office reports no civil claims or complaints filed.

Previously reported cases include 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