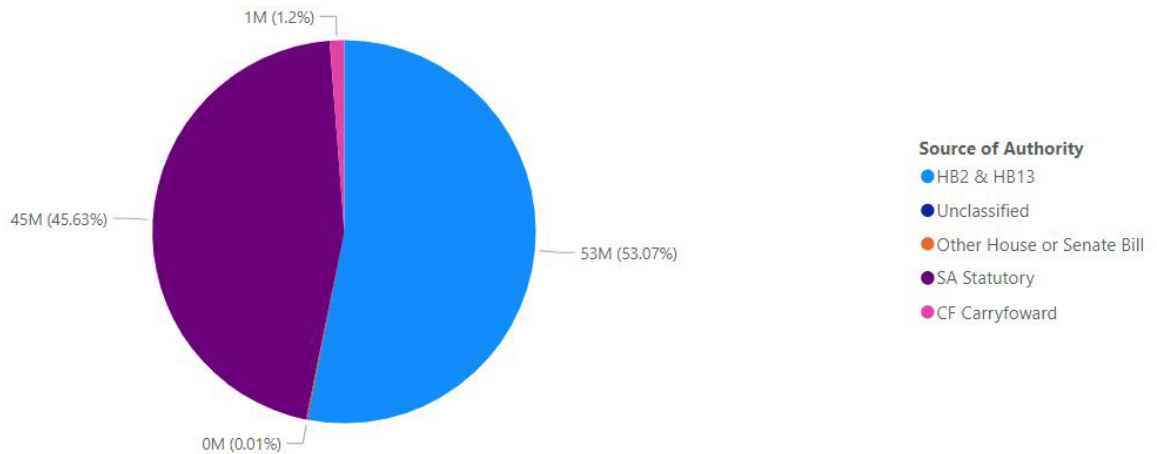


STATE AUDITOR'S OFFICE (SAO)

TOTAL APPROPRIATION AUTHORITY

The total appropriation authority for the State Auditor's Office is shown in the pie chart below. HB 2 and HB 13 provide 53.1% 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 | FYE23 Modified Budget | FYE23 Expended Budget | Percent Expended |
|----------------------------|-----------------------|-----------------------|------------------|
| HB2 & HB13 | 52,732,095 | 43,768,986 | 83.0% |
| CF Carryforward | 1,192,489 | 755,547 | 63.4% |
| Other House or Senate Bill | 95,283 | 66,560 | 69.9% |
| SA Statutory | 45,340,600 | 44,994,412 | 99.2% |
| Unclassified | 8,295 | | |
| Total | 99,368,762 | 89,585,505 | 90.2% |

Report Period

- ☒ Jul
- ☒ Aug
- ☒ Sep
- ☒ Oct
- ☒ Nov
- ☒ Dec
- ☒ Jan
- ☒ Feb
- ☒ Mar
- ☒ Apr
- ☒ May
- ☒ Jun

Carryforward

Statute allows state agencies to carryforward 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) carryforward appropriation authority from FY 2021 of \$755,547 in state special revenue was available for expenditures in FY 2023; the following shows how it was utilized:

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

The State Auditor's Office expended all the FY 2021 carryforward appropriations as of the end of June for regular salaries and legal costs, supplies, communications, travel, and rent. The use of carryforward authority for regular salaries reduced the amount of HB 2 expenditures for personal services.

The SAO also has carryforward authority from FY 2022 of \$436,942 in state special revenue including:

- \$109,403 budgeted for personal services in the Central Management Division
- \$254,164 budgeted for personal services in the Insurance Division
- \$73,375 budgeted with \$42,557 for personal services and \$30,818 for operating expenses in the Securities Division

As of the end of FY 2023, the SAO had not spent any of the FY 2022 carryforward, which remains available for expenditure in FY 2024.

Other Bills

HB 13 – State Employee Pay Plan

HB 13 (2023 Legislature) included a one-time-only, lump-sum payment to state employees. Full-time employees received a payment of \$1,040, which was prorated for employees that work less than full-time. This payment was effective in the first full pay period following HB 13 being enacted. The State Auditor's Office expended \$66,560 in FY 2023 for these lump-sum payouts.

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 2023, SAO paid the following pension distributions to local governments:

- \$21.6 million for municipal firefighter retirement contributions
- \$19.6 million for municipal police retirement contributions
- \$3.2 million for volunteer firefighter retirement contributions
- \$476,000 for firefighter relief association contributions
- \$160,918 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 security crimes. In FY 2023, SAO paid \$11,740 in benefits for restitution in securities cases.

Unclassified

Per 39-71-403(1)(b)(iv), MCA, when workers' compensation premiums are lower than the previous year, state agencies shall reduce personal services appropriations by the amount of the premium reduction. To track the changes in appropriation authority, total appropriation is not reduced; instead, the Governor's Office of Budget and Program Planning (OBPP) requires state agencies to:

- Reduce HB 2, statutory, and proprietary appropriations
- Create a separate offsetting entry on the financial statements in the same amount using an identifying number for workers' compensation entries

The offsetting entries are identified as "frozen" appropriations, which means the appropriations will not be spent unless authorized by OBPP. The State Auditor's Office reduced personal services appropriations by \$8,295 for workers' compensation premium savings.

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 July 1, 2022, through fiscal year-end (FYE). 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.

| Agency Name | Starting Budget | Legislative Budget | Net Modifications |
|---|-------------------|--------------------|-------------------|
| <input checked="" type="checkbox"/> State Auditor's Office | 52,685,872 | 52,685,872 | 46,223 |
| CENTRAL MANAGEMENT | 1,997,817 | 1,997,817 | -21,284 |
| INSURANCE | 49,322,605 | 49,322,605 | 116,447 |
| SECURITIES | 1,365,450 | 1,365,450 | -48,940 |
| Total | 52,685,872 | 52,685,872 | 46,223 |

| Acct & Lvl 1 DESC | Starting Budget | Legislative Budget | Net Modifications |
|---|-----------------|--------------------|-------------------|
| <input checked="" type="checkbox"/> 61000 Personal Services | 6,394,282 | 6,394,282 | -326,012 |
| <input checked="" type="checkbox"/> 62000 Operating Expenses | 2,252,453 | 2,252,453 | -132,173 |
| <input checked="" type="checkbox"/> 63000 Equipment & Intangible Assets | 7,994 | 7,994 | 0 |
| <input checked="" type="checkbox"/> 66000 Grants | 44,031,143 | 44,031,143 | |
| <input checked="" type="checkbox"/> 67000 Benefits & Claims | | | 4,609 |
| <input checked="" type="checkbox"/> 69000 Debt Service | | | 499,799 |

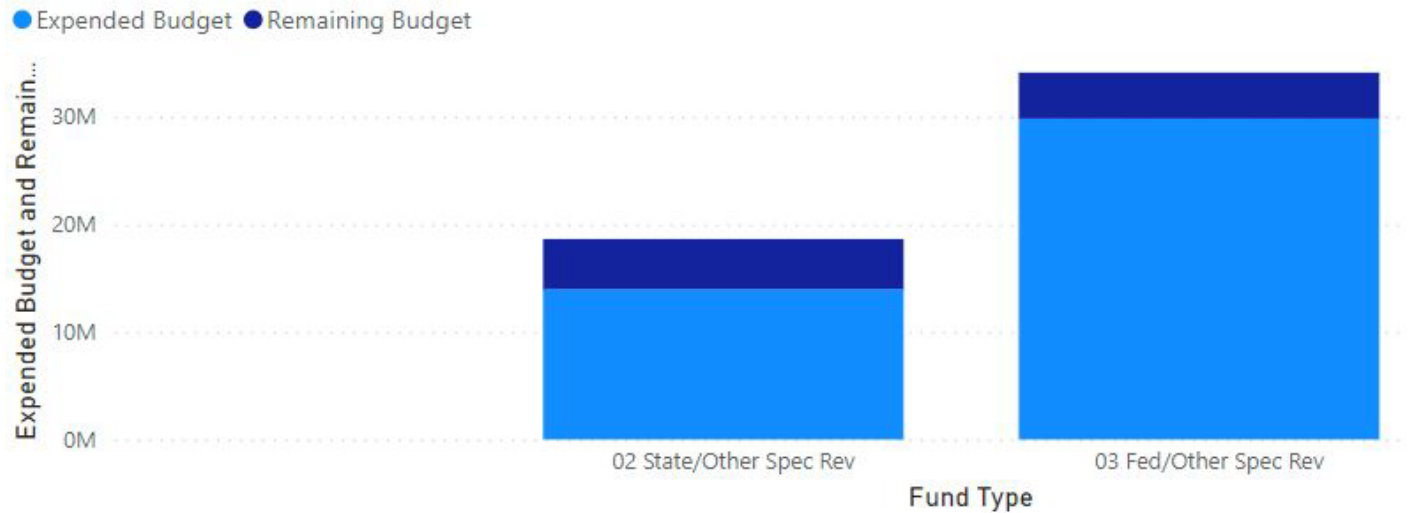
| Fund Type | Starting Budget | Legislative Budget | Net Modifications |
|---|-----------------|--------------------|-------------------|
| <input checked="" type="checkbox"/> 02 State/Other Spec Rev | 18,585,872 | 18,585,872 | 46,223 |
| <input checked="" type="checkbox"/> 03 Fed/Other Spec Rev | 34,100,000 | 34,100,000 | |

In FY 2023, the State Auditor's Office had an increase to their state special revenue authority of approximately \$46,000. The State Auditor's Office was delegated \$62,075 in restricted, biennial operating authority for legislative audit services. Only \$7,557 was utilized in FY 2022; the remaining \$54,518 was carried forward into FY 2023 for operating expenses. This increase is partially offset by a reduction in personal services authority by \$8,295 for workers' compensation premium savings. Additionally, the State Auditor's Office transferred approximately \$318,000 in personal services and \$182,000 in operating expenses to debt service authority to correctly record expenses for leases in accordance with recent guidance issued by the Department of Administration. Lastly, \$4,609 was transferred from operating authority to claims authority to properly account for a restitution payment.

HB 2 APPROPRIATION AUTHORITY

The following chart shows the appropriated budget for the agency compared to expenditures through FYE 2023.

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



| acclv1_descr | Modified Budget | Expended Budget | Percent Expended |
|-------------------------------|-----------------|-----------------|------------------|
| Personal Services | 6,068,270 | 5,873,621 | 96.8% |
| Operating Expenses | 2,120,280 | 1,978,597 | 93.3% |
| Equipment & Intangible Assets | 7,994 | | |
| Grants | 44,031,143 | 35,437,479 | 80.5% |
| Benefits & Claims | 4,609 | 4,608 | 100.0% |
| Debt Service | 499,799 | 474,680 | 95.0% |

| Program Name | Modified Budget | Expended Budget | Percent Expended |
|--------------------|-------------------|-------------------|------------------|
| CENTRAL MANAGEMENT | 1,976,533 | 1,833,205 | 92.7% |
| INSURANCE | 49,439,052 | 40,717,869 | 82.4% |
| SECURITIES | 1,316,510 | 1,217,912 | 92.5% |
| Total | 52,732,095 | 43,768,986 | 83.0% |

The State Auditor's Office is funded in FY 2023 with:

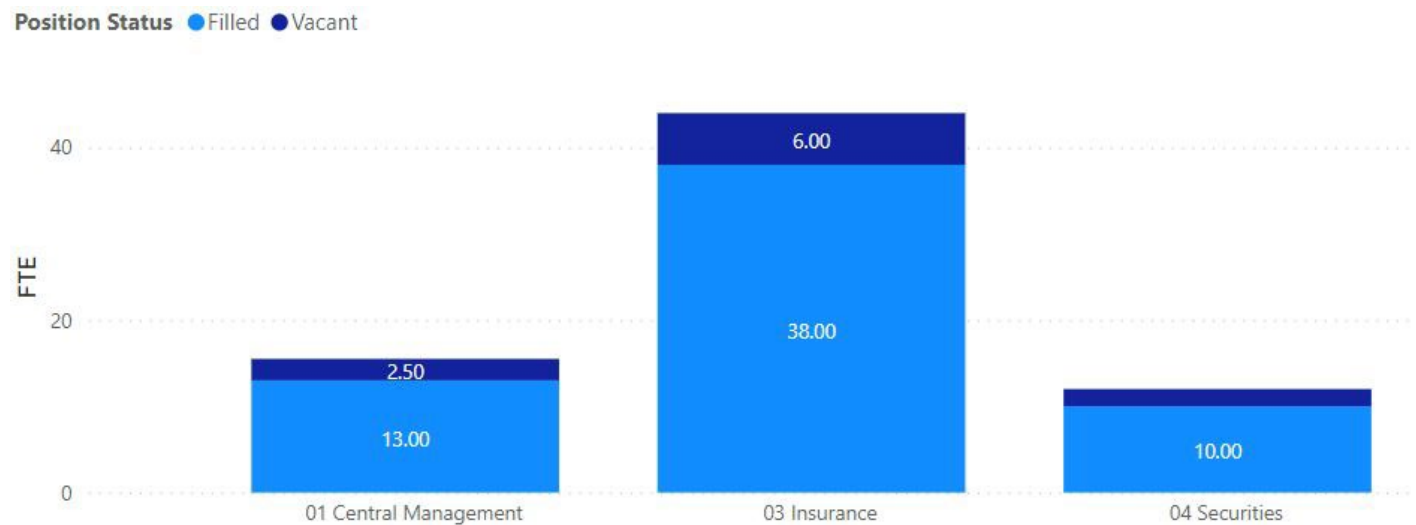
- 35.3% state special revenue, generated from insurance licensure fees, examination fees, health insurance plan premiums, penalties, and portfolio notice filing fees
- 64.7% federal special revenue from the Montana Reinsurance Program

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 11.5% of the modified HB 2 budget in FY 2023. As of 2023 FYE, SAO had expended 96.8% of its personal services budget. As discussed in the narrative on carryforward appropriations, SAO used \$505,547 in FY 2021 carryforward authority for regular salaries in June.

The following chart shows the positions within the agency that are vacant as of June 1, 2023.



As shown above, 14.7% of the HB 2 FTE were vacant as of June 1, 2023, with:

- 2.50 FTE of 15.50 FTE, or 16.1%, vacant in the Central Management Division including a computer systems analyst, a purchasing technician, and a human resource assistant
- 6.00 FTE of 44.00 FTE, or 13.6%, vacant in the Insurance Division including two compliance specialists, three actuaries, and one exempt staff position
- 2.00 FTE of 12.00 FTE, or 16.7%, vacant in the Securities Division including a compliance manager and an exempt staff position

Turnover

Since July 1, 2022, there have been 11 State Auditor's Office employees or 17.7% of the FTE that have left employment including:

- Five that transferred to another state agency
- Two that left state employment
- Two that retired
- One that was terminated within their probationary period
- One that passed away

During FY 2023, the State Auditor's Office had three employees vacate positions who were on short-term assignments (intern/short-term worker status).

Utilization Rate

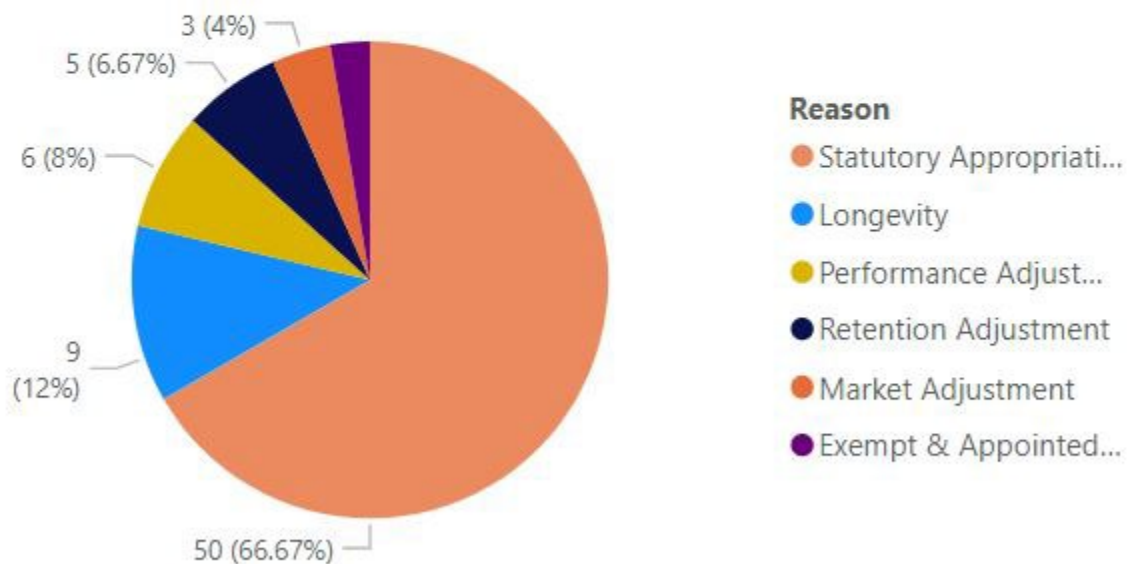
Of the 150,800 total hours budgeted in FY 2023 the State Auditor's Office utilized 129,216 hours or 85.7%, the divisions have utilized the following:

- Central Management Division – 28,231 hours or 82.3%
- Insurance Division – 81,070 hours or 88.6%
- Securities Division – 19,915 hours or 79.8%

Pay Rate Changes

The following figure shows pay adjustments within the State Auditor's Office in FY 2023. The following figure includes both legislatively approved pay changes and management decisions.

Number of Positions that Received Pay Changes



Operating Expenses

Operating expenses made up 4.0% of the HB 2 modified budget in FY 2023. As of FYE 2023, SAO had expended 93.3% 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 was appropriated in FY 2023.

MRP lowers premium rates by limiting the liability of insurers for higher cost claims within a specific range, \$40,000 to \$1.0 million or less. The 2023 adopted MRP Plan of Operations, set the “reinsurance cap” or the maximum amount of each claim incurred by an eligible health insurer for an enrolled individual’s covered benefit in a benefit year, as \$80,800.

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 healthcare insurers
- Federal pass-through funds granted by CMS

In FY 2022, the State Auditor’s Office collected \$10,339,735 of state special revenue in assessments from healthcare insurers for high-cost claims made in calendar year 2021. These funds were used to make reimbursements in FY 2023. The healthcare insurers had until August 15, 2022 (FY 2023) to submit claims to the MRP administrator for reinsurance payments. If the healthcare insurer incurred claim costs on a member above \$40,000, and the healthcare insurer has a medical loss ratio of 80% or greater, the insurer was then allowed to request reimbursement for 60.0% of the costs up to the 2022 adopted reinsurance cap of \$106,100.

As of FYE 2023, the State Auditor’s Office made \$35.4 million in reimbursement payments to healthcare insurers. The MRP reimbursements were paid using the following funds:

- \$5,618,342 in state special revenue
- \$29,819,136 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 2023, the State Auditor’s Office collected \$9,902,718 in assessments from healthcare insurers which will be used to make reimbursements for calendar year 2022.

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. For July 2022 through June 2023, the State Auditor’s Office reports one civil claim or complaint was filed.

- Christopher Travis, individually and derivatively on behalf of Milk River Hunting Preserve, LLC v. John Kevin Moore, et. al. – seeking to windup the dissolved Milk River Hunting Preserve, LLC real property in Valley County