

Joint Appropriations Sub-Committee on General Government

Legislative Audit Division – Program 28

January 31st, 2023

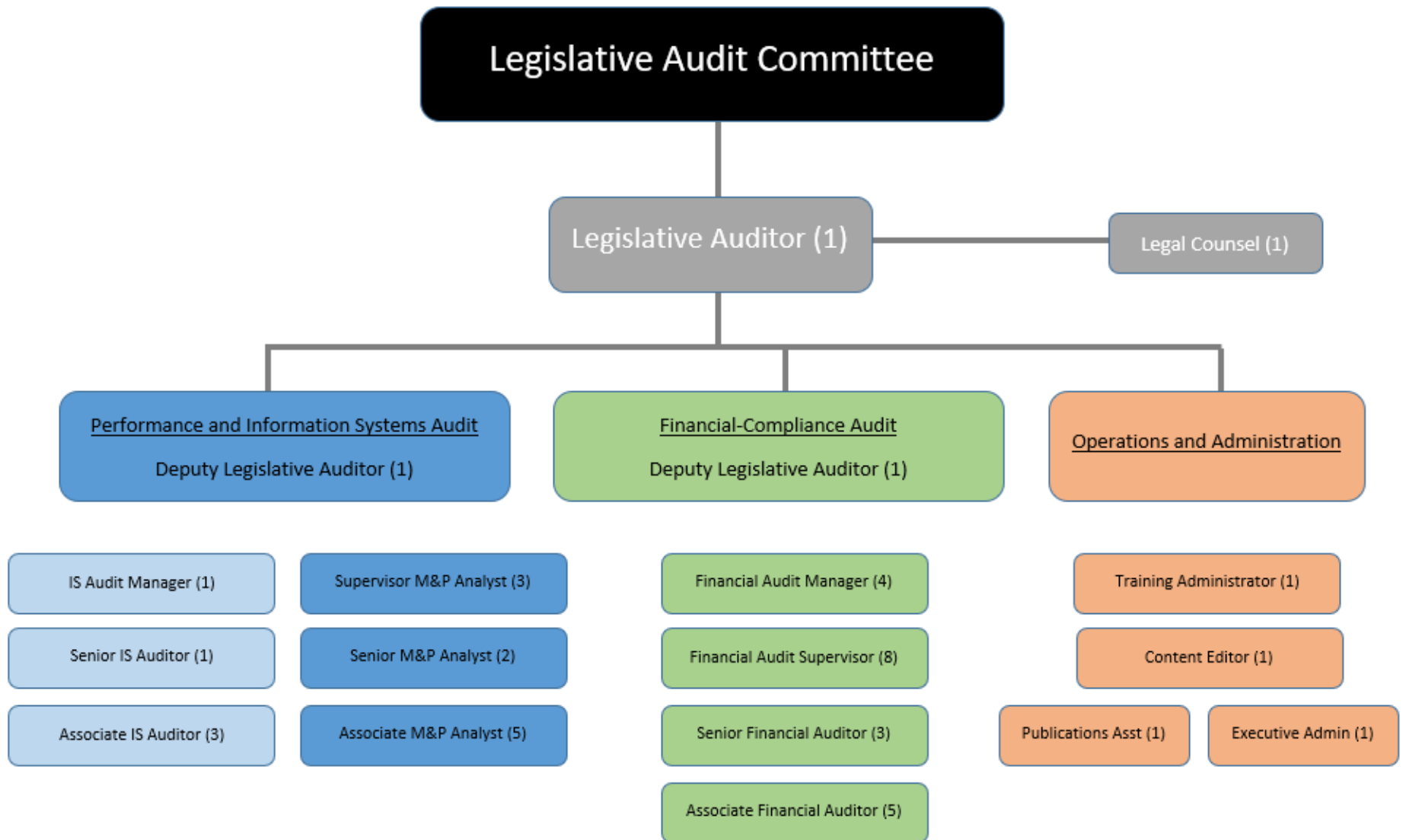
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LAD Organization



Work in Progress

Performance and Information Systems Audit

Thursday, January 19, 2023

PROJECT STATUS UPDATE

Active Projects

MAJOR PHASE OF AUDIT WORK

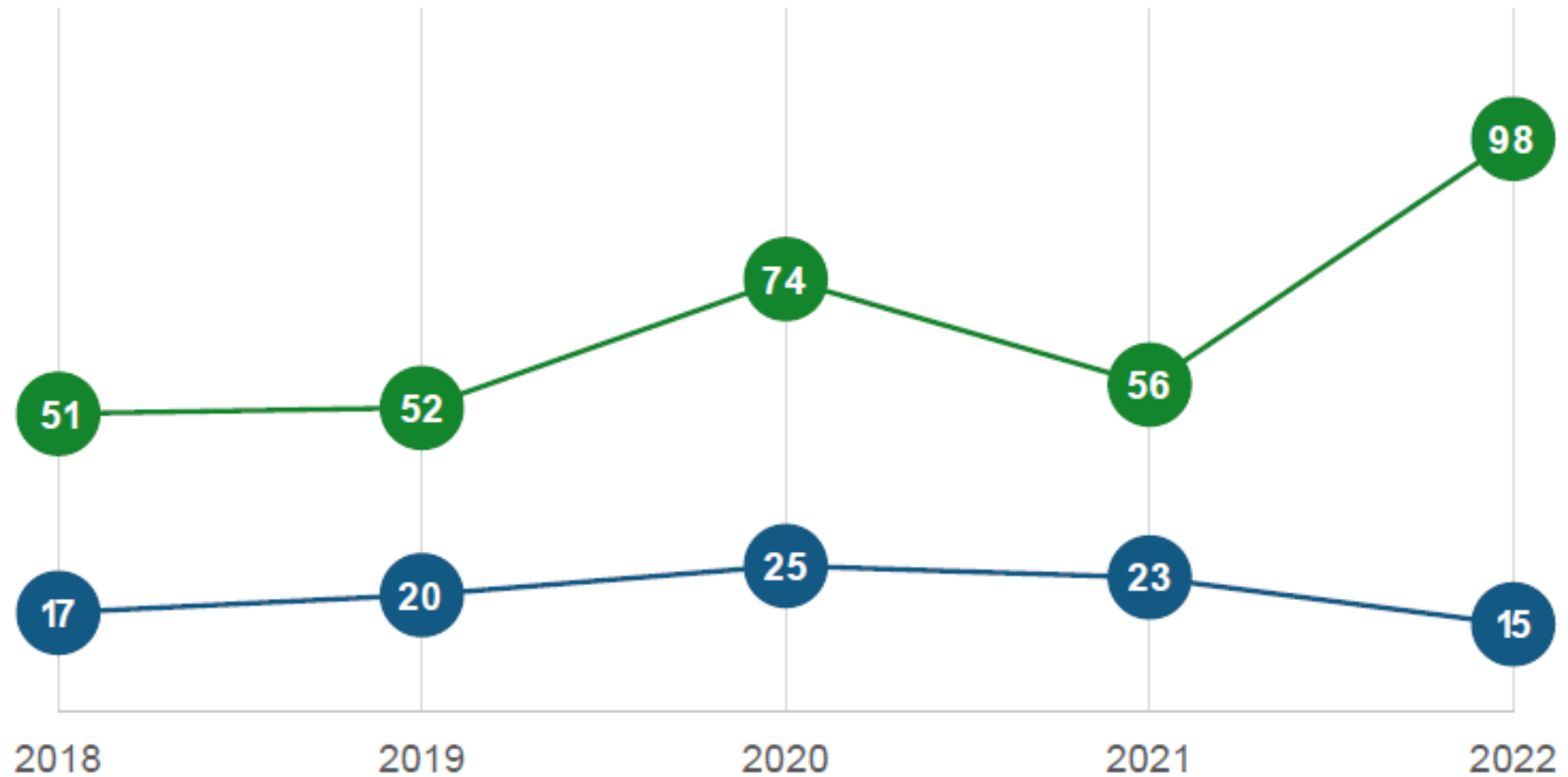
<u>Job #</u>	<u>Title</u>	<u>Agency</u>	<u>Project Lead</u>	<u>Assessment</u>	<u>Planning</u>	<u>Fieldwork</u>	<u>Reporting</u>	<u>Report Estimate</u>
Performance Audit								
23P-01	Bonus Point System	FWP	Sarah Carlson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	January 2023
21P-06	Real Property Tax Exemptions	DOR	David Singer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	March 2023
22P-02	Trends in Enforcement at FWP	FWP	Jeremy Verhasselt	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	March 2023
22P-01	Public Service Regulation Management	PSC	Julia Connelley	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	May 2023
23P-03	Judicial Standards Commission	JUD	Tina Chamberlain	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	November 2023
23P-04	BOH Affordable Housing	COMM	Amber Robbins	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	November 2023
23P-02	Medical Assistance Programs	DLI	Chelsea Rayfield	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	December 2023
23P-05	Addition of New Construction to Tax Rolls	DOR	Austin Powell	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	January 2024
22P-04	Education and Training of Incarcerated	DOC	Alyssa Sorenson	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	April 2024
IS Audit								
22DP-01	SABHRS FY 2022	DOA	Tyler Julian	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	January 2023
23DP-01	eGov Series 2: Accountability & Reporting	DOA	Hunter McClure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	February 2023
22DP-02	Policy and Billing Systems	MSF	Jemma Hazen	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	April 2024

Inactive Projects

<u>Fiscal Year</u>	<u>Title</u>	<u>Agency</u>	<u>Current Status</u>
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Fraud, Waste and Abuse Hotline

Hotline submissions went up significantly in fiscal year 2022 while **penal violations** decreased.

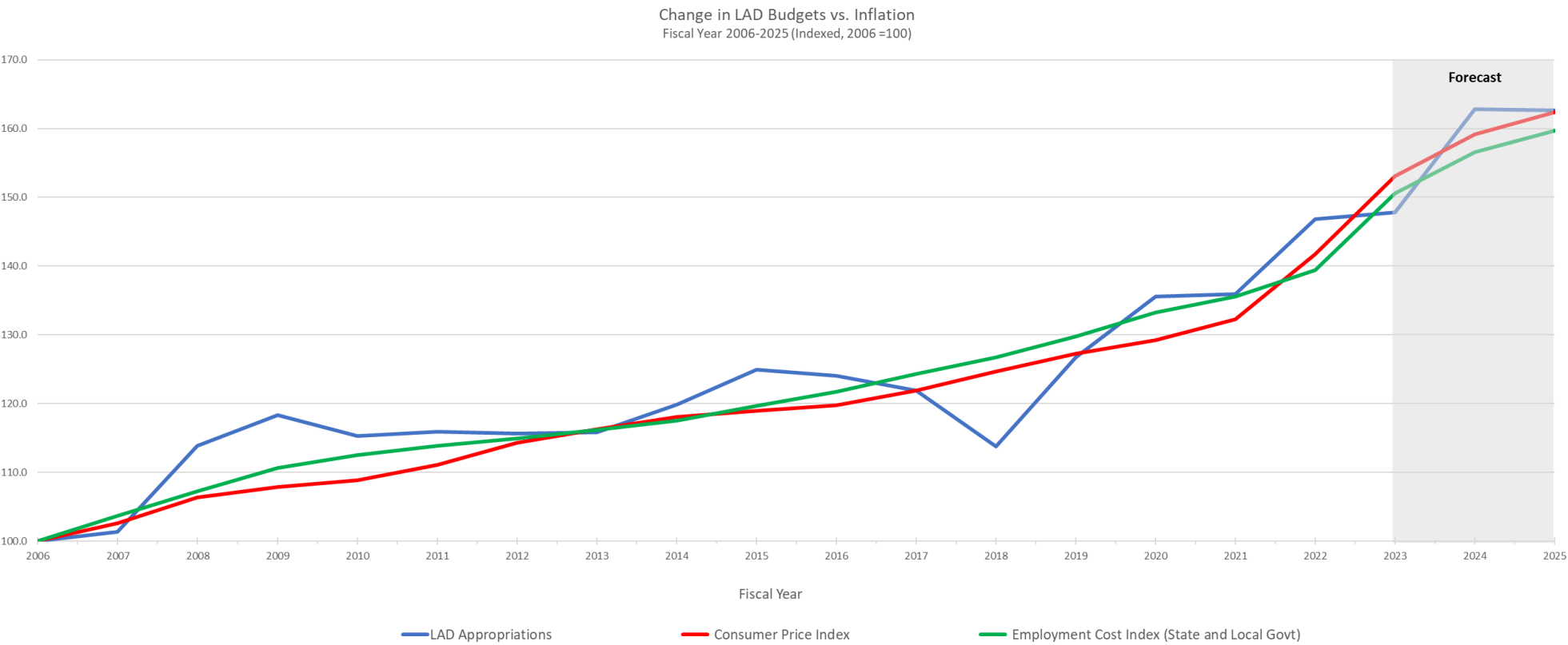


Present Law Adjustments & Change Package

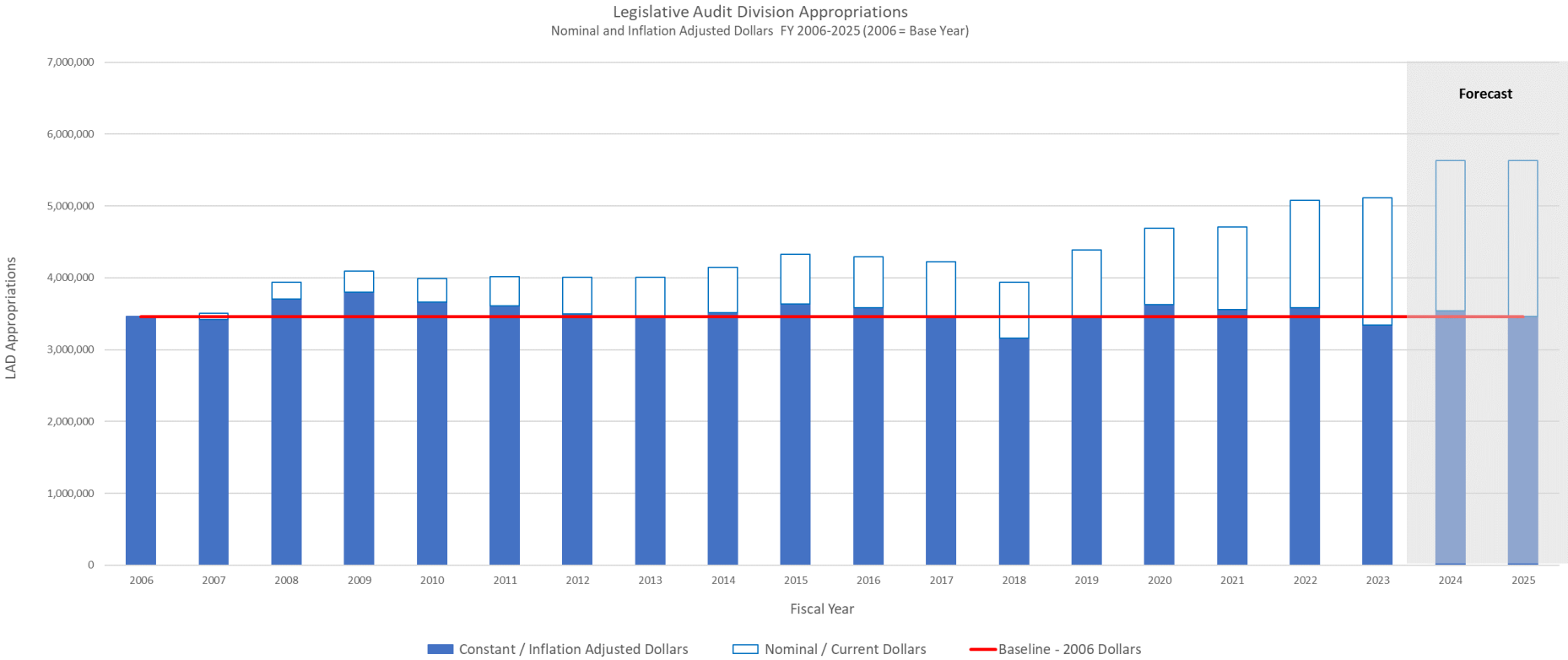
Program 28
2025 Biennium Budget Request
For Approval by LAC October, 2022

PG 28 Budget Request, 2021 Bien	2023 Budget Starting Point	2024 SWPL Change Package	2024 PL Change Package	2024 New Proposal NP1	2024 New Proposal NP2	2024 New Proposal NP3	2024 Total Budget Request	2025 SWPL Change Package	2025 PL Change Package	2025 New Proposal NP1	2025 New Proposal NP2	2025 New Proposal NP3	2025 Total Budget Request
61100 Salaries (Base)	3,588,352	212,192		42,553		1	3,843,098	226,810		42,553		1	3,857,716
61133 Salaries (Longevity)	-	126,835					126,835	142,100					142,100
61400 Benefits (incl Taxes)	1,279,969	76,958		7,362			1,364,289	82,170		7,362			1,369,501
61000 Personal Services	4,868,321	415,985	-	49,915	-	1	5,334,222	451,080	-	49,915	-	1	5,369,317
62000 Operating Expenses	249,391	19,792	31,757				300,940	21,025	(9,000)				261,416
Total Expenditures	\$ 5,117,712	\$ 435,777	\$ 31,757	\$ 49,915	\$ -	\$ 1	\$ 5,635,162	\$ 472,105	\$ (9,000)	\$ 49,915	\$ -	\$ 1	\$ 5,630,733
01 GENERAL FUND	2,964,400	252,751	18,419	28,951	126,791	1	3,391,313	273,821	(5,220)	28,951	126,692	1	3,388,644
02 STATE SPECIAL REV. FUNDS	2,153,312	183,026	13,338	20,964	(126,791)		2,243,849	198,284	(3,780)	20,964	(126,692)		2,242,089
Total Funding	\$ 5,117,712	\$ 435,777	\$ 31,757	\$ 49,915	\$ 0	\$ 1	\$ 5,635,162	\$ 472,105	\$ (9,000)	\$ 49,915	\$ 0	\$ 1	\$ 5,630,733
0 FULL TIME EQUIVALENT	52.75						52.75						52.75

Change in Costs – Long-Term Picture




Change in Costs – Real Dollars / Adjusted for Inflation



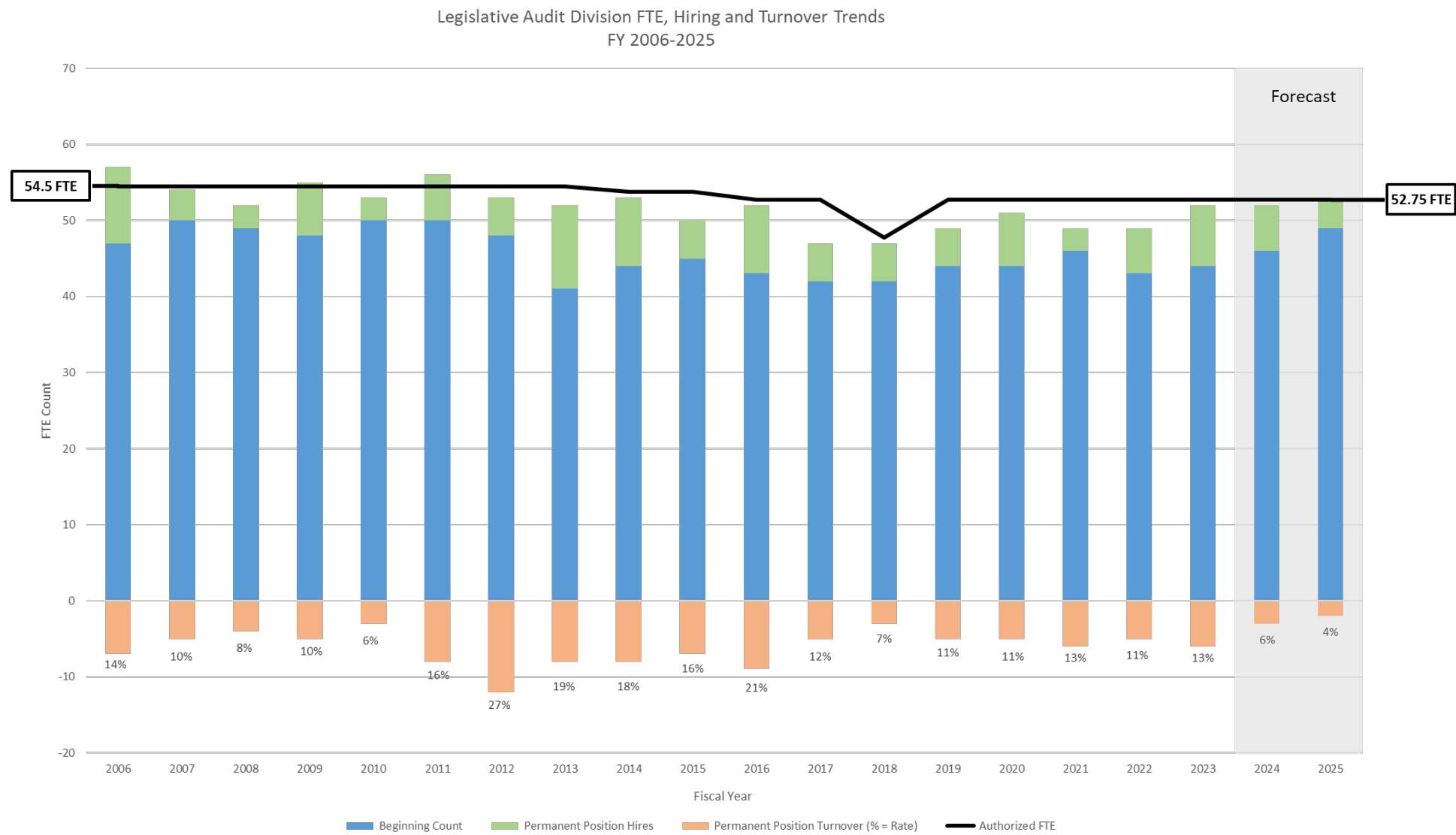
DP1 – SWPL Personal Services

	1. Formula Based		2. Management Decisions			Turnover	Totals
	<u>Longevity</u>	<u>Statutory</u>	<u>Career Ladder</u>	<u>Market Adjustments</u>	<u>Pay-for-Performance</u>	<u>Differential</u>	
Salaries	\$13,799	\$54,080	\$56,531	\$213,979	\$126,560	(\$112,718)	\$352,232
Benefits/Taxes	\$2,385	\$9,345	\$9,769	\$36,976	\$21,870	(\$19,478)	\$60,866
Total	\$16,184	\$63,425	\$66,300	\$250,955	\$148,430	(\$132,196)	
LAD Totals	\$79,609		\$465,684			(\$132,196)	\$413,097
LFD Totals	\$79,224		\$336,761				\$415,985



	FY 2021 & 2022 Management Decisions		
	<u>Career Ladder</u>	<u>Market Adjustments</u>	<u>Pay-for-Performance</u>
<u>Average Percentage</u>	6.1%	4.5%	3.1%
<u>Average Amount</u>	\$4,032	\$3,042	\$2,184

DP 1 – LAD FTE Hiring / Turnover Trends

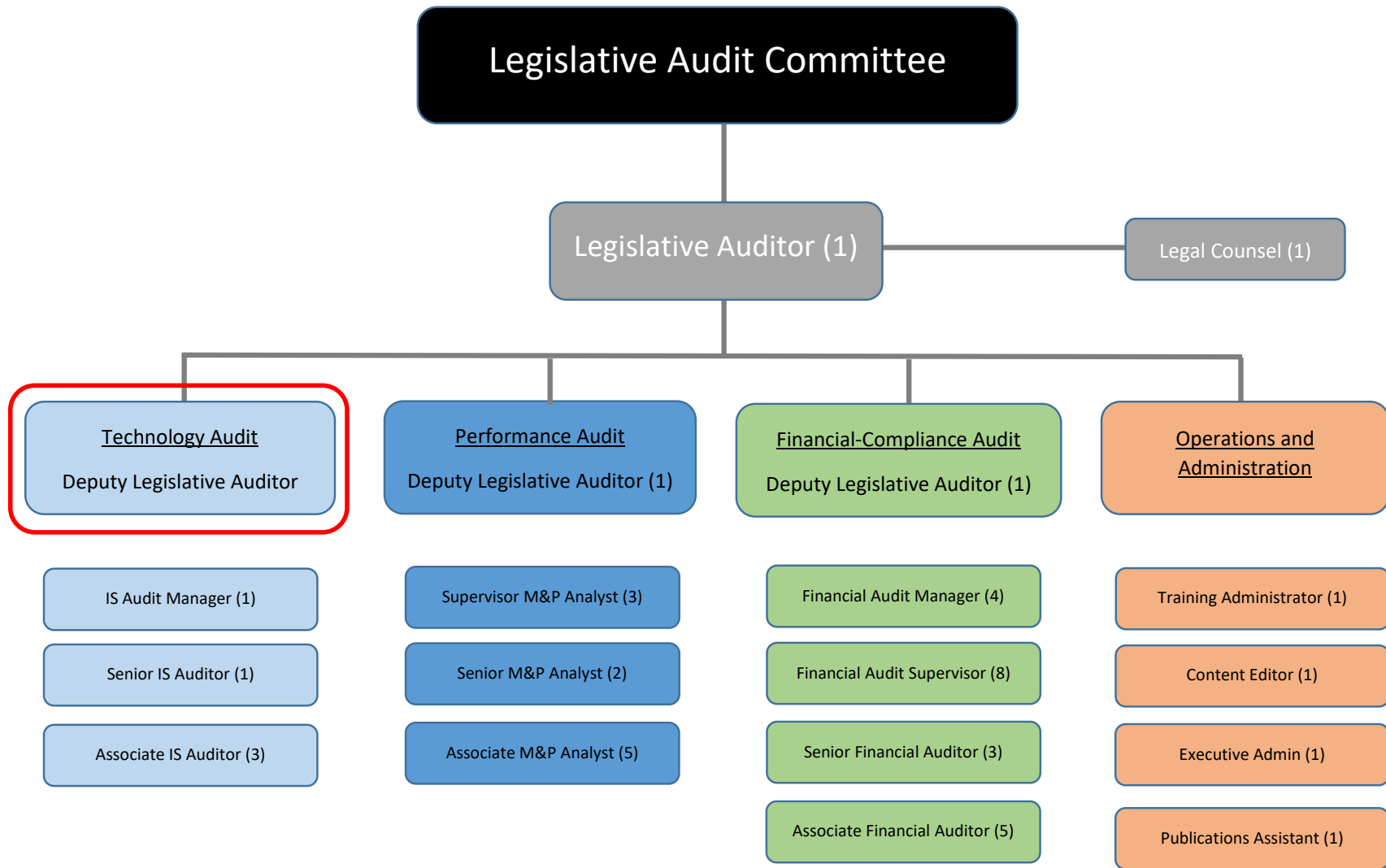


DP4 – Present Law Adjustments – Operating

<u>Description</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>Reason</u>
Legislative Branch Audit	\$20,757	\$0	Cyclical adjustment to add legislative branch contract audit costs into the base year of the new biennium.
Actuarial Services	\$3,000	\$3,000	Price increase associated with contract actuarial services for audits of the state's pension systems.
Peer Review Services	\$0	(\$20,000)	3-year peer review cycle means these costs do not occur in each fiscal year of every biennium. Removed for FY 2025.
Staff Training Error Adjustment	(\$20,000)	(\$20,000)	See LFD Budget Analysis for explanation of Base/OTO error. Permanent funding of additional training costs is requested in response to a consulting report presented to the Audit Committee that identified a deficit in staff training resources compared with peer states.
Staff Training Base Addition	\$20,000	\$20,000	
Software Licensing	\$3,000	\$3,000	Prices increase associated with contracted software providers.
Staff Professional Certification	\$5,000	\$5,000	Increase in resources available for staff professional certification costs. Also a finding from the LAC consultant's report.

Total	\$31,757	(\$9,000)
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DP16 – Position Reclassification



DP16 – Position Reclassification

- ✓ This new proposal implements a recommendation from the Audit Committee’s consultant report on the future of financial auditing in Montana
- ✓ Report recommended establishing deputy-level leadership for the LAD Information Systems Audit team
- ✓ This team was allocated organizationally to the Performance Audit team at the manager level and the original deputy position was eliminated in FY 2016
- ✓ This new proposal re-instates the deputy position to provide team leadership as we build-out a statewide technology audit and data analytics program
- ✓ Separate technology and data-focused teams are becoming increasingly prevalent amongst our peers
- ✓ Distinct team identity and leadership will build expertise, help with recruitment/retention of highly qualified staff, and focus more time and attention on significant technology risks
- ✓ Cost neutral focus – re-purpose existing positions, before we look at adding FTE

	Salary	Benefits	Total
Entry Level Associate Auditor	\$58,177	\$22,713	\$80,890
Deputy Legislative Auditor	\$99,589	\$29,877	\$129,466
Difference	\$41,412	\$7,164	\$48,576

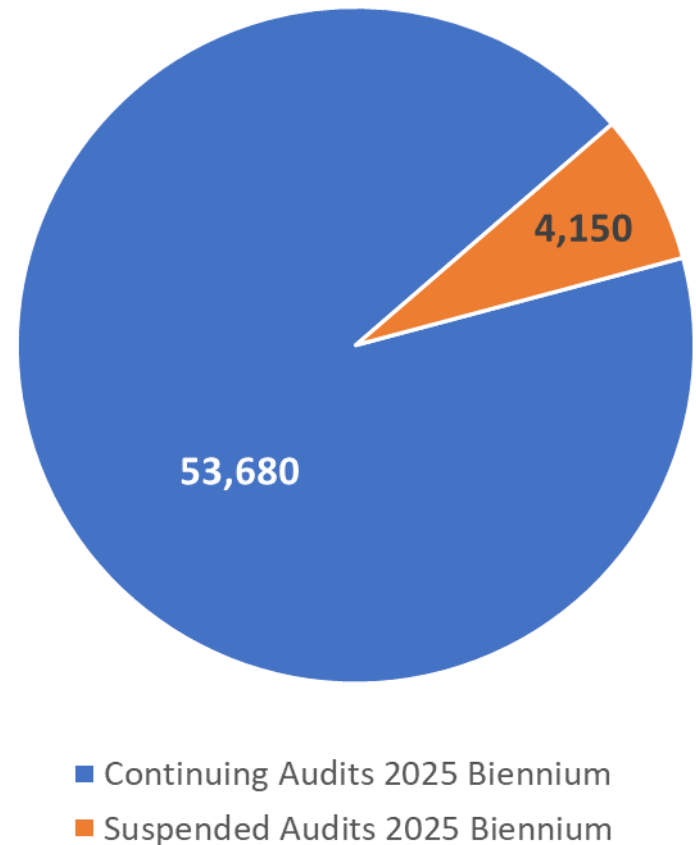
DP17 – Funding Switch – Risk-Based Audit

- ✓ Audit Committee consultant's report included multiple recommendations addressing a transition to a new financial audit model
- ✓ HB 132 begins the process of shifting us to a more risk-based model
- ✓ Main features include schedule flexibility to address timeliness, annual audits of large federal programs, and an enterprise risk approach to identify agencies, activities and programs requiring more specific financial audit attention
- ✓ Most significant changes expected in the 2027 biennium
- ✓ Interim step for the 2025 biennium is a proposal to suspend regular financial-compliance audits at 7 small agencies
- ✓ We have also elected to outsource the annual financial audit of the Montana State Fund and Facility Finance Authority
- ✓ These changes will provide schedule and staffing flexibility for the 2025 biennium
- ✓ Interim changes also illustrate the broader impacts of changing to a more risk-based model
- ✓ Over time, state special revenue fund (required billable hours) will be replaced by general fund (discretionary non-billable hours)
- ✓ Preparatory work in the 2025 biennium will develop these ideas more fully and will involve consideration of more significant changes to the audit funding model
- ✓ This new proposal is contingent on successful passage of HB 132

DP17 – Suspend Small Agency Audits – FTE Impacts

- ✓ Suspend regular audits at 7 of the smallest state agencies for the 2025 biennium
- ✓ No impacts on statewide accounting or financial reporting
- ✓ No impacts on federal Single Audit (no major programs)
- ✓ Total hours removed from the biennial schedule = 4,150
- ✓ Total hours = 1.5 FTE (annual basis) allocated to new deputy position (DP16) and ongoing resource needs for transition planning
- ✓ Strike HB2 general fund appropriations for 7 of the agencies = \$250,000
- ✓ General fund switches to direct LAD resource, rather than billed agency appropriations
- ✓ State special revenue funding (\$120,000) for MSF and FFA is eliminated from LAD budget

2025 Biennium Hours
Continuing vs. Suspended Audits



DP17 – Suspend Small Agency Audits – Funding Impacts (revised)

	Program 28 Funding Sources	
Agency	State Special Revenue Fund	General Fund
Commissioner of Political Practices	(\$22,392)	\$22,392
Office of the Public Defender	(\$69,415)	\$69,415
Board of Public Education	(\$20,153)	\$20,153
Montana School for the Deaf and Blind	(\$29,110)	\$29,110
Montana Arts Council	(\$31,349)	\$31,349
Montana State Library	(\$29,110)	\$29,110
Montana Historical Society	(\$49,262)	\$49,262
Montana State Fund	(\$98,525)	\$0
Facility Finance Authority	(\$22,392)	\$0
Total by Funding Source	(\$371,708)	\$250,791
Net Impact on Program 28 Budget		(\$120,917)
DP 17 Revenue	FY 2024	FY 2025
General Fund	\$125,396	\$125,396
State Special Revenue Fund	(\$185,854)	(\$185,854)
Total Funds	(\$60,459)	(\$60,459)
DP 17 Expenditure	FY 2024	FY 2025
Personal Services	(\$57,436)	(\$57,436)
Operating	(\$3,023)	(\$3,023)
Total Funds	(\$60,459)	(\$60,459)