

STATE AUDITOR'S OFFICE

An Agency Profile Prepared by the
Legislative Fiscal Division

November 2018

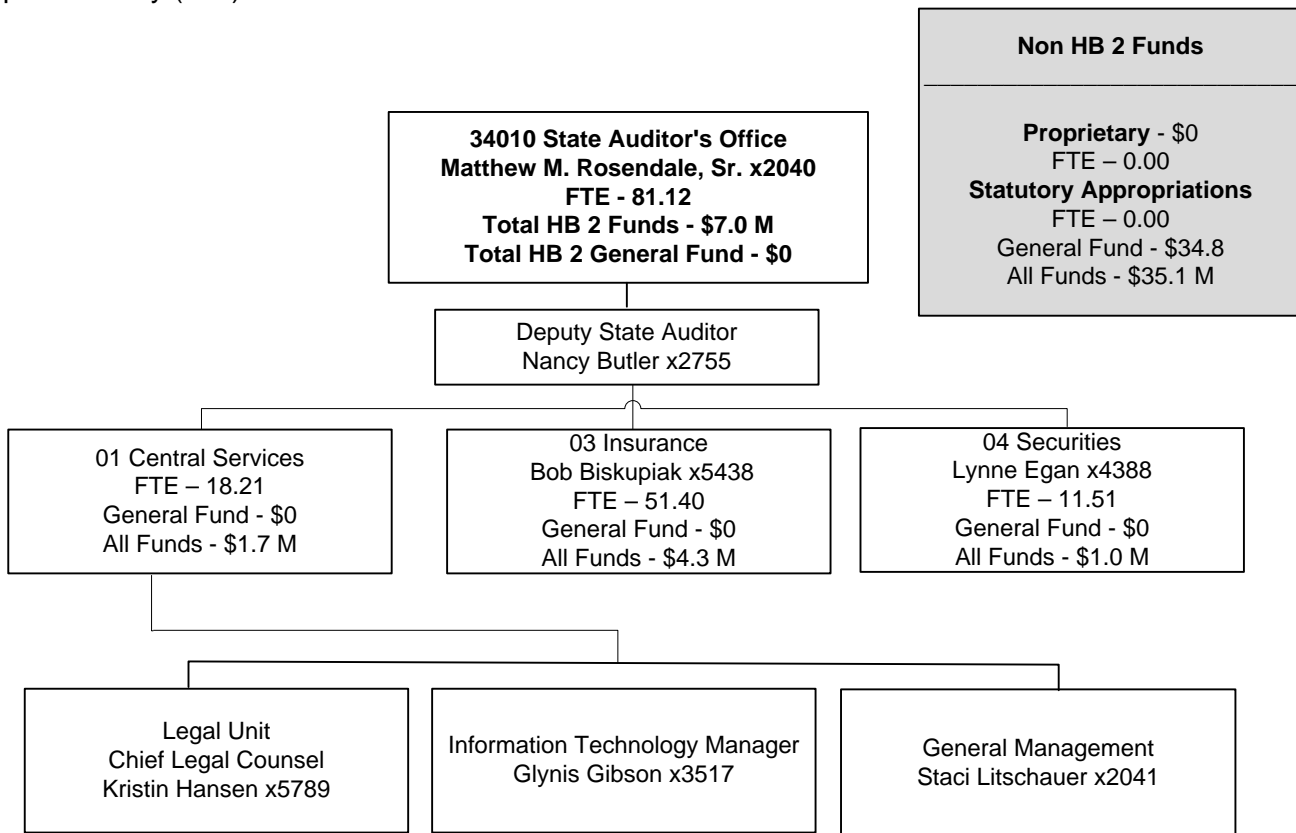
INTRODUCTION

The State Auditor’s Office works to assure compliance with the Montana insurance and securities laws, promote captive insurance formations, support capital formation in the state, and assist consumers with complaints involving the securities and insurance industries. The State Auditor is charged with licensing, registering, and regulating insurance companies and producers, securities issuers, salespeople, broker-dealers, investment advisors, and investment adviser representatives within the state. The State Auditor also serves as a member of the Board of Land Commissioners and the Crop Hail Insurance Board.

The Office of the State Auditor is authorized under Article VI of the Montana Constitution and is designated the Commissioner of Securities in 2-15-1901, MCA and the Commissioner of Insurance in 2-15-1903, MCA. In those capacities, the State Auditor’s duties are generally defined in Title 30, Part 10 and Title 33 of the Montana Code Annotated. Other statutes related to the State Auditor’s Office include:

- State special revenue generated by fees and taxes that support the office are identified and defined in 33-2-705 through 708, MCA
- Unspent collections from securities licenses and permits are deposited into the general fund in accordance with 30-10-115, MCA
- The office manages the Fire and Police Retirement Program through 33-2-705, MCA and 50-3-109, MCA

Below is an organizational chart of the office, including full-time employee (FTE) numbers and HB 2 general fund expenditures and total expenditures from all funds. Unless otherwise noted, all phone extensions are preceded by (406) 444.



HOW SERVICES ARE PROVIDED

The State Auditor's Office consists of three programs with the following functions:

Central Management Division

- Provides administrative, personnel, budgeting and accounting functions
- Provides support in fulfilling the duties as a member of the State Land Board and Hail Insurance Board
- Acts as conduit for the distribution of the state Fire and Police Retirement program

Insurance Division

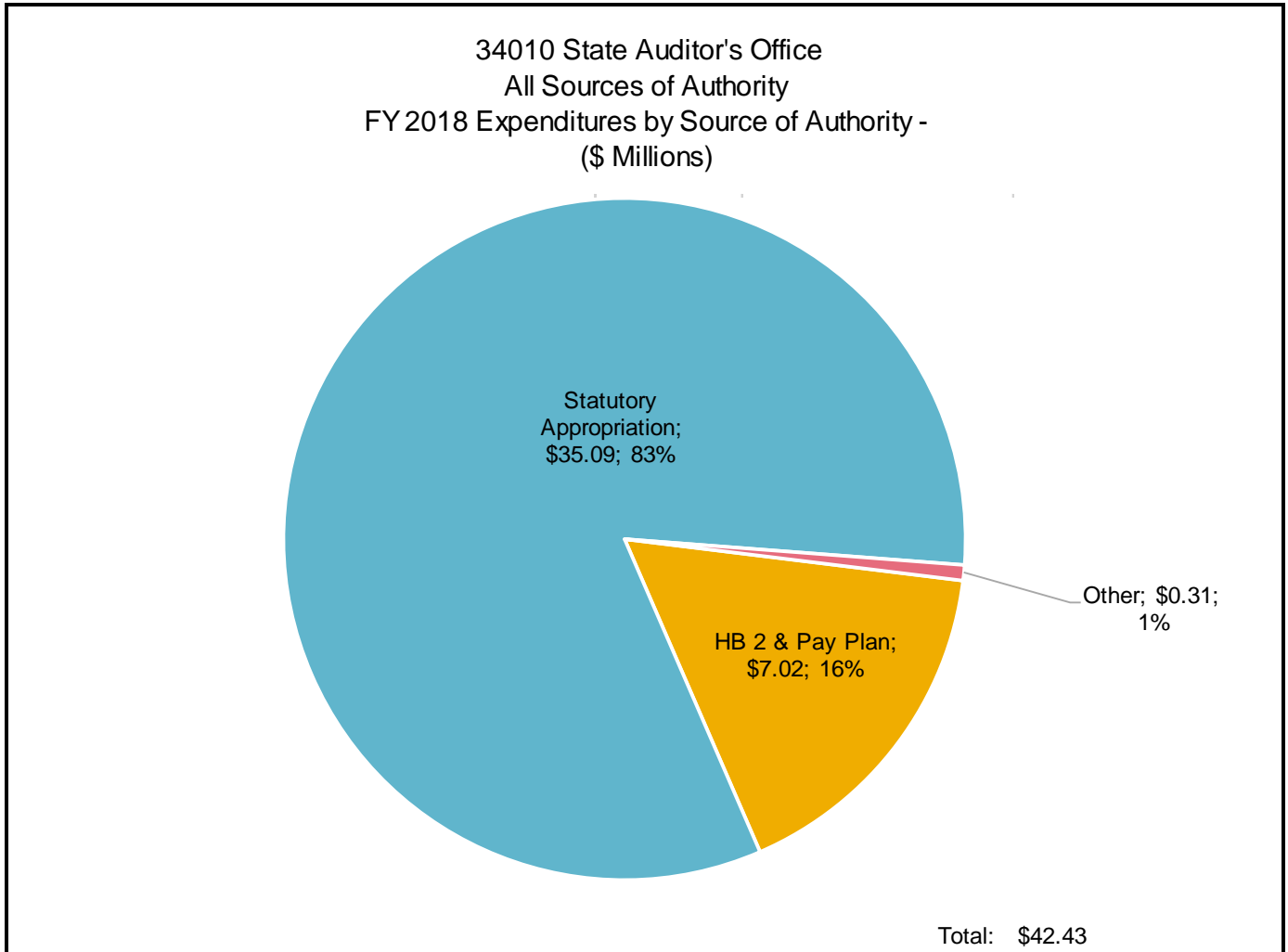
- Responsible for resolving insurance consumer inquiries and complaints involving agents, coverage, and companies
- Investigates insurance code and rules violations, including possible criminal violations, and refers cases to the county attorneys for prosecution
- Monitors the financial solvency of insurance companies operating in Montana through financial analysis and financial examination
- Collects premium taxes and company fees paid by insurance companies operating in Montana
- Reviews rate and form filings to ensure compliance with applicable insurance code
- Licenses and provides continuing education to insurance agents, agencies, and adjustors

Securities Division

- Responsible for registering security issuers, sales people, broker-dealers, investment advisers, and investment adviser representatives
- Investigates unregistered or fraudulent securities transactions

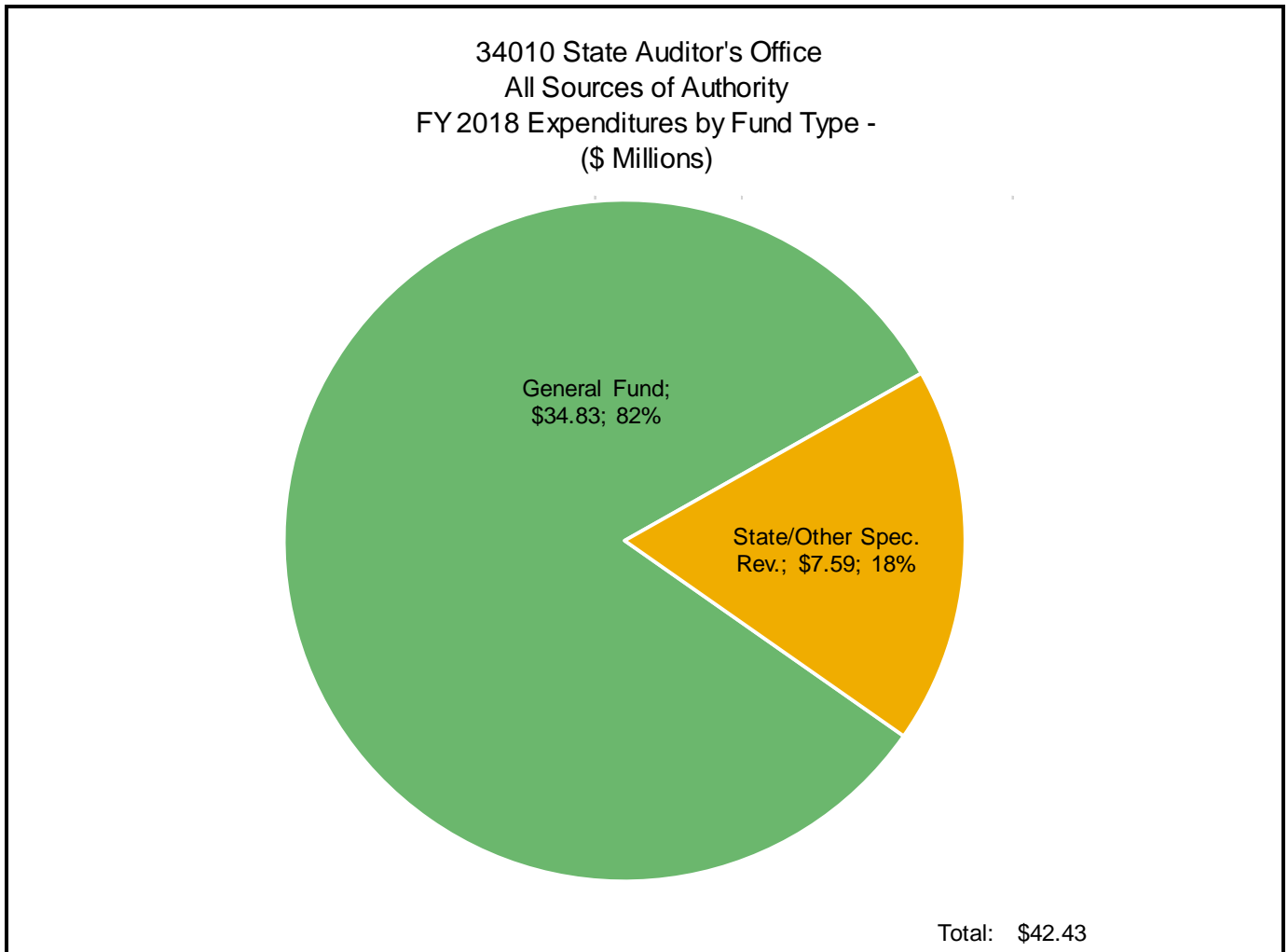
SOURCES OF SPENDING AUTHORITY

The office receives the majority of its spending authority from statutory appropriations. Of the \$42.43 million expended by the State Auditor's Office in FY 2018, 83% was in statutory spending authority. This statutory authority is primarily used to pass along general fund dollars for local police and firefighting retirement programs. About 16% of total expenditures were within HB 2 and pay plan spending authority, and the remaining 1% accounted for \$310,000 in continuing appropriations. The chart below shows the sources of authority for the State Auditor's Office that were expended in FY 2018.

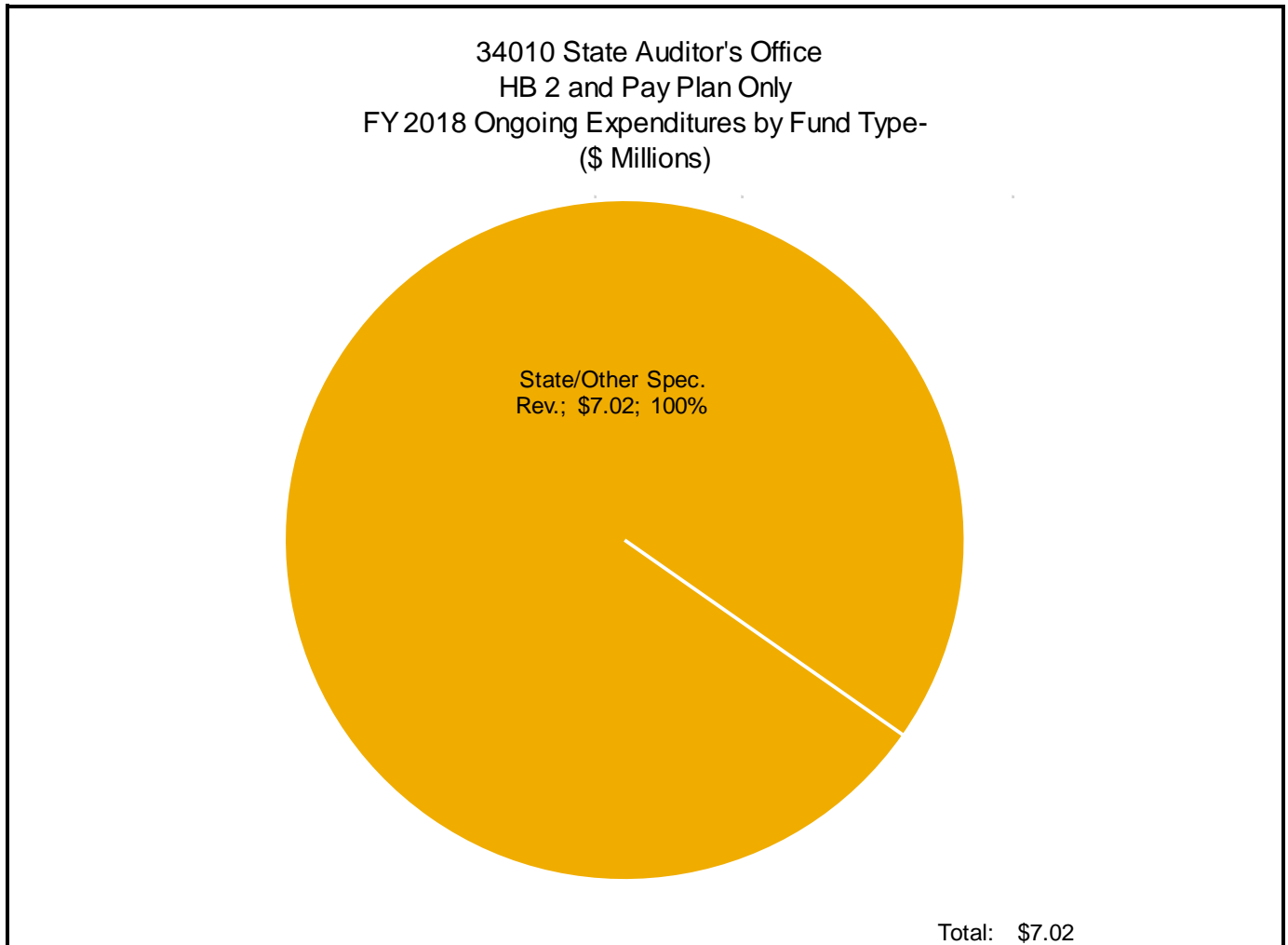


FUNDING

The operations of the State Auditor's Office are mainly funded with state special revenue funds, which account for 18% of the agency's expenditures in FY 2018. The State Auditor's Office is responsible for passing the general fund dollars it receives through to police and firefighter retirement programs, which accounts for the remaining 82% of FY 2018 expenditures. The chart below shows FY 2018 actual expenditures by fund type for all sources of authority.

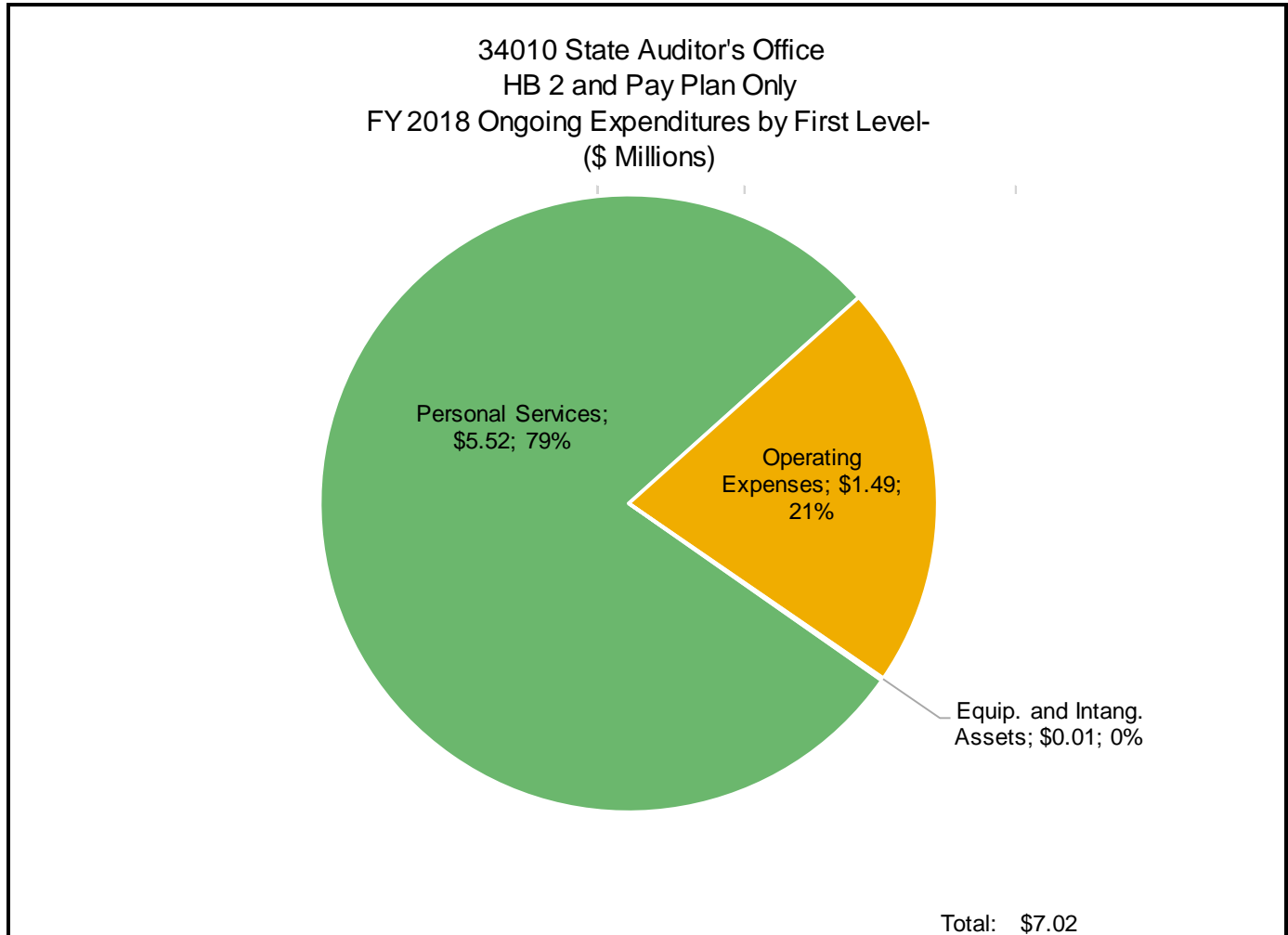


The \$7.02 million HB 2 and pay plan expenditures in the State Auditor's Office are comprised entirely of state special revenue funds. The chart below shows the State Auditor's Office HB 2 and pay plan expenditures by fund type.



EXPENDITURES

The State Auditor's Office expended \$7.02 million of its HB 2 and pay plan authority in FY 2018, 79% of which accounted for personal services costs. Of the remaining expenditures, 21% were for operating expenses and less than 1% was for equipment and intangible assets. The chart below explains how HB 2 and pay plan authority is spent.



HOW THE 2019 LEGISLATURE CAN AFFECT CHANGE

In order to change expenditure levels and/or activity, the legislature might address:

- Laws governing how the insurance and securities industries do business in Montana and how the office conducts licensing, regulation, examinations, and responds to the consumer
- Laws governing the number of insurance and security companies and individuals doing business in Montana
- Laws governing the amount and collection of fees and taxes related to insurance and securities
- Policies on how the agency handles pass-through accounts
- The code of ethics for insurance and security companies doing business in Montana

Other factors that influence costs, but that the legislature is less likely to control include:

- The number of registered complaints and related court dockets

- Federal legislation impacting the insurance and security industries
- Telephone or web-based inquiries from consumers
- Initiatives or legislation responding to citizen action
- The health of the national economy

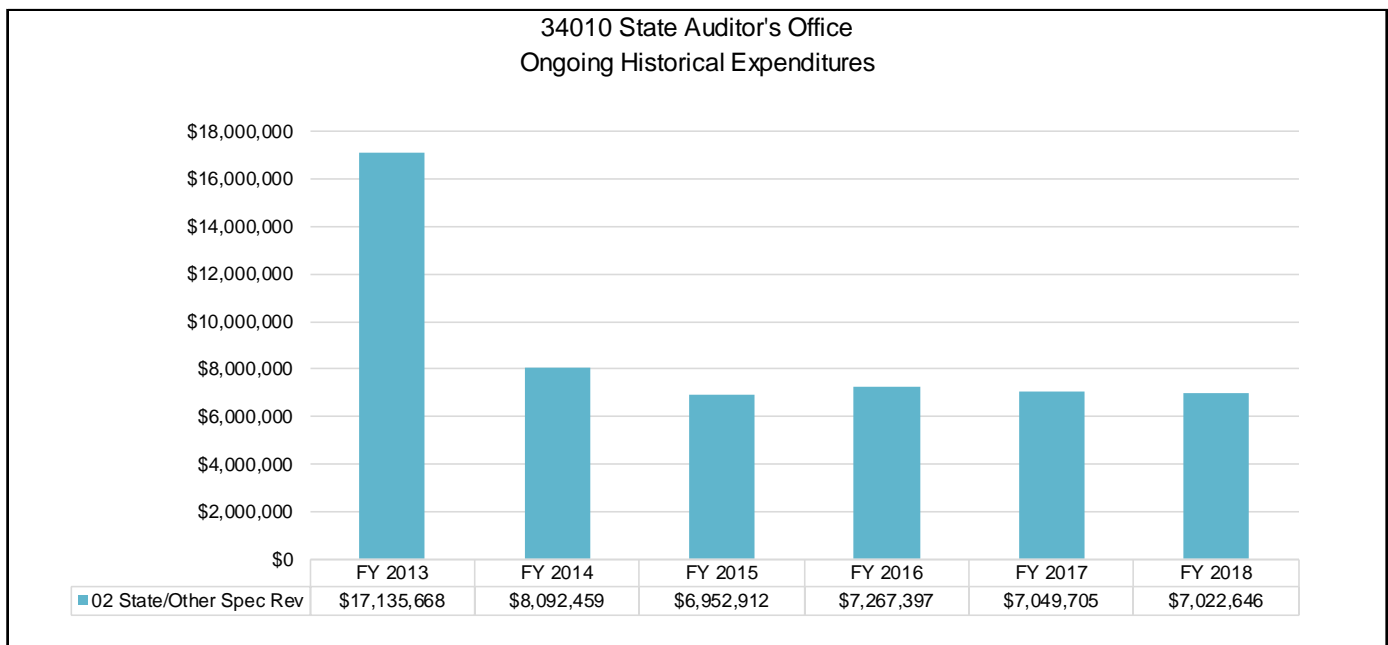
MAJOR COST DRIVERS

The major cost drivers for the State Auditor’s Office include:

- The number of insurance companies and the number of securities firms licensed to do business in Montana
- State and federal laws and rules governing the licensing, examination, and monitoring of insurance and security companies
- Major changes in insurance policy that affect individual consumers
- The number of securities fraud investigations and prosecutions

FUNDING/EXPENDITURE HISTORY

The State Auditor’s Office budget decreased significantly in FY 2014 due to a change in appropriations for the Insure Montana program. Through 2013, the Insure Montana program was funded from ongoing HB 2 appropriations. In FY 2014, it was funded with a one-time-only appropriation, which is not included in the table below. The legislature used one-time-only funds because the Affordable Care Act (ACA) provides opportunities for small businesses to shop for insurance through the federal exchange and because the major funding source for the program – health and Medicaid initiatives state special revenue – was inadequate to cover ongoing appropriations. The program received one-time-only funding to continue the program through the first half of FY 2016.



MAJOR LEGISLATIVE CHANGES IN THE LAST TEN YEARS

Major changes in the last ten years include:

2015 Legislature

- The legislature removed funds to account for the expiration of the Montana Comprehensive Health Association (MCHA), as defined in statute. The MCHA was the high risk pool for the state. Since insurance policies can no longer be denied based on pre-existing health conditions, the MCHA was no longer necessary
- The legislature added \$4.5 million general fund to continue the Insure Montana program through December 31, 2015, which allowed funding through calendar year 2015. Since most health policies held by Insure Montana program participants expire at the end of a calendar year, this one-time-only funding provided a full year of support and allowed program participants time to obtain insurance in other venues

2013 Legislature

- The legislature funded the Insure Montana program from a one-time-only appropriation, based eligibility for premium assistance provided by the Insure Montana program on household income rather than an individual employee's salary, and limited premium assistance to households earning no more than 400% of the federal poverty level (about \$94,000 for a family of 4 in 2013)
- The legislature required insurers to file health insurance rates with the State Auditor's Office to provide documentation supporting the development of the rates. The office is required to review rate filings for each health insurance insurer and consider whether the proposed premium rate is excessive, inadequate, unjustified, or unfairly discriminatory, and provide a notice of deficiencies if any are found to exist

2011 Legislature

- The legislature authorized funding for oversight of the securities industry related to changes implemented as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

For more information on the agency, please visit their website here: <http://csimt.gov/>.