

# LEGISLATIVE AUDIT COMMITTEE

## MINUTES SUMMARY

June 29, 2011

*Please note: These are summary minutes. The minutes are also accompanied by an audio recording. For each action listed, the minutes indicate the approximate amount of time in hours, minutes, and seconds that has elapsed since the start of the meeting. This time may be used to locate the activity on the audio recording.*

*An electronic copy of these minutes and the audio recording may be accessed from the Legislative Audit Division homepage at [http://www.leg.mt.gov/audit/meeting\\_info.asp](http://www.leg.mt.gov/audit/meeting_info.asp).*

*To view the minutes, locate the meeting date and click on **Minutes**. To hear the audio recording, click on the date link at **Listen**. Note: You must have Real Player installed to listen to the audio recording.*

<u>Members Present</u>	Present	Travel Voucher
Sen. Debby Barrett		
Sen. Gary Branae	P	
Sen. Taylor Brown	P	
Sen. Cliff Larsen	P	
Sen. Fredrick (Eric) Moore	P	
Sen. Mitch Tropila	P	
Rep. Randy Brodehl	P	
Rep. Tom Burnett	P	
Rep. Virginia Court	P	
Rep. Mary McNally	P	
Rep. Trudi Schmidt		
Rep. Wayne Stahl	P	

<u>Members Absent</u>	
Sen Debby Barrett	Excused
Sen Trudi Schmidt	Excused

Staff Present  
Tori Hunthausen, Legislative Auditor  
Angie Grove, Deputy Legislative Auditor  
Cindy Jorgenson, Deputy Legislative Auditor  
Ann Hernandez, Word Processor InDesign Supervisor

The Legislative Audit Committee met, June 29, 2011, in Room 172 of the State Capitol. Chairman, Senator Mitch Tropila called the meeting to order at 9:12 a.m., noting the presence of a quorum.

**Minutes Approval** – December 16, 2010, Minutes were approved. Motion by Rep Stahl; **motion carried**. The minutes were signed by Senator Tropila.

**Minutes Approval** – March 22, 2011, Minutes were approved. Motion by Rep Stahl; **motion carried**. The minutes were signed by Senator Tropila.

**Minutes Approval** – April 7, 2011, Minutes were approved. Motion by Rep Stahl; **motion carried**. The minutes were signed by Senator Tropila.

00:11:04 Montana Lottery Update

**Presented by:** Angela Wong, Director

**Handouts:** Montana Lottery Corrective Action Plan

**Concerns/Discussion topics:** The games the Montana Lottery facilitates for the board of horse racing are very different from the games the board manages. Most of the places that carry the horse racing games also carry the lottery, so the recent legislation for allowing the board of horse racing to manage their own games has not had much of an impact on the lottery's games.

The lottery is on schedule with the target dates outlined in the corrective action plan for having the recommendations implemented. The only thing still in progress is the SSAE 16 audit. All other recommendations have been addressed, are currently functioning, and new procedures are in place.

## **AUDIT REPORT**

### **DEPARTMENT OF JUSTICE (10-18)**

00:28:28 **Report presented by:** Jeane Carstensen-Garrett, Financial-Compliance Auditor

**Present from the agency:** Steve Bullock, Attorney General  
Tim Burton, Deputy Director  
Mike Batista, Administrator, Division of Criminal Investigation  
Kathy Seacat, Administrator, Central Services Division

00:41:37 **Agency response presented by:** Steve Bullock, Attorney General  
Kathy Seacat, Administrator, Central Services Division

**Handouts:** none

**Concerns/Discussion topics:** The committee questioned where the money was coming from to cover the \$191,513 loss from the agency legal services fund balance. Attorney General Bullock explained that \$170,000 of that amount was accrued vacation and sick leave, and the other \$20,000 is the cash deficit the department continues to carry. The department requested legislation to increase their fees from \$93 per hour to \$105 per hour to help budget the deficit, but it was unsuccessful.

The department stated that the 155,000 rounds of ammunition that was unaccounted for was due to a documentation error by one individual who did not follow process. The department was able to locate and account for all of the 155,000 rounds in question after the audit was finished.

The department has implemented controls at the Gambling Control Division to ensure proper segregation of duties and timely deposits. They are now using a check log to record checks

when they come in the mail, then they are delivered daily to the administrator's office to be deposited to the Treasury.

**Committee requests:** none

**Public Comment:** none

**Actions taken:** none

**Motion:** Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Sen Brown; **motion carried.**

### **SEXUAL OR VIOLENT OFFENDER REGISTRY (11DP-08)**

**01:00:30 Report presented by:** Sean Edgar, Information Systems Auditor

**Present from the agency:** Steve Bullock, Attorney General  
Tim Burton, Deputy Director  
Mike Batista, Administrator, Division of Criminal Investigation  
Kathy Seacat, Administrator, Central Services Division  
Joe Chapman, Chief Information Officer

**01:16:06 Agency response presented by:** Steve Bullock, Attorney General  
Mike Batista, Administrator, Division of Criminal Investigation

**Handouts:** Corrective Action Plan

**Concerns/Discussion topics:** The Department of Justice uses an annual verification letter that is sent out to local law enforcement and offenders who need to verify their addresses. If the offender is a violent offender they can return the letter by mail, but sexual offenders must return it in person to their local registering authority (city or county law enforcement). Once the letter is returned to the registering agent, they will indicate that the offender's address has been verified in the system. It is the obligation of local law enforcement to do any physical checks on offenders.

When an offender completes their initial registration they meet with a local law enforcement officer to go through the form and the officer explains what is required. Once the form is completed the law enforcement agency will send the information to the Department of Justice to become part of the central registry.

Offenders have the same obligations to register whether they are on probation or parole as they do if that time has elapsed. Offenders moving to Montana from other states are required to register with the local law enforcement agency of the city or county they are moving to.

All tribal nations are required by the federal government to have a sexual or violent offender registry in place by July 26, 2011. Salish-Kootenai and Crow Agency are working on their own sexual and violent offender registry. Some of the other tribal nations are providing information to the Department of Justice or adjacent counties and are having the information added to the state's sexual and violent offender registry.

**Committee requests:** Letter to committee for update on the implementation of recommendation five A, B, and C.

**Public Comment:** none

**Actions taken:** none

**Motion:** Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Rep Stahl; **motion carried.**

**DEPARTMENT OF MILITARY AFFAIRS (10-25)**

**01:42:17 Report presented by:** Laura Toeckes, Financial-Compliance Senior Auditor

**Present from the agency:** Brigadier General John Walsh, Adjutant General  
Karen Revious, Centralized Services Division Administrator  
Ed Tinsley, Disaster and Emergency Services Division Administrator  
Steve Knecht, Disaster and Emergency Services Division chief of Operations  
Dan Hubber, Deputy Construction and Facilities Maintenance Officer

**01:53:06 Agency response presented by:** Brigadier General John Walsh, Adjutant General

**Handouts:** none

**Concerns/Discussion topics:** It was questioned if the department would be checking payroll of contractors to ensure they are paying prevailing wages. The department stated that before the audit they were just accepting the wage reports, now they are reviewing the report and signing off on them to ensure that correct wages are being paid.

By the department being out of compliance with federal funding requirements there is a possibility that the state could have to return the match funds that they are responsible for, or the federal government could deny funds in the future.

The department is required to commit 80 percent of Homeland Security funds to local governments within 45 days of receipt of the funds. The department wanted to award some of that money to the Native American Working Group, which was not considered a "local government."

The deficit in the Federal Special Revenue Fund is money that has not been expended yet. The department accrued expenditures for contracts where services had not yet been provided, so that their appropriation authority does not disappear. Once the services are provided they will ask the federal government for payment. The deficit in the General Fund is due to the liabilities exceeding the assets and creating a negative fund balance.

**Committee requests:** the DMA return to next meeting with a formal action plan

**Public Comment:** none

**Actions taken:** none

**Motion:** Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Senator Larsen; **motion carried.**

**CONTRACT MANAGEMENT (11P-06)**

**02:16:25 Report presented by:** Megan Coy, Performance Auditor

**Present from the agency:** Brigadier General John Walsh, Adjutant General  
Karen Revious, Centralized Services Division Administrator  
Ed Tinsley, Disaster and Emergency Services Division Administrator  
Steve Knecht, Disaster and Emergency Services Division chief of Operations  
Dan Hubber, Deputy Construction and Facilities Maintenance Officer

**02:27:31 Agency response presented by:** Brigadier General John Walsh, Adjutant General

**Handouts:** none

**Concerns/Discussion topics:** The department is hoping to have the recommendations fully implemented by late December 2011 or early January 2012, but will have them all implemented by June 2012 at the latest.

The committee questioned how there can be hundreds of thousands to even millions of dollars incorrectly accounted for since contracts over \$100,000 are referred to the Department of Administration. The auditor explained that the Department of Administration is only responsible for the procurement of the contracts. Once the contract is issued it is the department's responsibility to monitor the contract to ensure it receives the goods or services provided for and to handle contract payments.

If a contract is not documented to have been fulfilled it is the state agency's responsibility to recover funds or make sure they receive the deliverables.

The committee questioned how employees who are authorized to sign contracts up to \$5,000 are going above that amount. The department explained that the Unexploded Ordnance Division had gone through reorganization just prior to the audit, and there was a misunderstanding on their amount of authority.

To ensure contracts are complete and documented correctly the new contracting officer will be expected to review every contract, there will be a checklist in place, and the contract will go through the checklist to ensure each item that is needed is with the contract. Ms. Revious will then review the contracts to ensure the contracting officer has not missed anything, and it will be reviewed again by someone from the Adjutant General's office to ensure the contract files are complete. The department will require training for everyone with purchasing and contracting authority to advise them what they are responsible for, what needs to be done, how it needs to be done, and what needs to be provided to the contracting office for complete oversight of the contracts. The department is having their IT department create a document management system that will allow all of the contracting documents to be scanned into the

computer system, so everyone dealing with the contract will have complete visibility of where the contract stands and what has been done with it.

**Committee requests:** Rep McNally requested an organization chart, and an update on recommendation implementation plan (corrective action plan), due Aug 1, 2011.

**Public Comment:** none

**Actions taken:** none

**Motion:** Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Sen Brown; **motion carried.**

**SABHRS: PROCUREMENT CARD PROCESSING AND SELECT ACCESS CONTROLS (11DP-04)**

**02:43:19 Report presented by:** Sean Edgar, Information Systems Auditor

**Present from the agency:** Janet R. Kelly, Director  
Paula Stoll, Division Administrator, State Human Resources Division  
Randy Morris, Human Resources Information Services Bureau Chief, State Human Resources Division  
Paul Christofferson, Division Administrator; State Accounting Division  
Cheryl Grey, SABHRS Finance & Budget Bureau Chief, State Accounting Division  
Dick Clark, State CIO & Division Administrator, State Information Technology Services Division  
Stuart Fuller, Chief Technical Officer in charge of Enterprise Operations, State Information Technology Services Division

**02:53:19 Agency response presented by:** Janet R. Kelly, Director

**Handouts:** none

**Concerns/Discussion topics:** The committee questioned if the training of database managers was such that they would understand their vulnerability when using a generic password. The division stated that their training does include security training for the generic accounts.

The generic accounts cannot be removed because they are built into the program by the software developer and run many of the system processes. Every use of the generic accounts is logged within SABHRS and a weekly report is generated from the system. Administrators are also required to put incident reports into another system used to track SABHRS bugs and to do development which also generates a weekly report. The two reports are compared then sent down to the SABHRS HR financial staff for review.

**Committee requests:** none

**Public Comment:** none

**Actions taken:** none

**Motion:** Report received, reviewed, filed, and copies distributed in accordance with law.  
Motion by Sen Branae; **motion carried.**

**LUNCH BREAK** 03:01:46 – 04:00:07

**04:00:54 Department of Military Affairs Information**

**DAWSON COMMUNITY COLLEGE (10C-06) (09C-06)**

**04:06:19 - Report presented by:** Tiffany Madden, Joseph Eve, Certified Public Accountants

**Present from the agency:** Justin Cross, Dean of Administrative Services

**04:18:13 Agency response presented by:** Justin Cross, Dean of Administrative Services

**Handouts:** none

**Concerns/Discussion topics:** The committee questioned if it was normal for all community colleges or universities to write off their accounts receivable at five years. The college explained that it was previously done that way because the board of directors did not want to lose votes to accept the mill levy each year. More recently since the Banner system has been implemented the college waits until the end of the term plus sixty days and turns any delinquent accounts over to collections.

There are approximately 10-15 people in the prison outreach program, each taking 1-2 three credit classes at a time.

The college believes that the Banner system will address the recommendations and internal controls specifically mentioned in the audit report. The student accounts receivable module is already up and running, but the fixed asset module has had some problems. Oversight people in Helena are working to fix the glitches in that particular system and the college hopes to have the whole Banner system working, on schedule, in July.

The committee questioned what the college is doing to plan for potential budget cuts and a possible decrease in enrollment. The stated that they have had seven people retire recently and currently have not replaced about half of them. They are pushing alternative programs in the energy realm and pushing to recruit more people. If enrollment declines they will have some significant problems.

**Committee requests:** none

**Public Comment:** none

**Actions taken:** none

**Motion:** Report received, reviewed, filed, and copies distributed in accordance with law.  
Motion by Sen. Brown; **motion carried for 2009 and 2010 audit reports.**

**MONTANA MEDICAL-LEGAL PANEL (11C-05)**

**04:30:48 Report presented by:** John Steinhoff, CPA, CFE, Junkermier, Clark, Campanella, Stevens, MMLP, CLP

**Present from the agency:** Kathleen Stepp, Associate Director  
Tammy Copenhaver, Executive Assistant

**04:32:04 - Agency response presented by:** Kathleen Stepp, Associate Director

**Handouts:** none

**Concerns/Discussion topics:** There are five employees in the administrative area of the Montana Medical Legal Panel, but not all of them are full time employees.

The Montana Medical Legal Panel budgeted for a loss because they always have to have a surplus to be able to pay operation expenses and administrative costs before they begin billing at the beginning of the year in March or April. They reduced the amount of the expected loss because the surplus has been building and claims rates have gone down in the last few years.

**Committee requests:** none

**Public Comment:** none

**Actions taken:** none

**Motion:** Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Sen. Larsen; **motion carried.**

**MONTANA CHIROPRACTIC LEGAL PANEL (10C-10)**

**04:35:15 Report presented by:** John Steinhoff, CPA, CFE, Junkermier, Clark, Campanella, Stevens, MMLP, CLP

**Present from the agency:** Mary Lou Garrett, Director

**04:38:25- Agency response presented by:** Mary Lou Garrett, Director

**Handouts:** none

**Concerns/Discussion topics:** The committee asked if the Montana Supreme Court could loan someone to help check over the checks or deposits when the panel is dealing with financial transactions. The director stated that she previously took stuff to the Supreme Court for them to look at, but they decided they did not want to bother with it anymore.

**Committee requests:** none



**Public Comment:** none

**Actions taken:** none

**Motion:** Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Rep. Brodehl; **motion carried.**

**COMBINED HEALTHCARE INFORMATION AND MONTANA ELIGIBILITY SYSTEM FOR MEDICAID (10DP-07)**

**04:42:03 Report presented by:** Deon Olson, Information Systems Auditor

**Present from the agency:** Anna Whiting Sorrell, Director  
Laurie Lamson, Manager, Operations Services Division  
Ron Baldwin, Chief Information Officer, Technology Services Division  
Hank Hudson, Manager, Economic Security Services Branch  
Linda Snedigar, Administrator, Human and Community Services Division  
Marie Matthews, Administrator, Business and Financial Services Division

**04:54:02 Agency response presented by:** Anna Whiting Sorrell, Director

**Handouts:** yes – Corrective Action Plan

**Concerns/Discussion topics:** CHIMES SNAP and CHIMES TANF will be fully operational by Fall 2012.

The committee questioned why Montana's share percentage for total Medicaid costs decreased 25 percent and 22 percent respectively. The agency stated this refers to the last biennium and it is because the Federal government provided an enhanced FMAP rate to states. The state's share was reduced, so we were able to use that funding for other projects. In the 2009 legislative session much of that money was appropriated to other projects across the state.

The committee asked what the FMAP rate has gone to in the recent term. The director thought it was around 34/66, and stated it usually fluctuates around 35/65. The FMAP rate is ever changing, usually to the benefit of the state allowing the general fund money to go to other projects.

**Committee requests:** none

**Public Comment:** none

**Actions taken:** none

**Motion:** Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Sen. Brown; **motion carried.**

**FOLLOW-UP AUDITS:**

**AUTOMATED LICENSING SYSTEM (11SP-14)**

**05:03:59 Follow-up presented by:** Dale Stout, Information Systems Senior Auditor

**Concerns/Discussion topics:** none

**Committee requests:** none

**Public Comment:** none

**Actions taken:** none

**MANAGEMENT INFORMATION AND COST RECOVERY SYSTEM (11SP-09)**

**05:09:06 Follow-up presented by:** Dale Stout, Information Systems Senior Auditor

**Concerns/Discussion topics:** none

**Committee requests:** none

**Public Comment:** none

**Actions taken:** none

**REIMBURSEMENT OFFICE BUSINESS PRACTICES (11SP-05)**

**05:12:11 Follow-up presented by:** Lisa Blanford, Performance Audit Manager

**Concerns/Discussion topics:** none

**Committee requests:** Follow-up on recommendations at a future audit committee to be determined, requested information on collections rate of Montana Chemical Dependency Center

**Public Comment:** none

**Actions taken:** none

**STATE PRINTING OF PUBLIC DOCUMENTS (11SP-27)**

**05:20:07 Follow-up presented by:** Lisa Blanford, Performance Audit Manager

**Concerns/Discussion topics:** none

**Committee requests:** none

**Public Comment:** none

**Actions taken:** none

**FANTASY SPORTS PARI-MUTUEL GAMING (11SP-12)**

**05:22:40 Follow-up presented by:** Lisa Blanford, Performance Audit Manager

**Concerns/Discussion topics:** The committee wanted to know when the next audit of the Board of Horse Racing would be conducted to see how the legislation passed in the recent session was affecting the Board's operations. The Legislative Auditor said that they were currently working on a Financial-Compliance Audit of Livestock, and they could look into some of the committee's questions or concerns.

**Committee requests:** none

**Public Comment:** none

**Actions taken:** none

**CONTRACT MANAGEMENT (11SP-28)**

**05:30:33 Follow-up presented by:** Lisa Blanford, Performance Audit Manager

**Concerns/Discussion topics:** The committee asked why the legislature changed the term of major contracts. It was changed from ten years to twenty years because of some bonding issues with some existing contracts that needed to be addressed. That was all the information the Legislative Audit staff had, but said they could get additional information from the department and get back to the committee on that.

**Committee requests:** Six month follow-up on recommendations at a future audit committee

**Public Comment:** none

**Actions taken:** none

**Other Business**

**Performance Audit List** – presented by Angus Maciver

**BREAK** 05:58:10 – 06:14:00

**Water Protection Status** - presented by Angie Grove

**2012 Operating Plan** - presented by Angie Lang  
Handout of the Operating Plan

**Motion** by Sen Moore to approve the 2012 Operating Plan

**Peer Review Update** - presented by Tori Hunthausen, Legislative Auditor

**Next meeting** – will be conducted by poll of the Committee on selected dates for sometime mid October.

**Election of Officers**

Nominations were accepted from the Committee for the position of Chair of the Legislative Audit Committee:

Rep. Wayne Stahl nominated Sen. Mitch Tropila

**Motion** by Sen. Taylor Brown to accept the nomination of Sen. Tropila by acclamation.

Roll-call voice vote for Sen. Mitch Tropila to chair the Audit Committee resulted in a unanimous vote.

Sen. Mitch Tropila took the position of Chair.

Nominations were accepted from the Committee for the position of Vice Chair of the Legislative Audit Committee:

Sen. Cliff Larsen nominated Rep. Wayne Stahl

**Motion** by Sen. Eric Moore to accept the nomination of Rep. Wayne Stahl by acclamation.

Roll-call voice vote for Rep. Wayne Stahl as Vice Chair of the Audit Committee resulted in a unanimous vote.

Rep. Wayne Stahl took the position as Vice Chair

Nominations were accepted from the Committee for the position of Secretary of the Legislative Audit Committee:

Rep. Stahl nominated Sen. Cliff Larsen

**Motion** by Sen. Gary Branae to accept the nomination of Sen. Cliff Larsen by acclamation.

Roll-call voice vote for Sen. Cliff Larsen as Secretary of the Audit Committee resulted in a unanimous vote.

There being no further business, the meeting was adjourned at:3:44 p.m.

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Signed: \_\_\_\_\_  
Sen. Cliff Larsen, Secretary