



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

LEGISLATIVE AUDIT  
DIVISION

24-20

FINANCIAL-COMPLIANCE AUDIT

# *Office of the State Auditor*

*For the Two Fiscal Years Ended  
June 30, 2024*

AUGUST 2025

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**FINANCIAL-COMPLIANCE AUDITS**

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2023, was issued August 19, 2024. The submission deadline for the Single Audit Report for the two fiscal years ended June 30, 2025, is March 31, 2026.

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**AUDIT STAFF**

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STEVEN ALTHOFF  
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# LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor  
Kenneth E. Varns, Legal Counsel



Deputy Legislative Auditors:  
Alexa O'Dell  
William Soller  
Miki Cestnik

August 2025

The Legislative Audit Committee  
of the Montana State Legislature:

It is a pleasure to provide our financial-compliance audit report for the Office of the State Auditor (office) for each of the fiscal years ended June 30, 2024, and 2023. Our work included:

- Analyzing the completeness and accuracy of the taxes collected by the office,
- Evaluating support for insurance and registration fees collected by the office,
- Recalculating the nonemployer contribution amount to state retirement systems, and
- Reviewing and testing select control systems, including those over grant payments to the Montana Reinsurance Association.

This report contains two recommendations related to internal controls. The first relates to the collection of surplus lines insurance taxes, and the second concerns nonroutine transactions of the office. The report contains an unmodified opinion on the office's 2024 & 2023 financial schedules, which means that the information presented within the schedules can be relied upon for decision-making purposes.

The office's written response to these recommendations is included in the audit report on page C-1. We would like to thank the State Auditor and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

*/s/ Angus Maciver*

Angus Maciver  
Legislative Auditor



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## ELECTED, APPOINTED, AND ADMINISTRATIVE OFFICIALS

### Office of the State Auditor

State Auditor, Commissioner of Securities and Insurance	James Brown, effective January 2025
	Troy Downing, through December 2024
Deputy State Auditor	Mary Belcher, through April 2025
Chief of Staff	David Sanders, effective January 2025
	Molly Plummer, through December 2024
Governmental Affairs Director	Trevor Graff, effective April 2025
	Frank Cote, through April 2025
Deputy Securities Commissioner	Kirsten Madsen, effective May 2025
	Kirsten Madsen, Interim, May 2024 through May 2025
	Brett Olin, through April 2024
Deputy Insurance Commissioner	Erin Snyder, effective June 2025
	Frank Cote, September 2023 through June 2025
	Bob Biskupiak, through September 2023
Chief Legal Counsel	Jack Connors, effective July 2025
	Mark Mattioli, Interim, May 2025 through July 2025
	Kate Ellis, Interim, August 2024 through May 2025
	Ole Olson, through August 2024
Chief Financial Officer	Amber Thorvilson, effective July 2023
	Nikki Davison, through June 2023

For additional information concerning the Office of the State Auditor, contact:

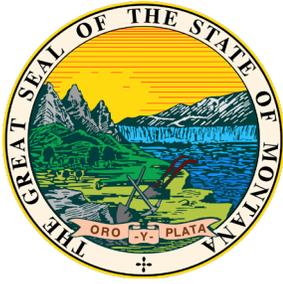
Office of the State Auditor

P.O. Box 4009

Helena, MT 59604-4009

(406) 444-2040

E-mail: [AThorvilson@mt.gov](mailto:AThorvilson@mt.gov)



# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL-COMPLIANCE AUDIT

Office of the State Auditor

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2024

A report to the Montana Legislature

### BACKGROUND

The Office of the State Auditor (office) safeguards Montana's consumers through insurance and securities regulation, fraud investigation, and criminal prosecution. The elected Montana State Auditor serves as the Commissioner of Securities and Insurance.

The insurance division of the office investigates insurance code and rule violations, collects taxes, resolves complaints, provides insurance licenses, reviews rates, and approves continuing education. This division also administers the Montana Reinsurance Program.

The securities division of the office is responsible for the registration of securities issuers, salespeople, investment advisers, broker-dealers, and investment adviser representatives and for conducting investigations.

The central management division of the office is responsible for overseeing the central business operations, including accounting, human resources, and information technology services.

The office collected \$134 million and \$144 million in taxes and fees for the state's general fund in fiscal years 2023 and 2024, respectively. It also expanded grant payments to the Montana Reinsurance Association, which was recently established to stabilize the individual health insurance market, promote competition, and lower premiums. All four accounting recommendations from the prior audit, including three addressing the reinsurance program—were fully implemented. This audit report includes two new recommendations aimed at enhancing the office's system of internal controls over surplus lines insurance taxes and ensuring the accuracy of nonroutine transactions of the office.

### **AUDITOR'S OPINION (page A-1): UNMODIFIED**

We found the office's financial schedules and note disclosure presented fairly the activity of the office, in all material respects, and issued an unmodified opinion on them. This means that a reader can rely on the information in the office's financial schedules and notes presented in this report.

For the full context of the office's financial activity, see the financial schedules and notes beginning on page A-4.

### **RECOMMENDATIONS:**

In this report, we issued the following recommendations:

To the office: 2

To the legislature: 0

In this report, we determined the implementation status of accounting recommendations in the prior audit:

Fully Implemented: 4

Partially Implemented: 0

Not Implemented: 0

The implementation status of federal compliance recommendations in the prior audit will be reported on in the Single Audit (#24-02) report.

*(continued on back)*

For the full report or more information, contact the Legislative Audit Division.

[leg.mt.gov/lad](http://leg.mt.gov/lad)

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(Helena)  
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(704) 430-3930

### **RECOMMENDATION #1 (page 8):**

#### *Internal Controls*

We recommend that the Office of the State Auditor:

1. Enhance internal controls to ensure surplus lines tax revenues collected are complete and accurate, and
2. Upgrade or replace the existing surplus lines portal to allow for on-demand reporting or automated controls.

**Office response: Concur**

### **RECOMMENDATION #2 (page 9):**

#### *Internal Controls*

We recommend that the Office of the State Auditor enhance controls to detect and correct errors related to nonroutine transactions timely.

**Office response: Concur**

### **REPORT ON INTERNAL CONTROL AND COMPLIANCE (page B-1):**

In this report, we identified the following:

Material Weaknesses in Internal Control: 0

Significant Deficiencies in Internal Control: 2

Material Non-Compliance: 0

Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

# Chapter I – Introduction and Background

## **Introduction**

We performed a financial-compliance audit of the Office of the State Auditor (office) for the fiscal years ended June 30, 2024, and 2023. The objectives of our audit were to:

1. Determine whether the office's financial schedules fairly present the financial position and results of operations for each of the two fiscal years ended June 30, 2024 & 2023.
2. Obtain an understanding of the office's internal controls to the extent necessary to support our audit of the office's financial schedules and, if appropriate, make recommendations for improvements in internal and management controls of the office.
3. Determine whether the office complied with state laws, rules, and regulations that have a direct effect on the determination of material financial statement amounts.
4. Determine the implementation status of prior audit accounting recommendations.

Our work focused on the major revenues collected by the office, which include insurance premium taxes, registration fees for insurance and securities, and federal grant revenues. We also focused on the major expenditures of the office, which include nonemployer contributions to state retirement systems and Montana Reinsurance Association grant payments. We audited this activity by analyzing the financial schedules and note disclosures, examining the underlying activity, verifying the recorded amounts against third-party support, testing the office's significant internal controls, and determining the office's compliance with select state laws.

## **Financial Activity Summary**

The office oversees the insurance and securities industries in Montana. The office licenses and regulates insurance companies and agents within the state and regulates and registers security dealers.

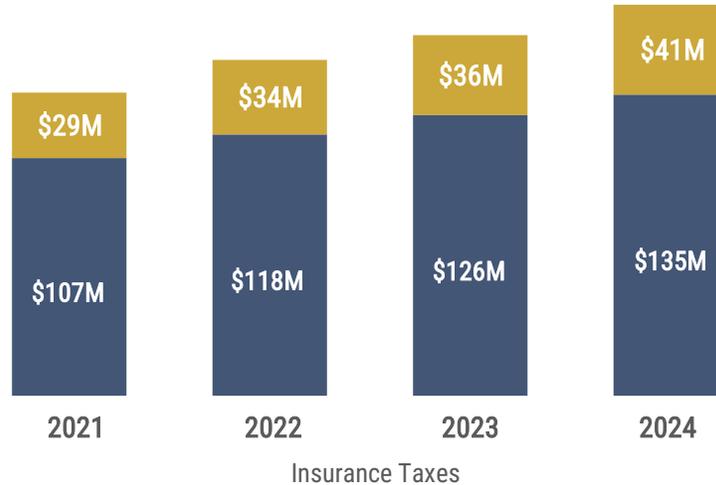
The taxes collected by the office are primarily derived from the value of insurance premiums sold within Montana. Insurance companies are required to pay a 2.75% tax on net premiums. This insurance premium tax totaled \$126 million in state fiscal year 2023 and \$135 million in 2024. Other taxes collected by the office include:

- Fire marshal taxes, which require a 2.5% tax on fire insurance premiums,
- Surplus lines insurance taxes, which are assessed the same rates as premiums sold by licensed insurance providers,
- Reinsurance taxes, which are a 1.2% assessment on certain health insurance premiums, and
- Montana Health and Economic Livelihood Partnership (HELP) Act taxes, which are described in Recommendation #2 of this report.

Figure 1

**Insurance Tax Revenues for Fiscal Years 2021-2024**

**Insurance premium taxes** increased with the value of premiums sold, and **other insurance tax** types have also increased each year.



Source: Compiled by the Legislative Audit Division.

The primary fees collected by the office include those charged to securities salespeople and entities to operate within Montana, as well as fees assessed on securities sold in the state. Other fees collected by the office include those charged to insurance companies to operate within Montana and fees for the statewide genetics program, which ensures the availability of genetic testing, counseling, and educational services in Montana.

Figure 2

**Registration Fees for Fiscal Years 2021-2024**

**Securities and salesperson registration fees** comprise the majority of fees collected by the office, while insurance company registration and genetics program fees comprise the **other fee types** collected.

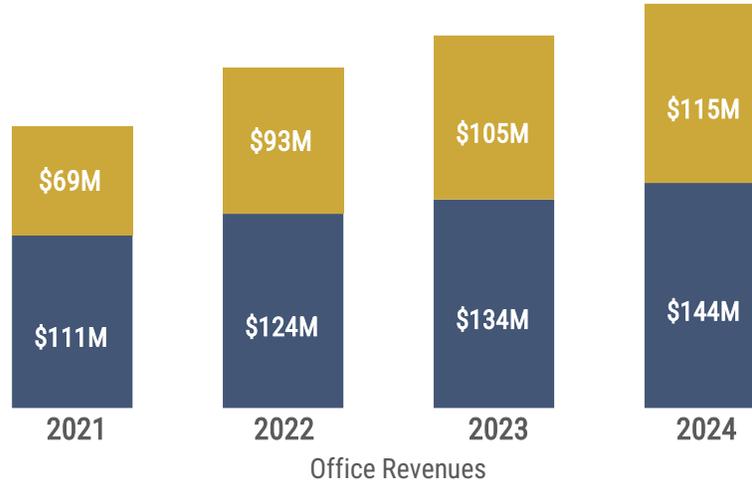


Source: Compiled by the Legislative Audit Division.

Most of the taxes and fees collected by the office are deposited in the state’s general fund. These revenues have steadily increased in recent years. In state fiscal year 2024, the office collected \$144 million for the general fund.

Figure 3  
**General Fund Revenues for Fiscal Years 2021-2024**

Both **general fund revenues** and **other revenues** collected by the office have continued to increase each of the last four fiscal years.

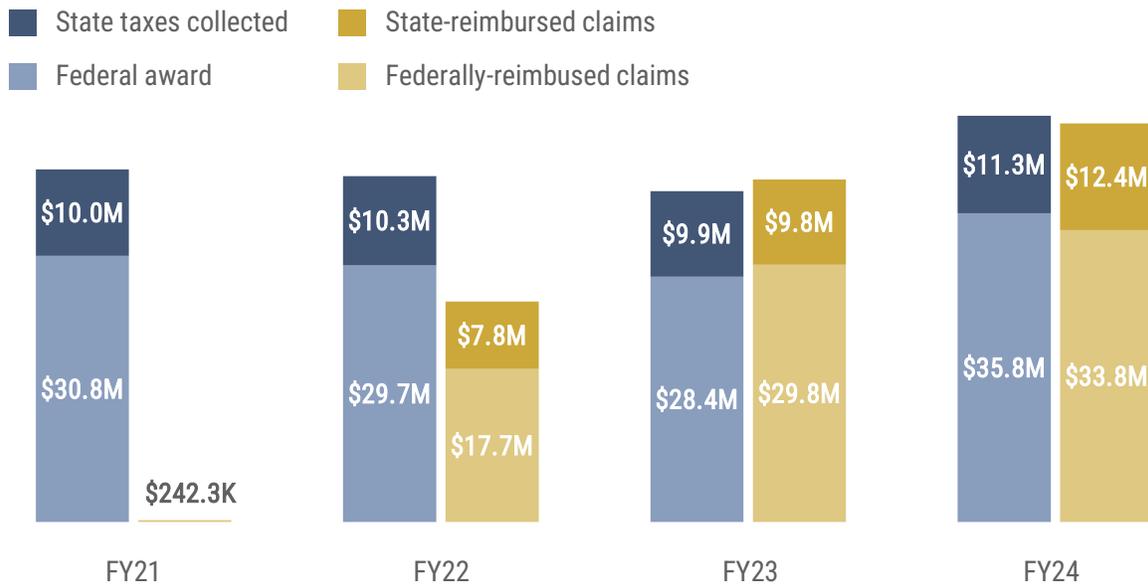


Source: Compiled by the Legislative Audit Division.

The office administers the Montana Reinsurance Program with the Montana Reinsurance Association (MRA), a nonprofit legal entity. The 2019 Legislature established both the program and the MRA to help stabilize the individual health insurance market, preserve competition, and lower premiums. The office assesses taxes on health insurance premiums and receives federal award money. The office then provides grants from these two sources to the MRA to reimburse marketplace health insurers for high dollar health claims. Unspent taxes and federal awards at the end of the year roll over and can be spent in the following fiscal years. The first claims were paid in state fiscal year 2022 and have since grown to take full advantage of the available funds.

Figure 4  
**Montana Reinsurance Program for Fiscal Years 2021-2024**

Federal and state reinsurance expenditures for claims increased during the audit period to take full advantage of available federal awards and state taxes.



Source: Compiled by the Legislative Audit Division.

## **Background**

The State Auditor is elected and serves as the Commissioner of Insurance and Securities. The State Auditor is also a member of the State Land Board and the Hail Insurance Board. The office's divisions and activities are outlined below:

The central management division is responsible for the office's administrative, budgeting, personnel, information technology, and accounting functions. The division also supports the Commissioner as he fulfills his duties on the State Land Board and the Hail Insurance Board.

The insurance division regulates the insurance industry in Montana. Its duties include:

- Resolving insurance consumer inquiries and complaints about agents, coverage, and companies
- Licensing and reviewing the rates and financial condition of insurance companies
- Collecting the insurance premium tax
- Approving forms used by insurance companies
- Licensing, testing, and administering a continuing education program for insurance agents, and
- Investigating insurance code and rule violations.

The insurance division also administers and provides oversight, in conjunction with the Montana Reinsurance Association, of the Montana Reinsurance Program.

The office's Local Assistance Program distributes general fund moneys to the Montana Public Employees' Retirement Administration for the Firefighters' Unified Retirement System, the Volunteer Firefighters' Compensation Act, and the Municipal Police Officers' Retirement System. The program has no approved FTE and is primarily administered through the FTE of the insurance division.

The securities division is responsible for administering and enforcing the Montana Securities Act. Responsibilities include registering securities issuers, salespeople, investment advisers, broker-dealers, and investment adviser representatives. It also investigates instances of unregistered or fraudulent securities transactions.

### **Prior Audit Recommendations**

The prior audit report for the two fiscal years ended June 30, 2022, contained four accounting recommendations. We performed work to determine the implementation status of these recommendations and concluded all four recommendations are fully implemented. The prior audit report also contained three recommendations related to compliance with federal requirements for the office's Waivers for State Innovation for Section 1332 of the Patient Protection and Affordable Care Act. This program represents the federal government's participation in the Montana Reinsurance Program. The implementation status of these recommendations will be assessed as part of the state's Single Audit. Findings will be reported in the forthcoming Single Audit Report (#24-02).



## Chapter II - Findings and Recommendations

### Internal Controls

State accounting policy requires each state agency to establish and maintain an effective system of internal controls. Effective internal controls are designed and operated in a manner that prevents, or detects and corrects, misstatements promptly. The following recommendations are both related to the office's system of internal controls. We consider both to be significant deficiencies, or deficiencies in internal controls that may not result in a reasonable possibility of a material misstatement on the financial schedules, but still merit the attention of those charged with governance. See the report on internal control over financial reporting on page B-1 for more information.

### Surplus Lines Taxes

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**During the audit period, the office's controls to ensure the completeness and accuracy of surplus lines insurance tax collections were inadequate.**

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In Montana, as in other states, insurance premiums sold within the state are subject to state taxes. To help insurers navigate the complex tax and reporting requirements across states, the National Association of Insurance Commissioners (NAIC) provides a centralized system that allows multi-state insurers to report and pay taxes in participating states more efficiently. The office utilizes the NAIC for most reporting requirements and tax collection.

Unlike traditional insurance products like health, life, property, and title insurances, surplus lines insurers provide coverage that may be too risky or niche for traditional providers. Per state law, surplus lines premiums are subject to the same taxes as premiums sold by licensed insurance providers. However, surplus lines insurers are subject to different reporting requirements, and the office maintains a separate reporting portal for surplus lines insurers.

The surplus lines reporting portal, developed internally by the office's IT staff, allows surplus lines insurers to report premiums sold, which serves as the basis for the taxes they owe. Once a year, the insurers pay taxes owed through the NAIC payment system, which are then remitted to the office. Since users of the surplus lines reporting portal are only able to access the data for one insurer at a time, the office's IT staff member would previously retrieve a list of premium data for all insurers manually. Program personnel used this data to compare NAIC-collected payments to the taxes reported as owed. This served as the office's primary control for ensuring the completeness and accuracy of surplus lines tax payments.

However, the IT position was turned over in 2021, and the portal developer did not leave documentation of this key control. The new IT staff member was unaware of this key control, and program staff did not request the data, resulting in the control not being performed during the audit period. Without the manually retrieved data or the ability for portal users to run aggregate-level reporting, the office was left without controls designed to ensure that surplus lines insurer payments were complete or accurate.

We requested and obtained manually retrieved premium data for the audit period and performed data analysis on it. We found that the payments made by surplus lines insurers materially matched the amounts owed based on the premiums they reported. Surplus lines premium tax revenues were \$7.5 million in fiscal year 2023 and \$10.5 million in fiscal year 2024. However, because premium amounts are self-reported, the office may need to conduct more detailed data analysis to identify and address incomplete or inaccurate reporting.

The office has already identified the surplus lines portal for replacement and has begun the procurement process to contract a vendor to replace it. This is a positive step forward, but the office must strengthen controls within the existing portal during its continued use. The office has hired a consultant to help maintain the current portal until it deploys a replacement. Because the office has already taken action to replace the system, our recommendation does not result in significant unexpected costs to the office.

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#### **RECOMMENDATION #1**

*We recommend that the Office of the State Auditor:*

- A. Enhance internal controls to ensure surplus lines tax revenues collected are complete and accurate, and*
  - B. Upgrade or replace the existing surplus lines portal to allow for on-demand reporting or automated controls.*
- 

## **Nonroutine Transactions**

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**The office's controls to identify and correct errors in accounting records related to nonroutine transactions were ineffective.**

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The office is responsible for collecting various types of taxes and registration fees from the insurance and securities industries, as well as making several statutorily required payments. While some of this activity occurs regularly, other activity only occurs once a year. Activities that occur infrequently are more susceptible to errors because they are not routine. When there is a year between similar transactions, it is easier to forget or misapply related procedures, and policies and procedures may not be fully communicated if there is staff turnover.

Therefore, nonroutine transactions, especially those of significant size, may require additional controls to prevent material misstatements in the accounting records of the office. During our audit, we identified two instances where nonroutine transactions contained errors that were not detected timely by office controls.

## HELP Act Revenues

The HELP Act taxes are collected by the office annually and comprise a single large payment from two different insurers. The total amount collected in fiscal year 2023 was \$3.4 million. While the Office of the State Auditor is responsible for collecting the taxes, the HELP Act program is administered by the Montana Department of Health and Human Services (DPHHS), and the office must deposit the tax revenues to the credit of DPHHS.

When the HELP Act payments were collected on March 3, 2023, they were processed through the office's established procedures for program personnel to classify the revenues based on the underlying activity and third-party support. However, the money was erroneously classified as registration fees and was not recorded to the credit of DPHHS. The office's established system of reviews was not sufficient to detect this error. In late July 2023, DPHHS staff inquired about the missing taxes, and the office was able to correct the error prior to the books closing, so no misstatement exists on the 2023 financial schedules.

## Error Corrections

The prior audit (#22-20) identified fiscal year 2022 errors in the accounting for the Montana Reinsurance Program that required correcting entries in fiscal year 2023. While correcting entries may be relatively routine, entries that cross fiscal years are infrequent and require different treatment to comply with state accounting policy. The office input correcting entries in fiscal year 2023, but recorded \$4.2 million to an incorrect budget year. While supporting documentation indicates office staff completed a review, the review was insufficient to detect the error. The result was the following misstatements on the fiscal year 2023 financial schedules:

- Prior Year Expenditures in the Insurance Program & State Special Revenue Funds are overstated by \$4.2 million, and
- Unspent Budget Authority in the Insurance Program is overstated by \$4.2 million.

While errors exist, they do not impact our opinion on the fair presentation of the office's financial schedules.

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### **RECOMMENDATION #2**

*We recommend that the Office of the State Auditor enhance controls to detect and correct errors related to nonroutine transactions timely.*

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# **Independent Auditor's Report and Office Financial Schedules**



Angus Maciver, Legislative Auditor  
Kenneth E. Varns, Legal Counsel



Deputy Legislative Auditors:  
Alexa O'Dell  
William Soller  
Miki Cestnik

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

### **Report on the Audit of Financial Schedules**

#### ***Opinions***

We have audited the financial schedules of the Office of the State Auditor, which are comprised of the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out for each of the fiscal years ended June 30, 2024, and 2023, and the related notes to the financial schedules.

#### ***Unmodified Opinions on Regulatory Basis of Accounting***

In our opinion, the accompanying financial schedules, present fairly, in all material respects, the results of operations and changes in fund equity for each of the fiscal years ended June 30, 2024, and 2023, in conformity with the basis of accounting described in Note 1.

#### ***Adverse Opinions on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" section of our report, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Office of the State Auditor as of June 30, 2024, and June 30, 2023, or changes in financial position for the years then ended.

#### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Schedules section of our report. We are required to be independent of the Office of the State Auditor and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles***

As described in Note 1 of the financial schedules, the financial schedules are prepared by the Office of the State Auditor from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

***Emphasis of Matter***

As discussed in Note 6c to the financial schedules, prior to fiscal year 2023, the Office of the State Auditor recorded distributions to retirement systems in the local assistance expenditure category. In response to recommendation #1 of the 22-20 audit report, beginning in fiscal year 2023, these distributions were recorded in the "All Accounts Rollup Transfers-out" expenditure category. This activity appears on the Schedule of Expenditures and Transfers-Out in the "Local Assistance to Counties" column. Our opinion is not modified with respect to this matter.

***Responsibilities of Management for the Financial Schedules***

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

In preparing the financial schedules, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Office of the State Auditor's ability to continue as a going concern for twelve months beyond the financial schedule date, including any currently known information that may raise substantial doubt shortly thereafter.

***Auditor's Responsibility for the Audit of the Financial Schedules***

Our objectives are to obtain reasonable assurance about whether the financial schedules as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial schedules.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial schedules, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial schedules.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office of the State Auditor's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial schedules.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Office of the State Auditor's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Report on Other Legal and Regulatory Requirements**

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2025, on our consideration of the Office of the State Auditor's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office of the State Auditor's internal control over financial reporting and compliance.

Respectfully submitted,

*/s/ Alexa O'Dell*

Alexa O'Dell, CPA  
Deputy Legislative Auditor  
Helena, MT

May 6, 2025

OFFICE OF THE STATE AUDITOR  
 SCHEDULE OF CHANGES IN FUND EQUITY  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2024

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Private Purpose Trust Fund
<b>FUND EQUITY: July 1, 2023</b>	<b>\$ (45,241,309)</b>	<b>\$ 21,078,566</b>	<b>0</b>	<b>\$ 12,334,531</b>
<b>ADDITIONS</b>				
Budgeted Revenues & Transfers-In	138,625,325	79,383,492	33,800,079	791,865
Nonbudgeted Revenues & Transfers-In	5,491,079	336,699		245,696
Prior Year Revenues & Transfers-In Adjustments	(99,041,642)	27,236		
Direct Entries to Fund Equity	45,074,762	(50,858,808)		
<b>Total Additions</b>	<b>80,149,524</b>	<b>28,888,618</b>	<b>33,800,079</b>	<b>1,037,561</b>
<b>REDUCTIONS</b>				
Budgeted Expenditures & Transfers-Out	48,200,901	22,875,311	33,800,079	
Nonbudgeted Expenditures & Transfers-Out	115	5,738,859		1,100,860
Prior Year Expenditures & Transfers-Out Adjustments	(88,428)	(88,428)		794,109
<b>Total Reductions</b>	<b>(48,085,214)</b>	<b>28,525,741</b>	<b>33,800,079</b>	<b>1,894,969</b>
<b>FUND EQUITY: June 30, 2024</b>	<b>\$ (48,367,563)</b>	<b>\$ 21,441,443</b>	<b>0</b>	<b>\$ 11,477,123</b>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-1.1.

OFFICE OF THE STATE AUDITOR  
 SCHEDULE OF CHANGES IN FUND EQUITY  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2022	\$ (41,512,398)	\$ 12,223,765	\$ 0	\$ 12,334,531
<b>ADDITIONS</b>				
Budgeted Revenues & Transfers-In	127,340,664	74,732,799	29,819,136	
Nonbudgeted Revenues & Transfers-In	6,192,793	248,851		
Prior Year Revenues & Transfers-In Adjustments	(2,000)	25,092		
Direct Entries to Fund Equity	(92,429,183)	(37,256,214)		
Total Additions	41,102,273	37,750,528	29,819,136	0
<b>REDUCTIONS</b>				
Budgeted Expenditures & Transfers-Out	44,982,672	14,985,505	29,819,136	
Nonbudgeted Expenditures & Transfers-Out	14	7,573,649		
Prior Year Expenditures & Transfers-Out Adjustments	(151,502)	6,336,573		
Total Reductions	44,831,185	28,895,727	29,819,136	0
FUND EQUITY: June 30, 2023	\$ (45,241,309)	\$ 21,078,566	\$ 0	\$ 12,334,531

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

OFFICE OF THE STATE AUDITOR  
 SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2024

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Private Purpose Trust Fund	Total
Licenses and Permits	\$ 21,080,694	\$ 16,841,393			\$ 37,922,087
Taxes	115,035,790	61,018,035			176,053,824
Charges for Services		597,656			597,656
Investment Earnings		512,489			278,456
Fines and Forfeits	2,508,841			(234,033)	2,508,841
Grants, Contracts, and Donations		119,886			119,886
Transfers-in	5,491,079	221,113			5,712,192
Intra-entity Revenue		256,181			256,181
Miscellaneous		180,674			180,674
Federal			\$ 33,800,079	1,271,593	1,452,268
Total Revenues & Transfers-In	144,116,404	79,747,426	33,800,079	1,037,561	33,800,079
Less: Nonbudgeted Revenues & Transfers-In	5,491,079	336,699		791,865	6,619,644
Prior Year Revenues & Transfers-In Adjustments		27,236		245,696	272,931
Actual Budgeted Revenues & Transfers-In	\$ 138,625,325	\$ 79,383,492	\$ 33,800,079	\$ 0	\$ 251,808,895

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-1.1.

OFFICE OF THE STATE AUDITOR  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>				
Licenses and Permits	\$ 20,982,920	\$ 17,131,074		\$ 38,113,994
Taxes	106,154,531	56,135,507		162,290,039
Charges for Services	457	500,810		501,267
Investment Earnings		400,494		400,494
Fines and Forfeits	200,755			200,755
Grants, Contracts, and Donations		22,100		22,100
Transfers-in	6,192,793	233,711		6,426,504
Intra-entity Revenue		257,653		257,653
Miscellaneous		325,393		325,393
Federal			\$ 29,819,136	29,819,136
<b>Total Revenues &amp; Transfers-In</b>	133,531,456	75,006,742	29,819,136	238,357,335
Less: Nonbudgeted Revenues & Transfers-In	6,192,793	248,851		6,441,644
Prior Year Revenues & Transfers-In Adjustments	(2,000)	25,092		23,092
<b>Actual Budgeted Revenues &amp; Transfers-In</b>	\$ 127,340,664	\$ 74,732,799	\$ 29,819,136	\$ 231,892,599

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

OFFICE OF THE STATE AUDITOR  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

	<u>CENTRAL MANAGEMENT</u>	<u>INSURANCE</u>	<u>LOCAL ASSISTANCE TO COUNTIES</u>	<u>SECURITIES</u>	<u>Total</u>
<b>PROGRAM (ORG) EXPENDITURES &amp; TRANSFERS-OUT</b>					
Personal Services					
Salaries	\$ 1,097,817	\$ 3,054,727		\$ 871,295	\$ 5,023,839
Other Compensation				7,500	7,500
Employee Benefits	<u>353,743</u>	<u>1,022,085</u>		<u>280,099</u>	<u>1,655,927</u>
Total	<u>1,451,560</u>	<u>4,076,812</u>		<u>1,158,894</u>	<u>6,687,266</u>
Operating Expenses					
Other Services	220,223	2,286,136		19,316	2,525,675
Supplies & Materials	109,615	(27,101)		6,917	89,431
Communications	141,137	7,800		17,397	166,334
Travel	18,879	61,431		36,918	117,228
Rent	5,477	4,026		2,308	11,811
Repair & Maintenance	964	205		169	1,338
Other Expenses	<u>45,513</u>	<u>1,935,050</u>		<u>31,634</u>	<u>2,012,196</u>
Total	<u>541,808</u>	<u>4,267,548</u>		<u>114,658</u>	<u>4,924,014</u>
Equipment & Intangible Assets					
Intangible Assets				100,000	100,000
Total				<u>100,000</u>	<u>100,000</u>
Local Assistance					
From other sources			\$ 606,994		606,994
Total			<u>606,994</u>		<u>606,994</u>
Grants					
From State Sources		12,357,467			12,357,467
From Federal Sources		<u>33,800,079</u>			<u>33,800,079</u>
Total		<u>46,157,546</u>			<u>46,157,546</u>
Benefits & Claims					
To Individuals		8,754			8,754
From State Sources		<u>1</u>		<u>125,401</u>	<u>125,402</u>
Total		<u>8,754</u>		<u>125,401</u>	<u>134,155</u>
Transfers-out					
Fund transfers		<u>78,967</u>		<u>5,633,226</u>	<u>5,712,192</u>
Total		<u>78,967</u>		<u>5,633,226</u>	<u>5,712,192</u>
Debt Service					
Lease Liability	<u>110,203</u>	<u>323,406</u>		<u>80,877</u>	<u>514,485</u>
Total	<u>110,203</u>	<u>323,406</u>		<u>80,877</u>	<u>514,485</u>
All Accounts Rollup					
Transfers-out			<u>47,585,153</u>		<u>47,585,153</u>
Total			<u>47,585,153</u>		<u>47,585,153</u>
<b>Total Expenditures &amp; Transfers-Out</b>	<b>\$ <u>2,103,570</u></b>	<b>\$ <u>54,913,033</u></b>	<b>\$ <u>48,192,147</u></b>	<b>\$ <u>7,213,055</u></b>	<b>\$ <u>112,421,806</u></b>
<b>EXPENDITURES &amp; TRANSFERS-OUT BY FUND</b>					
General Fund		\$ 8,869	\$ 48,192,147		\$ 48,201,016
State Special Revenue Fund	\$ 2,103,570	19,209,116		\$ 7,213,055	28,525,741
Federal Special Revenue Fund		33,800,079			33,800,079
Private Purpose Trust Fund		<u>1,894,969</u>			<u>1,894,969</u>
Total Expenditures & Transfers-Out	2,103,570	54,913,033	48,192,147	7,213,055	112,421,806
Less: Nonbudgeted Expenditures & Transfers-Out	(1,733)	1,174,675		5,666,892	6,839,834
Prior Year Expenditures & Transfers-Out Adjustments	<u>(3,849)</u>	<u>748,796</u>		<u>(39,266)</u>	<u>705,681</u>
Actual Budgeted Expenditures & Transfers-Out	2,109,152	52,989,562	48,192,147	1,585,429	104,876,291
Budget Authority	<u>2,436,990</u>	<u>54,329,762</u>	<u>48,853,127</u>	<u>1,940,592</u>	<u>107,560,471</u>
Unspent Budget Authority	\$ <u>327,838</u>	\$ <u>1,340,200</u>	\$ <u>660,980</u>	\$ <u>355,163</u>	\$ <u>2,684,181</u>
<b>UNSPENT BUDGET AUTHORITY BY FUND</b>					
General Fund		\$ 11,246	\$ 660,980		\$ 672,226
State Special Revenue Fund	\$ 327,838	1,029,033		\$ 355,163	1,712,034
Federal Special Revenue Fund		<u>299,921</u>			<u>299,921</u>
Unspent Budget Authority	\$ <u>327,838</u>	\$ <u>1,340,200</u>	\$ <u>660,980</u>	\$ <u>355,163</u>	\$ <u>2,684,181</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

OFFICE OF THE STATE AUDITOR  
 SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2023

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	CENTRAL MANAGEMENT	INSURANCE	LOCAL ASSISTANCE TO COUNTIES	SECURITIES	Total
Personal Services					
Salaries	\$ 1,073,723	\$ 3,061,918		\$ 827,599	\$ 4,963,240
Employee Benefits	357,017	1,050,522		253,113	1,660,652
Total	1,430,740	4,112,440		1,080,712	6,623,892
Operating Expenses					
Other Services	221,008	1,227,975		137,218	1,586,200
Supplies & Materials	144,010	13,605		9,264	166,878
Communications	162,462	27,591		7,404	197,456
Travel	40,223	96,060		31,639	167,922
Rent	3,306	3,577		1,407	8,289
Repair & Maintenance	2,119	701		380	3,200
Other Expenses	53,012	47,349		29,404	129,764
Total	626,140	1,416,857		216,713	2,259,710
Local Assistance					
From other sources			\$ 485,416		485,416
Total			485,416		485,416
Grants					
From State Sources		11,954,802			11,954,802
From Federal Sources		29,819,136			29,819,136
Total		41,773,939			41,773,939
Benefits & Claims					
From State Sources		4,608		11,740	16,348
Total		4,608		11,740	16,348
Transfers-out					
Fund transfers		1,337,000		6,189,504	7,526,504
Total		1,337,000		6,189,504	7,526,504
Debt Service					
Lease Liability	110,210	323,403		80,872	514,485
Total	110,210	323,403		80,872	514,485
All Accounts Rollup					
Transfers-out			44,345,754		44,345,754
Total			44,345,754		44,345,754
<b>Total Expenditures &amp; Transfers-Out</b>	<b>\$ 2,167,090</b>	<b>\$ 48,968,247</b>	<b>\$ 44,831,170</b>	<b>\$ 7,579,541</b>	<b>\$ 103,546,049</b>
<b>EXPENDITURES &amp; TRANSFERS-OUT BY FUND</b>					
General Fund		\$ 14	\$ 44,831,170		\$ 44,831,185
State Special Revenue Fund	\$ 2,167,090	19,149,096		\$ 7,579,541	28,895,727
Federal Special Revenue Fund		29,819,136			29,819,136
Total Expenditures & Transfers-Out	2,167,090	48,968,247	44,831,170	7,579,541	103,546,049
Less: Nonbudgeted Expenditures & Transfers-Out	5,365	1,352,769		6,215,530	7,573,664
Prior Year Expenditures & Transfers-Out Adjustments		6,336,573	(151,502)		6,185,071
Actual Budgeted Expenditures & Transfers-Out	2,161,725	41,278,905	44,982,672	1,364,012	89,787,314
Budget Authority	2,423,556	50,454,938	45,190,600	1,682,198	99,751,292
Unspent Budget Authority	\$ 261,831	\$ 9,176,033	\$ 207,928	\$ 318,186	\$ 9,963,977
<b>UNSPENT BUDGET AUTHORITY BY FUND</b>					
General Fund			\$ 207,928		\$ 207,928
State Special Revenue Fund	\$ 261,831	\$ 4,895,169		\$ 318,186	5,475,186
Federal Special Revenue Fund		4,280,864			4,280,864
Unspent Budget Authority	\$ 261,831	\$ 9,176,033	\$ 207,928	\$ 318,186	\$ 9,963,977

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.



**Office of the State Auditor**  
**Notes to the Financial Schedules**  
**For the Two Fiscal Years Ended June 30, 2024**

## **1. Summary of Significant Accounting Policies**

### **Basis of Accounting**

The office uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue). In applying the modified accrual basis, the office records:

- Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the office to record the cost of employees' annual and sick leave when used or paid.

The office uses accrual basis accounting for its Fiduciary (Private-Purpose Trust and Custodial) fund categories. Under the accrual basis, as defined by state accounting policy, the office records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include entire budgeted service contracts even though the office receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

### **Basis of Presentation**

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The office uses the following funds:

### **Governmental Fund Category**

- **General Fund** – to account for all financial resources except those required to be accounted for in another fund. The General Fund includes revenue from insurance premium tax, securities brokerage licenses, fines and penalties, and transfers in from securities and captive insurance state special revenue funds. The expenditures included in the General Fund are (i) fund transfers to Montana Public Employee's Retirement Administration, (ii) expenditures to each city or town with a fire relief association or a police department not participating in the municipal police officer's retirement system, and (iii) defrayal payments to Qualified Health Plans (QHPs) for state benefit mandates.

- **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. The office’s State Special Revenue Funds include Insurance and Securities Division activities, such as securities portfolio registration revenue, securities restitution, insurance license revenue, examination fees, industry continuing education programs, and the Montana Reinsurance Association (MRA) assessment.
- **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. The office’s Federal Special Revenue Fund includes the 1332 State Innovation Waivers federal grant, which assists in the stabilization of the individual health insurance market.

### **Fiduciary Fund Category**

- **Private Purpose Trust Fund** – to account for all fiduciary activities that are (a) not required to be reported in pension (and other employee benefit) trust funds or investment trust funds and (b) are held in a trust (or trust equivalent arrangement), where the principal and income benefit individuals, private organizations, or other governments. The office’s Private Purpose Trust Fund includes financial deposits required to be held in trust by the office for insurance companies licensed in Montana.
- **Custodial Fund** – to account for resources of fiduciary activities held by the state in a custodial capacity which are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. The external portion of investment pools that are not held in a trust should be reported in a separate external investment pool fund column, under the custodial fund classification. Custodial funds may be used on a limited basis for internal (to the State) clearing account activity, but these must have a zero balance at fiscal year-end. The office’s custodial funds are used for pass-through activity. As a result, the custodial fund activity for the office does not appear on the financial schedules because these pass-through activities result in a zero balance at the end of the fiscal year.

## **2. General Fund Equity Balance**

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The office has authority to pay obligations within its appropriation limits from the statewide General Fund. The office uses cash (or other assets) from this statewide fund to pay its General Fund obligations. For each of the fiscal years ended June 30, 2023, and June 30, 2024, the office’s outstanding liabilities exceeded the assets it had placed in the fund, resulting in negative ending General Fund equity balances for each of these fiscal years.

## **3. Direct Entries to Fund Equity**

Direct entries to fund equity in the General and State Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

Direct entries to fund equity in the State Special Revenue funds also include a correcting entry completed in fiscal year 2023 of \$10,038,803, resulting in the presentation of accurate fund balances at fiscal year-end. This correction was the result of prior period entries made by the office in its best effort at the time in preparing and establishing the Montana Reinsurance Association (MRA) component unit. The office collaborated with the State Accounting Bureau (SAB) and the Office of Budget and Program Planning (OBPP) in establishing the MRA component unit.

#### 4. Unspent Budget Authority

The Schedule of Total Expenditures and Transfers-Out for fiscal years 2023 and 2024 presents unspent budget authority. The following table presents the office’s material portions of unspent budget authority.

**Fiscal Year 2023 Unspent Budget Authority**

	<b>Program</b>	<b>Unspent Authority</b>	<b>Unspent Authority Reason(s)</b>
<b>State Special</b>	Insurance	\$4,895,169	The Unspent Budget Authority is overstated by \$4,224,307. Please refer to Note 6.
<b>Federal Special</b>	Insurance	\$4,280,864	MRA claims payments were lower than the projected budget.

#### 5. Montana Reinsurance Association (MRA)

In April 2019, the State of Montana enacted the Montana Reinsurance Association Act (Act) establishing the MRA as a nonprofit, legal entity and creating a reinsurance program to stabilize the individual health insurance market. The Act authorized the state to apply for a State Innovation Waiver under Section 1332 of the Patient Protection and Affordable Care Act (ACA). The Act is established under Title 33, Chapter 22, Part 13 of the Montana Code Annotated (MCA).

The Montana Reinsurance Program gained initial approval for an Innovation Waiver under Section 1332 from the United States Departments of Health and Human Services and Treasury for a five-year term, effective from January 1, 2020, through December 31, 2024. On September 17, 2024, the office received notification its application to extend the program was approved for an additional five-year term. The grant term is extended through December 31, 2029.

The MRA is funded through federal pass-through funding (awarded on an annual basis) and annual association member assessments (1.2% of a member insurer’s total premium volume covering Montana residents from the prior calendar year, as defined in Section 33-22-1313, MCA).

The MRA is governed by a five-member board of directors consisting of one director from each of the three eligible health insurers with the largest enrollment in the individual market, one insurer director appointed by the Commissioner of Insurance, and one director appointed by the Governor.

The MRA’s financial results are included in the state’s Annual Comprehensive Financial Report because of the significance of MRA’s financial relationship with the state. Pursuant to Title 33, Chapter 22, Part 13 of the MCA, the MRA is attached to the Commissioner of Insurance for administrative and financial purposes. The MRA reports on a calendar year basis, must be audited by an independent certified public accountant annually, and may be audited by the state’s Legislative Audit Division.

**Fiscal Year 2023 ACA Section 1332 Innovation Waiver Expenditures**

	Operations	Claims	Total
State Special		11,954,802	11,954,802
Federal Special	292,320	29,526,816	29,819,136

**Fiscal Year 2024 ACA Section 1332 Innovation Waiver Expenditures**

	Operations	Claims	Total
State Special		12,357,467	12,357,467
Federal Special	389,150	33,410,929	33,800,079

**6. Accounting Errors**

- a. **Montana Reinsurance Association (MRA).** During the fiscal year 2021 and 2022 Legislative Audit, it was identified that year-end entries related to the new Montana Reinsurance Association (MRA) were recorded incorrectly. These entries were made through collaboration between the office, the State Accounting Bureau (SAB), and the Office of Budget and Program Planning (OBPP). Ongoing discussions determined the journal entries required modification, resulting in correcting entries completed in fiscal year 2023. These adjustments finalized the series of corrections and brought fund balance to the correct ending balance as of fiscal year-end 2023. However, the correcting entry recorded \$4.224 million as a current year expense rather than a prior year adjustment. As a result, Prior Year Expenditures and Transfers-Out Adjustments and Unspent Budget Authority are overstated by \$4.224 million (SSRF).
- b. **Private Purpose Trust Fund.** The office maintains financial deposits statutorily required to be held in trust for insurance companies licensed in Montana. This activity is recorded in the Private Purpose Trust Fund (PPTF) within the Insurance Program. Due to staff turnover during fiscal year end, the annual year-end adjustments for this activity did not get completed on the state’s accounting records prior to fiscal year-end close. These adjustments were subsequently recorded as prior year activity in August 2023. As a result, the fiscal year 2024 financial schedules include activity from both fiscal years 2023 and 2024. The office communicated the status and timing of these adjusting entries to the State Accounting Bureau (SAB). The SAB was able to incorporate the adjustments into the fiscal year 2023 Annual Comprehensive Financial Report (ACFR).
- c. **Montana Public Employees Retirement Administration (MPERA).** The office distributes general fund payments to MPERA for the Municipal Police Officer’s Retirement System (MPORS) and the Firefighter’s Unified Retirement System (FURS) using account code 65311, as required by Sections 19-9-702 and 19-13-604, MCA. Before fiscal year 2023, these transactions were recorded under the 65% account range, designated for state-to-local government payments. Since MPERA is classified as a component unit of the state, starting in fiscal year 2023, the office began using the 689% account code, which is appropriate for transfers from the primary government to component unit.

## 7. Pending Litigation

The State of Montana is currently a defendant in a class-action lawsuit filed in the First Judicial District Court, Lewis and Clark County (Cause No. DDV-2024-27), concerning the constitutionality of House Bill 694. This legislation, enacted in 2019, sets licensing fees for securities salespersons and investment advisor representatives at \$50 for Montana residents and \$100 for non-residents.

The lawsuit, brought by Thomas Strobhar on behalf of himself and others, alleges that the differential fee structure violates both the U.S. and Montana Constitutions. The plaintiffs seek declaratory and injunctive relief, as well as monetary damages.

As of December 6, 2024, the District Court has heard oral arguments on the plaintiffs' petition for class certification. The Court requested additional briefing on the statute of limitations issue and indicated a leaning toward certifying the class. The briefing process is complete, and a decision on class certification, including the statute of limitations issue, is expected soon.

At this time, it is not possible to reasonably estimate the potential financial impact if the State's defense is unsuccessful. The State and the Department of Administration are represented by separate counsel and actively defending against these claims.



# Report on Internal Control and Compliance



# LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor  
Kenneth E. Varns, Legal Counsel



B-1

Deputy Legislative Auditors:  
Alexa O'Dell  
William Soller  
Miki Cestnik

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Office of the State Auditor for each of the fiscal years ended June 30, 2024, and 2023, and the related notes to the financial schedules, and have issued our report thereon dated May 6, 2025.

### ***Report on Internal Control Over Financial Reporting***

In planning and performing our audit of the financial schedules, we considered the Office of the State Auditor's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the Office of the State Auditor's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office of the State Auditor's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

We did identify certain deficiencies in internal control, described below, that we consider to be significant deficiencies.

- The Office of the State Auditor's controls to ensure the completeness and accuracy of surplus lines insurance tax collections were inadequate. See recommendation #1 for more information.
- The Office of the State Auditor's controls were insufficient to detect and correct errors in the accounting records for nonroutine transactions. See recommendation #2 for more information.

***Report on Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Office of the State Auditor's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial schedules. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Office of the State Auditor's Response to Findings***

*Government Auditing Standards* requires the auditor to perform limited procedures on the Office of the State Auditor's response to the findings identified in our audit and described on page C-1 of this report. The Office of the State Auditor's response was not subjected to the auditing procedures applied in the audit of the financial schedules and, accordingly, we express no opinion on it.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Office of the State Auditor's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office of the State Auditor's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

*/s/ Alexa O'Dell*

Alexa O'Dell, CPA  
Deputy Legislative Auditor  
Helena, MT

May 6, 2025

OFFICE OF THE  
STATE AUDITOR

OFFICE RESPONSE





# COMMISSIONER OF SECURITIES AND INSURANCE

James Brown  
Commissioner

Office of the  
Montana State Auditor

August 8, 2025

Angus Maciver, Legislative Auditor  
Legislative Audit Division  
PO Box 201705  
Helena, MT 59620

RECEIVED  
August 13, 2025  
LEGISLATIVE AUDIT DIV.

RE: Financial Compliance Audit #24-20: Office of the State Auditor

Dear Mr. Maciver,

The State Auditor's Office (SAO) has reviewed the Financial-Compliance Audit for the two fiscal years ending June 30, 2024. The SAO would like to thank you and your staff for your review. This office appreciates any opportunity to help improve its processes and better serve the people of Montana. Our responses to the recommendations are listed below:

## Recommendation #1:

*We recommend the Office of the State Auditor:*

- A. *Enhance internal controls to ensure surplus lines tax revenues collected are complete and accurate, and*
- B. *Upgrade or replace the existing surplus lines portal to allow for on-demand reporting or automated controls.*

## Response:

Concur. The SAO currently utilizes a custom-built, internally developed system for reporting and paying surplus lines taxes. While this system has established processes and procedures for administering the surplus lines program, it is outdated. Additionally, due to IT personnel transitions, certain processes were not fully documented by the original

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Angus Maciver, Legislative Auditor  
August 8, 2025  
Page 2

programmer and remained incomplete. To address these concerns, the SAO has strengthened internal controls by enhancing process documentation, providing targeted training to key personnel, and implementing additional control procedures.

Recognizing the need for improvement, the SAO has prioritized the replacement of the surplus lines system as part of its broader business modernization efforts. Over the past year, the SAO has thoroughly evaluated alternative solutions and has now selected a replacement system. Final contract negotiations are underway, with implementation scheduled to begin by mid-August. The new surplus lines system and related management services are expected to be fully implemented by January 1, 2027.

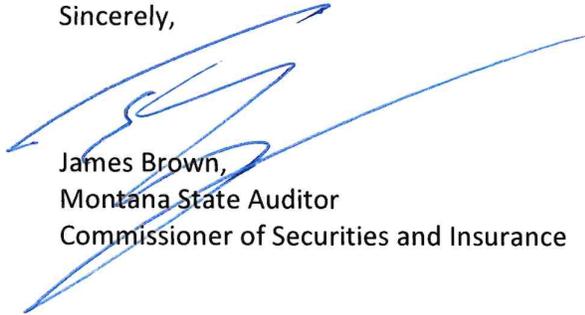
**Recommendation #2:**

*We recommend that the Office of the State Auditor enhance controls to detect and correct errors related to nonroutine transactions timely.*

**Response:**

Concur. The SAO recognizes the importance of timely detection and correction of errors. During the audit period, the accounting team experienced turnover in key personnel, contributing to these errors. With the onboarding of experienced team members within Central Services, the SAO has since enhanced controls by implementing additional review and oversight for nonroutine transactions. Furthermore, targeted training has been provided to relevant staff to ensure awareness of associated risks and control activities.

Sincerely,



James Brown,  
Montana State Auditor  
Commissioner of Securities and Insurance