



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Department of Military  
Affairs*

*For the Two Fiscal Years Ended  
June 30, 2022*

SEPTEMBER 2023

LEGISLATIVE AUDIT  
DIVISION

22-25

## FINANCIAL-COMPLIANCE AUDITS

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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, 2021, was issued June 21, 2022. The submission deadline for the Single Audit Report for the two fiscal years ended June 30, 2023, is March 31, 2024.

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# LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller

September 2023

The Legislative Audit Committee  
of the Montana State Legislature:

It is our pleasure to provide our financial-compliance audit report on the Department of Military Affairs for the two fiscal years ended June 30, 2022. This report includes four findings related to budget authority, accounting issues, allowable grant expenditures, and timely requests for federal reimbursement.

We focused our audit efforts primarily on financial activity related to National Guard Military Operations and Maintenance (O&M) Projects, National Guard Military Construction Projects, Disaster and Emergency Services grants, and presidentially declared disasters. We also tested transactions related to personal services, capital outlay, federal revenue, operating expenditures, and budgetary activity.

The department's written response to the recommendations can be found on page C-1.

We thank the Adjutant General and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

*/s/ Angus Maciver*

Angus Maciver  
Legislative Auditor



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## APPOINTED AND ADMINISTRATIVE OFFICIALS

### Department of Military Affairs

Major General J. Peter Hronek, Adjutant General (as of January 4, 2021)

Major General Matthew T. Quinn, Adjutant General (through January 2, 2021)

Sundi West, Deputy Director, Director's Office

Delila Bruno, Administrator, Disaster and Emergency Services Division

Trent Gibson, Director, Montana Youth Challenge Program

Wendy Fechter, Director, Science and Technology Academies Reinforcing Basic Aviation and Space Exploration Program (STARBASE)

Kara Bates Tangedal, Director, Science and Technology Academies Reinforcing Basic Aviation and Space Exploration Program (STARBASE) (as of May 10, 2021)

Kelly Ackerman, Administrator, Veterans Affairs Division

For additional information concerning the Department of Military Affairs,  
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Sundi West, Deputy Director

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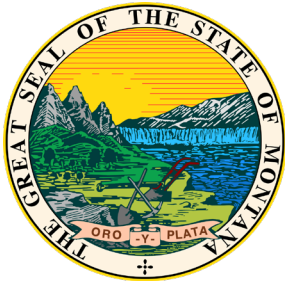
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# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL-COMPLIANCE AUDIT

Department of Military Affairs

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2022

A report to the Montana Legislature

### BACKGROUND

The department consists of 11 programs: Air National Guard, Army National Guard, Montana Youth Challenge, Director’s Office, Disaster & Emergency Services, Disaster Fund, Military Capital Construction, Montana Military Family Relief Fund, Scholarship Program, Montana Science and Technology Academies Reinforcing Basic Aviation and Space Exploration (STARBASE), and Veterans Affairs. Through the Army and Air National Guard, the department manages a joint federal-state program to maintain trained and equipped military organizations in readiness for state and national mobilizations to active duty. In addition to the National Guard, the department plans for and coordinates state responses in disasters and emergencies. The department also manages and cooperates with state and federal agencies in providing statewide services for discharged veterans and their families.

During the audit period, the department was key in disbursing around \$39.6 million in disaster funds to local governments and hospitals in response to the COVID-19 pandemic. Under the military capital construction federal program, the department worked on a long-term construction project for the Malta Readiness Center. The project’s total cost through June 30, 2022, was approximately \$34.2 million, of which around \$12.6 million was expended during the audit period.

### **AUDITOR’S OPINION (page A-1): QUALIFIED**

Due to misstatements identified during the audit period, which are discussed in further detail in Recommendations #1 and 2, we issued a qualified opinion on the fiscal year 2021 and 2022 financial schedules. This means the reader should understand the misstatements outlined in the opinion when using the financial schedules.

For the full context of the department’s financial activity, see the financial schedules and notes beginning on page A-5.

### **RECOMMENDATIONS:**

In this report, we issued the following recommendations:

To the department: 4

To the legislature: 0

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

Fully Implemented: 3

Partially Implemented: 1

Not Implemented: 0

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

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

*Internal Control*

We recommend the department implement controls to ensure budgets are set up in the correct programs and expenditures are paid out of the program for which the budget is established.

**Department response: Concur**

**RECOMMENDATION #2 (page 11):**

*Internal Control*

We recommend the department implement or enhance controls over revenue accruals to ensure the amounts recorded and reversed are in accordance with state accounting policy. We further recommend the department ensures support for journals is either attached to a hard copy document or electronically attached in the state's accounting system.

**Department response: Concur**

**RECOMMENDATION #3 (page 14):**

*Internal Control and Federal Compliance*

We recommend the department enhance internal controls to ensure requests for reimbursement are made within 60 days of the expenditure and request reimbursement on a timely basis as required by federal guidance.

**Department response: Concur**

**RECOMMENDATION #4 (page 16):**

*Federal Compliance*

We recommend the department continue to enhance internal controls in the Disaster & Emergency Services Division to ensure subrecipient reimbursements are supported and allowable under the grant awards at the time the reimbursement is made.

**Department response: Concur**

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

In this report, we identified the following:  
Material Weaknesses in Internal Control: 2  
Significant Deficiencies in Internal Control: 0  
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 Department of Military Affairs (department) for the two fiscal years ended June 30, 2022. The objectives of the audit were to:

1. Determine whether the department's financial schedules fairly present the results of operations and changes in fund equity, in accordance with state accounting policy.
2. Obtain an understanding of the department's internal control to the extent necessary to support the audit of the department's financial schedules and, if appropriate, make recommendations for improvement in internal and management controls of the department.
3. Determine if the department complied with selected state laws and regulations.
4. Determine the implementation status of prior audit recommendations.

We addressed these objectives by focusing our audit efforts on financial activity related to National Guard Military Operations and Maintenance (O&M) Projects, National Guard Military Construction Projects, Disaster and Emergency Services grants, and presidentially declared disasters. We also tested transactions related to personal services, capital outlay, federal revenue, operating expenditures, and budgetary activity.

Our work included obtaining an understanding of the department's internal control policies and procedures, performing analytical procedures, and reviewing accounting transactions.

## Background

Through the Army and Air National Guard, the department manages a joint federal-state program to maintain trained and equipped military organizations in readiness for state and national mobilizations to active duty. The department was authorized 227.78 full-time equivalent (FTE) positions in fiscal year 2022. The following divisions and descriptions correspond to those reported on the Schedules of Total Expenditures & Transfers-Out on pages A-9 and A-10.

Montana National Guard has a unique dual mission consisting of both federal and state roles. The governor can call the National Guard into action during local or statewide emergencies, such as storms, fires, earthquakes, or civil disturbances.

In addition, the President of the United States can activate the National Guard for participation in federal missions. The Montana National Guard has two programs—the Army National Guard and the Air National Guard.

**Army National Guard** (56.30 FTE) – A component of the Army (which consists of the active Army, the Army National Guard, and the Army Reserve). The Army National Guard is composed primarily of traditional guardsmen—civilians who serve their country, state, and community part-time.

**Air National Guard (ANG)** (45.00 FTE) – The ANG maintains units available for prompt mobilization during war and assists during national emergencies. During peacetime, the combat-ready

and support units carry out missions compatible with training, mobilization readiness, humanitarian, and contingency operations. ANG units' missions include emergency relief support during natural disasters such as floods, earthquakes, and forest fires; search and rescue operations; support to civil defense authorities; maintenance of vital public services; and counter drug operations.

**Military Capital Construction** (0 FTE) – The Montana National Guard administers this program and supports the Army and Air National Guard in constructing military facilities, real property improvements, design services, and other projects authorized and directed by Congress or the Department of Defense. Such projects include the Malta Readiness Center, which was completed during the audit period. FTE is included in the National Guard programs.

**Director's Office** (12.21 FTE) – This office houses the primary administrative support functions for the department. It provides oversight for budgeting, fiscal management, payroll, human resource management, purchasing, information technology, property control, and policy development and implementation. The office also assists with interpreting rules, regulations, and statutes for all programs within the department.

**Disaster and Emergency Services Division (DES)** (25.00 FTE) – This division works with local, state, and federal officials to prepare, update, and coordinate emergency preparedness, response, and recovery plans. This responsibility includes the administration and disbursement of federal homeland security and emergency management funds to eligible applicants across the state. DES provides technical support and monitoring for civil defense shelters, exercises, and radiological defense. The division also receives, records, and disburses federal funds to eligible entities.

**Disaster Fund Program** (0 FTE) – This division is administered by DES to provide assistance under an emergency or major disaster declaration. The department works with the Federal Emergency Management Agency and uses the funds to restore its own disaster-damaged facilities and to provide subgrants to local governments. Full-time equivalent positions are included under DES above.

Table 1 (see page 3) illustrates the types of federal grants administered through the DES and Disaster Fund Programs and the amount of funds subgranted to other entities or state agencies during the audit period.

Table 1  
**DES Federal Funds Granted**  
 Fiscal Years 2021 and 2022

Type of Grant Program	2021	2022
Presidential Declared Disaster	\$19,642,804	\$ 8,314,341
Homeland Security Grant Program (HSGP)	5,936,423	5,074,483
Emergency Management Performance Grants (EMPG)	1,822,404	2,039,997
Pre-Disaster Mitigation (PDM)	1,294,068	6,039,144
Hazard Mitigation Grant Program (HMGP)	212,072	522,465
Hazardous Materials Emergency Program	54,187	141,953
Nonprofit Security Program	49,761	89,508
Earthquake Hazards Reduction	49,193	60,443
Flood Mitigation Assistance	15,588	45,930
State Declared Disaster	0	171,406
<b>Total</b>	<b>\$29,076,500</b>	<b>\$22,499,671</b>

**Source:** Compiled by the Legislative Audit Division from the state's accounting records.

**Montana Youth Challenge Academy** (54.15 FTE) – This 17-month, voluntary, military-modeled training program targets youth at risk of high school drop-out or not earning their diploma. The program provides values, skills, education, and self-discipline in a military-modeled training environment. The Residential Phase of the program is a 5-month residential stay on the University of Montana–Western campus in Dillon, focusing on physical training, classroom instruction, personal development, and life skills.

**Veterans Affairs Division** (32.12 FTE) – This division manages and cooperates with state and federal agencies in providing statewide services for discharged veterans and their families. It promotes the general welfare of veterans and assists Montana's veterans and dependents in obtaining veterans' benefits. The program also administers the veterans' cemeteries in Miles City, Helena, and Missoula.

**Montana STARBASE** (3.00 FTE) - STARBASE is the premier youth outreach program for the Department of Defense where students participate in hands-on science, technology, engineering, and math (STEM) activities. STARBASE is a 100% federally funded program with Montana classrooms at Fort Harrison and the 120th Airlift Wing in Great Falls. These locations allow students to interact with military personnel and explore careers and real-world STEM applications. Each STARBASE classroom provides 25 hours/5 days of STEM instruction to all fifth-grade classes within the Helena and Great Falls school districts, after school programs, and summer camps to students in grades 4-12. The STARBASE program increases youth interest in STEM careers and familiarity with local military installations, instilling confidence and self-worth.

**Montana Military Family Relief Fund** (0 FTE) – The Director's Office administers this fund and provides monetary grants to families of Montana National Guard and Reserve Component members who meet the grant criteria. The grants are intended to help Montana families defray the costs of food, housing, utilities, medical services, and other expenses, which become difficult to afford when

a wage-earner has temporarily left civilian employment to be placed on active military duty. FTE administering the program are counted under the Director's Office above.

**Montana Guard Scholarship Program (0 FTE)** – This program is administered by the Director's Office and was established to assist in recruiting and retention efforts for the Montana National Guard. The program provides tuition assistance to eligible Montana National Guard personnel enrolled as undergraduate students at Montana colleges, universities, or in-training programs. FTE administering the program are counted under the Director's Office above.

## **Prior Audit Recommendations**

Our audit report for the prior two fiscal years contained four recommendations to the department. These recommendations related to federal grant reimbursements, expenditure accruals, compliance with federal regulations, and preparation of the financial schedule note disclosures. The table below describes the prior audit recommendations, their current implementation status, and the location of a repeat finding, if applicable.

PAR#	Description	Status
1	Payroll costs of employees with salaries split between federal and state sources were not accurately allocated.	Fully Implemented
2	Non-disaster grant requests for reimbursement were paid without adequate support for allowability of costs.	Partially Implemented – the last two audit reports contained a recommendation related to obtaining sufficient documentation to support the allowability of costs prior to reimbursing grantees. During the last audit, the errors noted were in the Emergency Management Performance Grant (EMPG) program primarily related to payroll costs and ensuring documentation included the position for which salary reimbursement was sought. The current audit noted the department implemented procedures to require grantees to submit payroll certifications to support the allowability of costs for positions or salaries for which reimbursement is sought. However, we noted errors in four different grant types where documentation was not adequate to support the costs as allowable. While the issue in the prior report was not present during the current audit period from the time new procedures were implemented, we still identified instances with other costs where documentation was insufficient. Therefore, we consider this recommendation partially implemented. Of the errors we noted, two of the four grant programs were missing sufficient documentation for costs that exceeded \$25,000. As this is the threshold the federal government sets for reporting purposes, this audit includes a recommendation for these two programs found on page 16.
3	Expenditure accruals were not completely recorded and internal controls over the process were not adequate to ensure completeness and accuracy of accruals.	Fully Implemented
4	Internal controls over the note preparation process were not adequate to detect and correct errors.	Fully Implemented

**Source: Legislative Audit Division.**

The prior Federal Single Audit report also included two recommendations to the department. The Single Audit period differs from the department's audit period. The prior Single Audit covered fiscal years 2020 and 2021, while the current department audit covers fiscal years 2021 and 2022. Findings and recommendations for the Disaster Grants and the Operations and Maintenance (O&M) program for fiscal year 2021 were already reported in the Single Audit report (#20-02) as findings 2021-014 and 2021-001, respectively, and will not be repeated in this report. Follow-up to those recommendations will occur as part of our Federal Single Audit for the fiscal year 2022 and 2023 audit period, which has a March 31, 2024, reporting deadline.





## Chapter II – Accounting Findings and Recommendations

Accounting activities for the department include setting up budgets, paying vendors, granting funds, and requesting federal reimbursement. In addition to regular day-to-day accounting activities, fiscal year-end transactions are required to ensure all activity is recorded on the state's accounting records prior to the books closing. Fiscal year-end transactions include estimating expenditure and revenue accruals and processing inter-entity loans as state law requires.

### **Budget Authority Misclassification**

**The Department of Military Affairs (department) set up a budget on the state's accounting system in the wrong program.**

The department administers the Disaster and Emergency Services (DES) and Disaster Fund programs. The DES program accounts for nondisaster-related grants, such as those for Homeland Security or Hazard Mitigation Grants, and personal and operating costs for disaster grants. The Disaster Fund program primarily accounts for grants to local governments or transfers to other state agencies for presidential or governor-declared disasters.

In fiscal year 2021, the state received federal funding in response to the presidentially-declared COVID-19 pandemic disaster. The department erroneously set up the entire appropriation budget of \$39,617,167 within the DES program rather than just the portion related to personal services and operating costs of \$155,661. See the table below for misstatements regarding this activity.

Table 3  
**DES and Disaster Fund Budget Misstatements Related to Federal COVID-19 Funding**  
Fiscal Year 2021

	DES		Disaster Fund	
	Actual	Should Be	Actual	Should Be
Budget Authority - Grants & Transfers	\$39,461,506	-	-	\$39,461,506
Budget Authority - Personal & Operating	155,661	\$155,661	-	-
<b>Total Budget for Federal COVID-19 Funding</b>	<b>\$39,617,167</b>	<b>\$155,661</b>	<b>-</b>	<b>\$39,461,506</b>

**Source: Legislative Audit Division.**

When an appropriation is properly set up, expenditures are recorded against the budget, and the expenditure activity is reported in the same program. The department correctly recorded \$15,330,705 in grant and transfer expenditures in the Disaster Fund program, which is not the same program the budget was set up in, as noted above. While these expenditures were correctly recorded against the COVID-19 appropriation, the expenditure schedule reports the budget and expenditures in two different columns. An additional \$3,034,717 of transfers recorded in the DES program were also posted

against the correct COVID-19 appropriation but in the incorrect program. These misstatements are illustrated in the table below.

Table 4  
**DES and Disaster Fund Expenditure Misstatements Related to Federal COVID-19 Funding**  
Fiscal Year 2021

	DES		Disaster Fund	
	Actual	Should Be	Actual	Should Be
Grant Expenditures	\$ -	\$ -	\$ 7,437,368	\$ 7,437,368
Transfer Expenditures	3,034,717	-	7,893,337	10,928,054
Personal Services Expenditures	10,596	10,596	-	-
Operating Expenditures	304	304	-	-
<b>Total Expenditures for Federal COVID-19 Funding</b>	<b>\$3,045,617</b>	<b>\$ 10,900</b>	<b>\$15,330,705</b>	<b>\$18,365,422</b>

**Source:** Legislative Audit Division.

As shown above, the COVID-19 appropriation budget was recorded in the DES fund, and most expenditures were recorded in the Disaster Fund. This resulted in a negative \$13.9 million of unspent budget authority in the Disaster Fund on the fiscal year 2021 Schedule of Expenditures & Transfers-Out. This does not indicate their appropriation authority was overspent by \$13.9 million. Rather, the budget and expenditures were not recorded in the same program. Likewise, the DES fund shows a positive unspent budget authority amount of \$45 million, which would be significantly less had the budget been set up in the program where the expenditures were recorded.

The department experienced turnover in accounting and budgeting positions between fiscal year 2021 and 2022. The staff who made the entries were no longer available to explain why the error occurred. While the current accounting and budgeting staff identified the error in fiscal year 2023 and worked with the Governor's Office of Budget and Program Planning, controls were inadequate to prevent or detect and correct the error in a timely manner or before the books closed for fiscal year 2021. Starting in fiscal year 2024, the department intends to simplify the accounting by eliminating one program and recording all the activity within the DES program.

We consider this internal control deficiency to be a material weakness and it is reported in our *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* on page B-1.

#### **RECOMMENDATION #1**

We recommend the Department of Military Affairs:

- A. Implement controls to ensure budgets are set up in the correct programs, and
- B. Ensure expenditures are paid out of the program for which the budget is established.

## **Accounting Misstatements and Noncompliance With State Accounting Policy**

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**The department's internal controls were ineffective in preventing, or detecting and correcting in a timely manner, multiple accounting misstatements and noncompliance with state accounting policy.**

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Over the last two fiscal years, the accounting and budgeting staff had multiple positions turnover or remain vacant for a portion of the year. Three different employees held one of the key accounting positions during the audit period. Documented internal controls help ensure transactions are recorded accurately and completely even when turnover occurs.

We completed work over federal revenues, inter-entity loans, and federal revenue accruals. Most of this activity is recorded either at fiscal year-end or only as needed throughout the year. We identified several misstatements while reviewing this activity that were not detected by the department or identified timely enough to allow corrections to be made during the correct fiscal year. Examples of these misstatements and noncompliance are noted below.

### **Fiscal Year 2021 Federal Revenue Accruals**

Most federal grants are on a reimbursement basis. This means the department pays for allowable expenditures and then requests reimbursement from the federal government. Before fiscal year-end, state accounting policy requires a revenue accrual to record an accounts receivable from the federal government and associated federal revenue for any expenditures that have been paid but not yet reimbursed. In fiscal year 2021, we noted six federal accounts with unsupported revenue accruals. Department personnel could not provide support for the amounts recorded as staff who completed these entries are no longer with the department. Without documented support for the transactions, current staff could not explain how the entries complied with state accounting policy related to revenue accruals. We estimate federal revenue and amounts due from the federal government are overstated by around \$2.5 million in the federal special revenue fund.

### **Fiscal Year 2021 Federal Revenue Accrual Reversals**

State accounting policy indicates revenue accruals recorded at fiscal year-end should be reversed in October when all the revenues related to the previous year's accruals are expected to have been received. In fiscal year 2022, the fiscal year 2021 accruals were not reversed. The staff who should have made these entries in October 2021 no longer works for the department. New accounting and budgeting staff did not identify the missing entries until fiscal year 2023. While the department detected the missed entries, it was not in time to record the entry in the fiscal year it belonged. This resulted in an overstatement of federal revenue and amounts due from the federal government of \$8,569,800.

The fiscal year 2022 federal revenue accrual entries were calculated and recorded by staff new to the agency. We noted the revenue accrual calculation for one fund incorrectly included an encumbrance, also referred to as an 'A accrual.' In the federal special revenue fund, A accruals are recorded for goods

or services purchased but expected to be received after fiscal year-end. Under state accounting policy, accruals are not eligible for federal reimbursement until receipt of the good or service. This resulted in an overstatement of federal revenue and amounts due from the federal government of \$2,240,192.

Collectively, we consider the above internal control deficiencies related to federal revenue accruals to be a material weakness and it is reported in our *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* on page B-1.

## **Fiscal Year 2021 Inter-Entity Loans**

When grants are on a reimbursement basis, there is a delay between when the expenditures are paid and when the reimbursement is received. Often this results in a negative cash balance. State accounting policy does not allow a fund to have a negative cash balance at fiscal year-end or for more than seven days. Section 17-2-107(8), MCA, allows for an inter-entity loan to bring cash positive until the federal reimbursement is received. In fiscal year 2021, the federal government changed the match requirements for disaster grants related to the pandemic. Instead of a 25 percent state match, expenditures were funded with 100 percent federal funds. Local governments had already used local funds to meet match requirements. The department processed a \$15 million inter-entity loan from the General Fund in anticipation of reimbursing local governments with federal pandemic grant funds for expenditures originally paid out to meet match requirements. The cash balance was positive at the time of the loan, so a loan under state law was unnecessary. While the loan was paid back two months later, controls were not adequate to detect the loan was not necessary or allowed under state law. Because the loan was paid back within the same fiscal year, there is no misstatement at fiscal year-end.

The current accounting and budgeting staff identified some of these misstatements above. Still, given the timing of their hiring, they were not able to identify and correct any of the revenue accrual misstatements in the fiscal year they occurred. During this audit, as well as the prior audit, turnover in key accounting and budgeting positions resulted in the department not locating support for some transactions. Calculations, such as those made for revenue accruals, can include Excel workbooks that are too large to print and attach to a hard copy journal easily. However, the state's accounting system allows support to be attached electronically to a journal. Attaching support to either a hardcopy journal or electronically in the state's accounting system will ensure processes are documented in the event of further turnover and available as a reference for current staff or support for audit requests. Current accounting staff indicated they have already started attaching support electronically to transactions in fiscal year 2023 and planned to continue doing so for transactions such as those noted above. Additionally, controls should be enhanced for infrequent transactions to ensure they are recorded timely, accurately, and completely.

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**RECOMMENDATION #2**

We recommend the Department of Military Affairs:

- A. *Implement or enhance controls over revenue accruals to ensure the amount recorded and reversed is in accordance with state accounting policy,*
  - B. *Ensure support for journals is maintained, and*
  - C. *Comply with §17-2-107(8), MCA, when requesting inter-entity loans.*
-



## Chapter III – Federal Findings and Recommendations

The Single Audit Act establishes auditing and reporting requirements for federal grant programs. A formula is applied to the state's federal expenditures to calculate a threshold. Federal grant programs with expenditures exceeding the threshold must be audited as part of the state's Single Audit. National Guard Operations and Maintenance (O&M) Projects exceed the projected threshold of \$25 million to \$30 million.

Additionally, for federal programs whose expenditures do not exceed the threshold, federal regulations require reporting any identified known or likely questioned costs in excess of \$25,000. Our audit scope included testing several non-disaster grants, such as Emergency Management Performance Grants (EMPG) or Pre-Disaster Mitigation (PDM) grants, because the activity was material to the department's financial schedules. While we were not specifically testing compliance with federal regulations for these grants, we identified questioned costs greater than \$25,000 during our audit.

The format and content of the findings in this chapter are prescribed by federal regulation, 2 CFR 200.516, which is different than the narrative format provided in Chapter II. The internal control and compliance issues reported in this chapter are in the prescribed format for efficiency and consistency in incorporating them into the Single Audit report, which has a March 2024 reporting deadline. The prescribed format includes seven components described as follows:

- ◆ Criteria – the policy, regulation or other requirement that defines what should be.
- ◆ Condition – what happened?
- ◆ Cause – why did things go wrong?
- ◆ Effect – why is this issue important?
- ◆ Questioned Costs – discloses amount of federal funds improperly used.
- ◆ Context – provides information to understand the significance of the issue.
- ◆ Repeat Findings – indicates if this finding was previously reported in the Single Audit Report.

### **Untimely Claim Submission – National Guard Operations and Maintenance (O&M) Projects**

**Criteria:** Federal regulation, 2 CFR 200.303, requires non-federal entities to, among other things, establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

National Guard Regulations (NGR) 5-1, section 3.15 states claims shall be made within 60 days after the basis of the claim is known or should have been known, whichever is earlier.

**Condition:** The Department of Military Affairs (department) did not consistently seek reimbursement for the federal portion of O&M grant expenditures within the required time frame. In a sample of 46 items, we found 13 invoices with reimbursement requested more than 60 days after the expenditure was incurred.

**Questioned Costs:** No questioned costs identified.

**Context:** The department requested \$41 million in reimbursements for the program during the audit period. We completed a statistical sample of reimbursement requests which covered \$2.7 million of the total. Because each reimbursement includes multiple invoices, we selected a judgmental sample of 46 individual invoices included in the requests totaling \$459,619. Of the 46 tested, we found 13 items that were requested more than 60 days after the expenditure occurred. Of the sample errors, reimbursement was requested between 4 and 718 days later than the 60 days allowed.

**Effect:** The department is not in compliance with federal regulations. Requesting reimbursement more than 60 days after the expenditure could result in the federal government denying the reimbursement.

**Cause:** The department did not have adequate controls in place to ensure reimbursement requests were made within 60 days of the expenditure being paid. Additionally, the chief financial officer position has turned over several times in the last three years, there were some vacant positions during the audit period, and additional full-time equivalent (FTE) staff are needed to process the volume of department transactions timely.

---

### **RECOMMENDATION #3**

*We recommend the Department of Military Affairs:*

- A. *Enhance internal controls to ensure requests for reimbursement are made timely.*
  - B. *Request reimbursement for expenditures within 60 days of expenditure claims being known or paid.*
- 

**Views of Responsible Officials:** The department concurs. Due to staff issues and turnover, the reimbursement process between the department and the National Guard Bureau was not timely. New staff have been hired and a reimbursement process is being created to ensure more timely requests for reimbursement.

## **Insufficient Support for Federal Reimbursement**

**Criteria:** Federal regulation, 2 CFR 200.403(G), states costs must be adequately documented to be allowable under federal awards.

Federal regulation, 2 CFR 200.303, requires non-federal entities to, among other things, establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.



**Condition:** The Department of Military Affairs (department) internal controls were insufficient to obtain or maintain adequate documentation to determine the allowability of subrecipient expenditures reimbursed as part of its Disaster and Emergency Services (DES) grant programs. We noted the following errors:

- ◆ Emergency Management Performance Grants (EMPG)
  - ◇ Salaries and benefits were approved without adequate documentation to indicate which employee's time was being reimbursed.
- ◆ Pre-Disaster Mitigation (PDM)
  - ◇ Documentation was missing from the Federal Emergency Management Assistance (FEMA) for the approval of the purchase of unimproved property and first responder training.
  - ◇ Volunteer rates were used rather than actual employee salary costs.
  - ◇ The use of equipment without documentation of what the equipment was used for or the basis for the rate charged.

**Questioned Costs:** We identified the following questioned costs.

- ◆ Emergency Management Performance Grants (EMPG)
  - ◇ Identified Questioned Costs: \$32,702.15
- ◆ Pre-Disaster Mitigation (PDM)
  - ◇ Identified Questioned Costs: \$58,056.12

**Context:** We completed a sample over four types of grants. The chart below indicates the grant, population, number tested, number of errors, and type of sample for the grant types where we found questioned costs greater than \$25,000.

**Effect:** Without sufficient internal controls to obtain or maintain adequate documentation of subrecipient expenditures, the department may not comply with federal regulations and could reimburse unallowable expenditures. As noted above, we identified questioned costs in excess of \$25,000 for two grant programs.

Program	Total Population	Number Tested	Number of Errors	Statistically Valid
EMPG	372	8	1	No
PDM	19	4	1	No

**Cause:** The department required documentation from the subrecipients to support the expenditures, but internal controls were not adequate to ensure those documents contained the details required to make allowability determinations. Additionally, the department indicated that the federal government approved certain costs, but the documentation was not obtained or retained to demonstrate that approval. The questioned costs for EMPG were for the time period prior to new procedures that were put in place to address a prior audit recommendation.

**Repeat Finding:**

Single Audit Time Period	Single Audit Finding
Fiscal year 2016 and 2017	2017-011
Fiscal year 2018 and 2019	2019-028
Fiscal year 2020 and 2021	2021-015

Finding 2021-015 was limited to EMPG grants only. While the current audit identified actual or projected questioned costs in excess of \$25,000, the number of instances we found was considerably less than identified in prior audits.

**RECOMMENDATION #4**

*We recommend the Department of Military Affairs comply with federal requirements by ensuring subrecipient reimbursements are supported and allowable under the grant awards at the time the reimbursement is made.*

**Views of Responsible Officials:** The department concurs. DES has continued to improve internal controls to ensure that supporting documentation is sufficient at the time of reimbursement and continues to work with the Federal Emergency Management Agency (FEMA) partners to ensure compliance with grant guidance.

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



Angus Maciver, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller

## 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 Department of Military Affairs 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, 2022, and 2021, and the related notes to the financial schedules.

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

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinions on Regulatory Basis of Accounting paragraph, the accompanying financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund equity for each of the fiscal years ended June 30, 2022, and 2021, 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 department as of June 30, 2022, and June 30, 2021, or changes in financial position for the years then ended.

#### *Basis for Qualified Opinions on Regulatory Basis of Accounting*

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 department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Matters Giving Rise to Qualified Opinions*

In fiscal year 2022 the department did not reverse fiscal year 2021 federal revenue accruals and overstated a fiscal year 2022 federal revenue accrual. This resulted in a \$10,809,992 overstatement in

ending Fund Balance and Budgeted Revenues & Transfers-In lines in the Federal Special Revenue Fund on the Schedule of Changes in Fund Equity and Federal and Total Revenues & Transfers-In lines in the Federal Special Revenue Fund on the Schedule of Revenues & Transfers-In.

In fiscal year 2021, the department recorded the budget for a pandemic grant to the Disaster and Emergency Services (DES) program rather than the Disaster Fund program. The majority of actual expenditures were recorded to the Disaster Fund. Additionally, \$3,034,717 of the expenditures that were recorded to DES should have been recorded in the Disaster Fund. As a result, Budget Authority is overstated in the DES program by \$39,461,506 and understated by the same amount in the Disaster Fund on the Schedule of Expenditures & Transfers-Out. Unspent authority in the DES program is overstated by \$36,426,789 and understated by the same amount in the Disaster Fund on the Schedule of Expenditures & Transfers-Out.

#### *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 Department of Military Affairs 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 and liabilities.

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.

#### *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 the design, implementation, and maintenance of 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 department'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 opinion. 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 department'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 department'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 June 26, 2023, on our consideration of the department'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 department's internal control over financial reporting and compliance.

Respectfully submitted,

*/s/ Cindy Jorgenson*

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

June 26, 2023





DEPARTMENT OF MILITARY AFFAIRS  
SCHEDULE OF CHANGES IN FUND EQUITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund
FUND EQUITY: July 1, 2021	\$ <u>(948,414)</u>	\$ <u>2,088,447</u>	\$ <u>(8,187,100)</u>	\$ <u>(1,011,705)</u>
ADDITIONS				
Budgeted Revenues & Transfers-In	18,706	2,394,815	53,436,613	195,914
Nonbudgeted Revenues & Transfers-In	120	1,167,142	1,906,124	
Prior Year Revenues & Transfers-In Adjustments	(13,489)	(214,335)	(1,888,085)	
Direct Entries to Fund Equity	<u>8,343,902</u>	<u>330,557</u>	<u>(831,209)</u>	
Total Additions	<u>8,349,239</u>	<u>3,678,179</u>	<u>52,623,443</u>	<u>195,914</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	8,816,815	7,662,320	57,804,440	195,914
Nonbudgeted Expenditures & Transfers-Out	(10,485)	257,926	1,906,124	
Prior Year Expenditures & Transfers-Out Adjustments	<u>(202,803)</u>	<u>(3,390)</u>	<u>(1,888,085)</u>	
Total Reductions	<u>8,603,527</u>	<u>7,916,856</u>	<u>57,822,480</u>	<u>195,914</u>
FUND EQUITY: June 30, 2022	\$ <u><u>(1,202,703)</u></u>	\$ <u><u>(2,150,229)</u></u>	\$ <u><u>(13,386,137)</u></u>	\$ <u><u>(1,011,705)</u></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.

DEPARTMENT OF MILITARY AFFAIRS  
SCHEDULE OF CHANGES IN FUND EQUITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Custodial Fund
FUND EQUITY: July 1, 2020	\$ <u>107,030</u>	\$ <u>2,397,821</u>	\$ <u>(6,973,074)</u>	\$ <u>(709,012)</u>	\$ <u>0</u>
<b>ADDITIONS</b>					
Budgeted Revenues & Transfers-In	145,423	1,386,514	88,993,808	8,503,943	
Nonbudgeted Revenues & Transfers-In	70	200,098	64		980,528
Prior Year Revenues & Transfers-In Adjustments		5,292	445,944		
Direct Entries to Fund Equity	<u>5,368,626</u>	<u>134,213</u>	<u>(1,091,534)</u>		
Total Additions	<u>5,514,119</u>	<u>1,726,117</u>	<u>88,348,283</u>	<u>8,503,943</u>	<u>980,528</u>
<b>REDUCTIONS</b>					
Budgeted Expenditures & Transfers-Out	6,566,468	1,754,638	88,126,549	8,806,636	
Nonbudgeted Expenditures & Transfers-Out	24,052	278,680	6		980,528
Prior Year Expenditures & Transfers-Out Adjustments	<u>(20,957)</u>	<u>2,174</u>	<u>1,435,755</u>		
Total Reductions	<u>6,569,563</u>	<u>2,035,491</u>	<u>89,562,309</u>	<u>8,806,636</u>	<u>980,528</u>
FUND EQUITY: June 30, 2021	\$ <u>(948,414)</u>	\$ <u>2,088,447</u>	\$ <u>(8,187,100)</u>	\$ <u>(1,011,705)</u>	\$ <u>0</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.

DEPARTMENT OF MILITARY AFFAIRS  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS					
Charges for Services	\$ 915	\$ 439,019	\$ 2,535		\$ 442,468
Investment Earnings		633			633
Sale of Documents, Merchandise and Property	1,044	521,862			522,906
Rentals, Leases and Royalties	576	1,575			2,151
Grants, Contracts, and Donations		913,169			913,169
Transfers-in	120	1,201,627	314,985	\$ 195,914	1,712,646
Inception of Lease/Installment Contract		69,262	1,906,124		1,975,386
Miscellaneous	2,682	200,475	16,543		219,699
Federal			51,214,465		51,214,465
Total Revenues & Transfers-In	<u>5,336</u>	<u>3,347,622</u>	<u>53,454,652</u>	<u>195,914</u>	<u>57,003,525</u>
Less: Nonbudgeted Revenues & Transfers-In	120	1,167,142	1,906,124		3,073,386
Prior Year Revenues & Transfers-In Adjustments	<u>(13,489)</u>	<u>(214,335)</u>	<u>(1,888,085)</u>		<u>(2,115,909)</u>
Actual Budgeted Revenues & Transfers-In	<u>\$ 18,706</u>	<u>\$ 2,394,815</u>	<u>\$ 53,436,613</u>	<u>\$ 195,914</u>	<u>\$ 56,046,048</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.

DEPARTMENT OF MILITARY AFFAIRS  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Custodial Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Charges for Services	\$ 129,319	\$ 351,694	\$ 13,645			\$ 494,657
Investment Earnings		777				777
Grants, Contracts, and Donations		6,500				6,500
Transfers-in	16,174	1,032,933	3,587,534	\$ 8,503,943		13,140,584
Miscellaneous		200,000			\$ 980,528	1,180,528
Federal			85,838,638			85,838,638
Total Revenues & Transfers-In	<u>145,493</u>	<u>1,591,904</u>	<u>89,439,816</u>	<u>8,503,943</u>	<u>980,528</u>	<u>100,661,684</u>
Less: Nonbudgeted Revenues & Transfers-In	70	200,098	64		980,528	1,180,760
Prior Year Revenues & Transfers-In Adjustments		5,292	445,944			451,237
Actual Budgeted Revenues & Transfers-In	<u>\$ 145,423</u>	<u>\$ 1,386,514</u>	<u>\$ 88,993,808</u>	<u>\$ 8,503,943</u>	<u>\$ 0</u>	<u>\$ 99,029,688</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.

DEPARTMENT OF MILITARY AFFAIRS  
 SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2022

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Air National Guard Program	Army National Guard Program	Challenge Program	Director's Office	Disaster & Emergency Services	Disaster Fund	Military Capital Construction	Montana Military Family Relief Fund	Scholarship Program	STARBASE	Veterans Affairs Program	Total
<b>Personal Services</b>												
Salaries	\$ 2,442,614	\$ 3,107,045	\$ 2,496,745	\$ 847,772	\$ 3,540,768					\$ 191,157	\$ 1,798,594	\$ 14,424,694
Other Compensation			3,625									3,625
Employee Benefits	893,806	1,066,998	967,200	264,925	782,435					64,691	625,834	4,665,889
<b>Total</b>	<b>3,336,420</b>	<b>4,174,043</b>	<b>3,467,569</b>	<b>1,112,697</b>	<b>4,323,203</b>					<b>255,848</b>	<b>2,424,428</b>	<b>19,094,208</b>
<b>Operating Expenses</b>												
Other Services	1,004,096	5,697,533	742,808	347,280	1,743,630					503,690	265,308	10,304,345
Supplies & Materials	101,479	931,539	218,152	52,454	92,952					122,728	107,176	1,626,480
Communications	32	347,145	110,044	34,108	110,372					14,153	48,242	664,096
Travel	21,116	88,038	50,178	6,123	229,428					8,904	29,287	433,074
Rent		62,549	333,936		1,917,720						59,824	2,374,029
Utilities	661,691	2,224,189	1,382		51						26,862	2,914,176
Repair & Maintenance	120,100	4,601,778	317,637	171	63,335		\$ 75,000				59,415	5,237,435
Other Expenses	5,272	109,321	35,099	5,118	157,097				\$ 244,971	1,372	6,294	564,543
Goods Purchased For Resale	1,008	158		35,463						28	1,835	38,492
<b>Total</b>	<b>1,914,794</b>	<b>14,062,250</b>	<b>1,809,235</b>	<b>480,717</b>	<b>4,314,585</b>		<b>75,000</b>		<b>244,971</b>	<b>650,875</b>	<b>604,243</b>	<b>24,156,670</b>
<b>Equipment &amp; Intangible Assets</b>												
Equipment		278,357										278,357
Intangible Assets		1,906,124									69,262	1,975,386
<b>Total</b>		<b>2,184,481</b>									<b>69,262</b>	<b>2,253,743</b>
<b>Capital Outlay</b>												
Land & Interest In Land		878,270										878,270
Buildings							3,376,571				103,774	3,480,344
<b>Total</b>		<b>878,270</b>					<b>3,376,571</b>				<b>103,774</b>	<b>4,358,614</b>
<b>Grants</b>												
From State Sources					1,116,524	\$ 303,737		\$ 140,000			30,000	1,590,261
From Federal Sources					13,337,820	8,424,191						21,762,010
<b>Total</b>					<b>14,454,343</b>	<b>8,727,928</b>		<b>140,000</b>			<b>30,000</b>	<b>23,352,271</b>
<b>Benefits &amp; Claims</b>												
Insurance Payments		250									750	1,000
<b>Total</b>		<b>250</b>									<b>750</b>	<b>1,000</b>
<b>Transfers-out</b>												
Fund transfers		35,366		39,900	676,104		195,914					947,284
<b>Total</b>		<b>35,366</b>		<b>39,900</b>	<b>676,104</b>		<b>195,914</b>					<b>947,284</b>
<b>Debt Service</b>												
Lease Liability		373,151									1,836	374,987
<b>Total</b>		<b>373,151</b>									<b>1,836</b>	<b>374,987</b>
<b>Total Expenditures &amp; Transfers-Out</b>	<b>\$ 5,251,215</b>	<b>\$ 21,707,811</b>	<b>\$ 5,276,803</b>	<b>\$ 1,633,314</b>	<b>\$ 23,768,235</b>	<b>\$ 8,727,928</b>	<b>\$ 3,647,484</b>	<b>\$ 140,000</b>	<b>\$ 244,971</b>	<b>\$ 906,722</b>	<b>\$ 3,234,293</b>	<b>\$ 74,538,776</b>
<b>EXPENDITURES &amp; TRANSFERS-OUT BY FUND</b>												
General Fund	\$ 389,097	\$ 1,710,352	\$ 1,085,602	\$ 912,621	\$ 2,591,819	\$ 242,181			\$ 244,971		\$ 1,426,884	\$ 8,603,527
State Special Revenue Fund		879,235		266,221	4,823,992			\$ 140,000			1,807,409	7,916,856
Federal Special Revenue Fund	4,862,117	19,118,224	4,191,202	454,473	16,352,424	8,485,747	3,451,571			\$ 906,722		57,822,480
Capital Projects Fund							195,914					195,914
<b>Total Expenditures &amp; Transfers-Out</b>	<b>5,251,215</b>	<b>21,707,811</b>	<b>5,276,803</b>	<b>1,633,314</b>	<b>23,768,235</b>	<b>8,727,928</b>	<b>3,647,484</b>	<b>140,000</b>	<b>244,971</b>	<b>906,722</b>	<b>3,234,293</b>	<b>74,538,776</b>
Less: Nonbudgeted Expenditures & Transfers-Out	(1,804)	1,903,940	(2,402)	267,278	(79,932)						66,485	2,153,565
Prior Year Expenditures & Transfers-Out Adjustments	(1,915)	(275,766)	(184,788)	(3,783)	(1,566,591)	(70,614)				12,570	(3,390)	(2,094,278)
<b>Actual Budgeted Expenditures &amp; Transfers-Out</b>	<b>5,254,933</b>	<b>20,079,637</b>	<b>5,463,994</b>	<b>1,369,819</b>	<b>25,414,758</b>	<b>8,798,542</b>	<b>3,647,484</b>	<b>140,000</b>	<b>244,971</b>	<b>894,153</b>	<b>3,171,198</b>	<b>74,479,489</b>
Budget Authority	5,790,694	20,296,216	6,012,895	1,459,770	36,612,017	31,619,045	44,685,457	140,000	244,971	897,527	3,451,213	151,209,806
Unspent Budget Authority	\$ 535,761	\$ 216,580	\$ 548,901	\$ 89,950	\$ 11,197,258	\$ 22,820,503	\$ 41,037,973	\$ 0	\$ 0	\$ 3,375	\$ 280,015	\$ 76,730,317
<b>UNSPENT BUDGET AUTHORITY BY FUND</b>												
General Fund	\$ 15,308	\$ 2,664	\$ 26,615	\$ 4,929	\$ 664,640	\$ 790,626					\$ 21,610	\$ 1,526,392
State Special Revenue Fund		605			3,633,748						177,438	3,811,791
Federal Special Revenue Fund	520,453	213,311	522,286	85,021	6,898,870	22,029,877	38,723,690			\$ 3,375	50,195	69,047,078
Capital Projects Fund							2,314,284				30,773	2,345,057
<b>Unspent Budget Authority</b>	<b>\$ 535,761</b>	<b>\$ 216,580</b>	<b>\$ 548,901</b>	<b>\$ 89,950</b>	<b>\$ 11,197,258</b>	<b>\$ 22,820,503</b>	<b>\$ 41,037,973</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 3,375</b>	<b>\$ 280,015</b>	<b>\$ 76,730,317</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-11

DEPARTMENT OF MILITARY AFFAIRS  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	Air National Guard Program	Army National Guard Program	Challenge Program	Director's Office	Disaster & Emergency Services	Disaster Fund	Military Capital Construction	Montana Military Family Relief Fund	Scholarship Program	STARBASE	Veterans Affairs Program	Total
<b>PROGRAM (ORG) EXPENDITURES &amp; TRANSFERS-OUT</b>												
Personal Services												
Salaries	\$ 2,432,720	\$ 2,995,912	\$ 2,350,901	\$ 848,651	\$ 2,728,954	\$ 3,231				\$ 204,057	\$ 1,731,907	\$ 13,296,333
Hourly Wages											251	251
Other Compensation			2,384									2,384
Employee Benefits	1,000,986	1,146,942	1,019,241	262,394	752,300	1,665				75,673	657,822	4,917,023
Total	<u>3,433,706</u>	<u>4,142,854</u>	<u>3,372,525</u>	<u>1,111,045</u>	<u>3,481,255</u>	<u>4,896</u>				<u>279,731</u>	<u>2,389,980</u>	<u>18,215,991</u>
Operating Expenses												
Other Services	1,034,862	4,302,703	481,172	317,110	15,662,692					232,871	73,275	22,104,685
Supplies & Materials	230,512	491,409	577,172	40,546	4,969,373		\$ 102,820			170,550	187,444	6,769,827
Communications		357,710	78,663	33,441	146,177					11,392	45,145	672,529
Travel	4,621	56,511	43,790	2,202	515,532					2,652	39,288	664,596
Rent		481,302	324,871	13,835	92,035						24,977	937,019
Utilities	532,161	2,099,022	1,285		3,248						23,918	2,659,634
Repair & Maintenance	47,760	6,869,519	196,363	14,394	31,398						28,436	7,187,869
Other Expenses	668	91,739	53,652	3,481	71,031	964,278		\$ 222,762		3,679	4,916	1,416,205
Goods Purchased For Resale	139	151			6,400							6,690
Total	<u>1,850,723</u>	<u>14,750,066</u>	<u>1,756,968</u>	<u>425,010</u>	<u>21,497,886</u>	<u>964,278</u>	<u>102,820</u>		<u>222,762</u>	<u>421,144</u>	<u>427,398</u>	<u>42,419,055</u>
Equipment & Intangible Assets												
Equipment		311,833										311,833
Total		<u>311,833</u>										<u>311,833</u>
Capital Outlay												
Buildings							8,288,714					8,288,714
Total							<u>8,288,714</u>					<u>8,288,714</u>
Grants												
From State Sources					188,812	543,366		\$ 31,000			30,000	793,178
From Federal Sources					8,733,524	8,983,046						17,716,570
Total					<u>8,922,336</u>	<u>9,526,412</u>		<u>31,000</u>			<u>30,000</u>	<u>18,509,748</u>
Benefits & Claims												
Insurance Payments		250									250	500
Total		<u>250</u>									<u>250</u>	<u>500</u>
Transfers-out												
Fund transfers				38,400	3,744,137	7,893,337	8,532,812					20,208,687
Total				<u>38,400</u>	<u>3,744,137</u>	<u>7,893,337</u>	<u>8,532,812</u>					<u>20,208,687</u>
Total Expenditures & Transfers-Out	\$ <u>5,284,429</u>	\$ <u>19,205,003</u>	\$ <u>5,129,493</u>	\$ <u>1,574,456</u>	\$ <u>37,645,614</u>	\$ <u>18,388,923</u>	\$ <u>16,924,346</u>	\$ <u>31,000</u>	\$ <u>222,762</u>	\$ <u>700,875</u>	\$ <u>2,847,627</u>	\$ <u>107,954,527</u>
<b>EXPENDITURES &amp; TRANSFERS-OUT BY FUND</b>												
General Fund	\$ 408,648	\$ 2,120,706	\$ 1,146,635	\$ 850,304	\$ (267,136)	\$ 800,850			\$ 222,762		\$ 1,286,793	\$ 6,569,563
State Special Revenue Fund		120		280,662	152,063	10,812		\$ 31,000			1,560,834	2,035,491
Federal Special Revenue Fund	4,875,781	17,084,176	3,982,858	443,489	37,749,333	16,608,087	\$ 8,117,710			\$ 700,875		89,562,309
Capital Projects Fund							8,806,636					8,806,636
Custodial Fund					11,355	969,173						980,528
Total Expenditures & Transfers-Out	<u>5,284,429</u>	<u>19,205,003</u>	<u>5,129,493</u>	<u>1,574,456</u>	<u>37,645,614</u>	<u>18,388,923</u>	<u>16,924,346</u>	<u>31,000</u>	<u>222,762</u>	<u>700,875</u>	<u>2,847,627</u>	<u>107,954,527</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(607)	44,816	(2,319)	279,780	(1,788)	969,173					(5,791)	1,283,265
Prior Year Expenditures & Transfers-Out Adjustments	(161,851)	(100,241)	32,058	(3,097)	1,620,251					26,924	2,927	1,416,971
Actual Budgeted Expenditures & Transfers-Out	<u>5,446,887</u>	<u>19,260,427</u>	<u>5,099,753</u>	<u>1,297,773</u>	<u>36,027,150</u>	<u>17,419,749</u>	<u>16,924,346</u>	<u>31,000</u>	<u>222,762</u>	<u>673,951</u>	<u>2,850,491</u>	<u>105,254,290</u>
Budget Authority	5,788,445	19,297,666	5,132,803	1,461,552	82,608,194	3,859,478	42,667,868	40,000	274,524	747,368	3,257,032	165,134,931
Unspent Budget Authority	\$ <u>341,557</u>	\$ <u>37,239</u>	\$ <u>33,050</u>	\$ <u>163,780</u>	\$ <u>46,581,043</u>	\$ <u>(13,560,271)</u>	\$ <u>25,743,522</u>	\$ <u>9,000</u>	\$ <u>51,762</u>	\$ <u>73,417</u>	\$ <u>406,541</u>	\$ <u>59,880,641</u>
<b>UNSPENT BUDGET AUTHORITY BY FUND</b>												
General Fund	\$ 8,035	\$ 5,204	\$ 15,204	\$ 61,920	\$ 1,351,914	\$ 342,328			\$ 51,762		\$ 2,027	\$ 1,838,395
State Special Revenue Fund		300		174,610				\$ 9,000			323,547	507,457
Federal Special Revenue Fund	333,522	31,734	17,846	101,860	45,054,519	(13,902,600)	\$ 23,233,325		\$ 73,417		50,195	54,993,819
Capital Projects Fund							2,510,197				30,773	2,540,970
Unspent Budget Authority	\$ <u>341,557</u>	\$ <u>37,239</u>	\$ <u>33,050</u>	\$ <u>163,780</u>	\$ <u>46,581,043</u>	\$ <u>(13,560,271)</u>	\$ <u>25,743,522</u>	\$ <u>9,000</u>	\$ <u>51,762</u>	\$ <u>73,417</u>	\$ <u>406,541</u>	\$ <u>59,880,641</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

# Department of Military Affairs

## Notes to the Financial Schedules

### For the Two Fiscal Years Ended June 30, 2022

## 1. Summary of Significant Accounting Policies

### Basis of Accounting

The Department of Military Affairs 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, Capital Projects, Debt Service, and Permanent). In applying the modified accrual basis, the department 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 department to record the cost of employees' annual and sick leave when used or paid.

Expenditures and expenses may include entire budgeted service contracts even though the department 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 department 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 department uses general funds for a portion of the operation of the Director's Office, as well as the cost share or matching fund requirements for federal grants and cooperative agreements.
- ◆ **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. Department State Special Revenue Funds include the Military Family Relief Fund, Armory Rental Funds, Army Land Purchase Funds, Disaster and Emergency Services (DES) Warehouse MOU with the Department of Public Health and Human Services (DPHHS), Emergency Management Assistance Compact (EMAC) Funds, Search and Rescue Funds, Disaster and Emergency Services (DES) Training Conference funds, Environmental Contingency Resource Indemnity Trust (RIT) funds, Fire Suppression Fund, Veterans Affairs, Patriotic License Plate Fees, Purple Heart Scholarship Fund, Honor

and Remember Medallion Funds, Cemeteries, and Marijuana Funds used for services for veterans and surviving spouses.

- ◆ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include the Army National Guard, Air National Guard, Military Capital Construction Fund, Disaster Grants, Homeland Security, Flood and Disaster Mitigation, Long Range Building, and Veterans Cemetery Fund.
- ◆ **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund for National Guard and Cemetery construction projects. Projects during the audit period include Malta Readiness Center, Miles City Readiness Center, Missoula Cemetery Expansion, and Fort Harrison Cemetery Improvement.

### **Fiduciary Fund Category**

- ◆ **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. 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 department’s custodial funds include the EMAC which is a mutual aid agreement among states and territories of the United States. The Agency uses the EMAC system to process the reimbursement of City, County and State entities when deployed to other states to assist with a natural or man-made disaster. This system enables states to share resources during natural and man-made disasters, including terrorism. An example of this would be a local municipal (paid and or volunteer) fire company dispatching crews and equipment to help fight a forest fire in another state. Utilizing the EMAC system and Custodial fund gives the state a mechanism to track the billing and reimbursement of these entities.

### **Changes in Accounting Policy**

Beginning in Fiscal Year 2022, the State of Montana implemented GASB 87 – Leases, which generally requires long-term leases to be recorded as a liability and a corresponding right-to-use lease asset. Since these leases are accounted for as long-term debt, governmental funds will show a Non-Budgeted, Inception of Lease/Installment Contract category on the Schedule of Revenues and Transfers-in and a corresponding Non-Budgeted Expenditure on the Schedule of Total Expenditures and Transfers-out for the purchase of the leased asset.

In the Schedule of Total Expenditures and Transfers-out, readers may also see a shift from Operating Expenses - Rent to a Debt Service – Lease Liability.

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

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department’s outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2021 and June 30, 2022.



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

Direct entries to fund equity in the General, Special Revenue, and Federal Special Revenue Fund fund(s) 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 General and Federal Special Revenue funds also include corrections of an error from a previous period that occurred at least two fiscal years prior.

### **4. Transfers-In and Out**

Transfers-In are utilized for revenue received from other state agencies including Veteran Affairs License Plate transfers, Search and Rescue transfers, MT Youth Challenge Child and Nutrition Payments, disaster and response projects, and construction projects.

Transfers-Out are utilized for agreements with other state agencies including EAP services for guardsmen and veterans, disaster, preparedness, and mitigation projects, and construction projects.

### **5. Unspent Budget Authority**

There was significant unspent budget authority for fiscal years 2021 and 2022, due to biennial and continuing appropriations. The DES and Disaster Fund Programs' unspent budget authority is related to disaster and mitigation projects that routinely cross over multiple fiscal years to complete. The Military Capital Construction Program's unspent budget authority is related to multiple construction projects that are contracted for and can span several fiscal years to complete.

During the COVID-19 Pandemic, the Governor's Disaster Fund was utilized for federal presidential declarations. In FY 2021, BCDs were done to establish appropriation in the DES Program and the Disaster Fund Program, but the 850RT subclass was established in error under the DES Program. The expenditures are in the correct subclass but should have been in the Disaster Fund Program. Although the budget was established, due to the budget and expenditures not being recorded in the same program, the Disaster Fund for FY 2021 appears to be overspent by \$13,902,600. This error also resulted in the DES Program expenditures being overstated by \$3,034,717. The time frame to correct expenditures had passed when the error was discovered.

### **6. Federal Revenues Increase**

In FY 2021, the federal special revenue funds reflect a large increase in revenues and expenditures. The primary reason for this increase is the federal grants revenues received in response to the COVID-19 Pandemic and expenditures during 2020 and 2021.



# Report on Internal Control and Compliance



# LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller

## 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 Department of Military Affairs for each of the fiscal years ended June 30, 2022, and 2021, and the related notes to the financial schedules, and have issued our report thereon dated June 26, 2023. Our report includes qualified opinions on the financial schedules for each of the fiscal years ended June 30, 2022, and 2021.

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

In planning and performing our audit of the financial schedules, we considered the department'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 department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department'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 control 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 were not identified. We identified certain deficiencies in internal control, described below that we consider to be material weaknesses.

- ◆ As described in Recommendation #1, the department set up the budget for a grant in the wrong program resulting in a \$39 million budgetary misstatement between two programs on the fiscal year 2021 Schedule of Expenditures & Transfers-Out.
- ◆ As described in Recommendation #2, the department overlooked reversing the fiscal year 2021 federal revenue accruals resulting in an \$8 million overstatement of federal revenues and amounts due from the federal government. An additional error was made in the calculation of the fiscal year 2022 federal revenue accrual resulting in a \$2.5 million overstatement in these accounts. In fiscal year 2021, the department could not provide support for the calculation of the accruals and amounts recorded did not follow policy. Collectively, we consider these errors to be a material weakness.

*Report on Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the department'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*.

*Department of Military Affairs' Response to Findings:*

*Government Auditing Standards* require the auditor to perform limited procedures on the department's response to the findings identified in our audit as described on page C-1 of this report. The department'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 department'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 department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ *Cindy Jorgenson*

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

June 26, 2023

DEPARTMENT OF MILITARY  
AFFAIRS

DEPARTMENT RESPONSE





# DEPARTMENT OF MILITARY AFFAIRS STATE OF MONTANA



OFFICE OF THE ADJUTANT GENERAL  
ARMED FORCES RESERVE CENTER  
1956 MT MAJO STREET - PO BOX 4789  
FORT HARRISON, MONTANA 59636-4789  
406.324.3010



THE HONORABLE GREG GIANFORTE  
GOVERNOR

MAJOR GENERAL J. PETER HRONEK  
ADJUTANT GENERAL

August 23, 2023

RECEIVED

August 25, 2023

LEGISLATIVE AUDIT DIV.

Angus Maciver  
Legislative Auditor  
PO Box 201705  
Helena MT 59620-1705

Dear Mr. Maciver:

In response to the 22-25 Financial Compliance Audit for the two fiscal years ended June 30, 2022, received by Department of Military Affairs (DMA), we are submitting the following responses to the Recommendations received.

## **Recommendation #1**

We recommend the Department of Military Affairs:

- A. Implement controls to ensure budgets are set up in the correct programs, and
- B. Ensure expenditures are paid out of the program for which the budget is established.

**Concur** – During the COVID-19 Pandemic, the Governor’s Disaster Fund was utilized for federal presidential declarations. In FY 2021, BCDs were done to establish appropriation in the DES Program and the Disaster Fund Program, but the 850RT subclass was established in error under the DES Program. The expenditures are in the correct subclass but should have been in the Disaster Fund Program. Through internal controls, DES recognized and identified these issues and coordinated with previous leadership to intentionally place these revenues and expenditures within this fund while waiting for federal and state guidance which was changing rapidly during the COVID disaster. Previous department financial staff lacked the expertise to correct this issue as it was identified by internal controls. The agency is committed to reviewing procedures and providing training to financial and program staff. DMA coordinated with OBPP to eliminate the Disaster Fund Program (Program 50) and establish all appropriation in the DES Program (Program 21) beginning in FY 2024. *Implementation date: 07/01/2023*

## **Recommendation #2**

We recommend the Department of Military Affairs:

- A. Implement or enhance controls over revenue accruals to ensure the amount recorded and reversed is in accordance with state accounting policy,
- B. Ensure support for journals is maintained, and
- C. Comply with §17-2-107(8), MCA, when requesting inter-entity loans.

**Concur** – The department has had turnover and the CFO and Budget Analyst started one month before FY 2022 year-end. The revenue accrual including A-accruals was done in error and an internal year-end process is being created to ensure this does not occur again and that appropriate journal support is maintained.

The \$15 million inter-entity loan was established under previous leadership in anticipation of federal reimbursement during the rapidly changing federal and state guidance during the COVID disaster. Under the new leadership, the current process to request inter-entity loans requires a trial balance to show the cash balance and discussion between the CFO and Budget Analyst to determine the loan amount prior to a loan being requested, this is kept as documentation for the inter-entity loan request. *Implementation date: current process will be documented by 12/31/2023.*

**Recommendation #3**

We recommend the Department of Military Affairs:


- A. Enhance internal controls to ensure requests for reimbursement are made timely.
- B. Request reimbursement for expenditures within 60 days of expenditure claims being known or paid.

**Concur** – Due to staff issues and turnover, the reimbursement request process between DMA and the National Guard Bureau (NGB) was not timely. Since the timeframe of this audit, new staff have been hired and a new reimbursement request tracking process has been implemented to ensure timeliness going forward. This new process requires reimbursement requests be done bi-weekly or monthly, depending on the specific operations and maintenance project. *Implementation date: 01/01/2023 with FFY 2023 awards.*

**Recommendation #4**

We recommend the Department of Military Affairs comply with federal requirements by ensuring subrecipient reimbursements are supported and allowable under the grant awards at the time the reimbursement is made.

**Concur** – Disaster and Emergency Services (DES) has improved and implemented internal control procedures to ensure proper supporting documentation is sufficient at the time of reimbursement and continues to work with the FEMA partners to ensure compliance with grant guidance. DMA and DES will review and update the current internal control process to ensure sufficient documentation is received and maintained. *Implementation date: review and update will be completed by 06/30/2024.*

 on behalf  
Major General J. Peter Hronek, Director  
Department of Military Affairs