

LEGISLATIVE AUDIT COMMITTEE

MINUTES SUMMARY

June 23, 2009

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

An electronic copy of these minutes and the audio recording may be accessed from the Legislative Audit Division homepage at http://www.leg.mt.gov/audit/meeting_info.asp.

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

Members Present

Sen. Greg Barkus
Sen. John Brenden
Sen. Taylor Brown
Sen. Mike Cooney
Sen. Cliff Larsen
Sen. Mitch Tropila
Rep. Dee Brown
Rep. Betsy Hands
Rep. Scott Mendenhall
Rep. Carolyn Pease-Lopez: present by conference call
Rep. Wayne Stahl
Rep. Bill Wilson

Staff Present

Tori Hunthausen, Legislative Auditor
Jim Gillett, Deputy Legislative Auditor
Angie Grove, Deputy Legislative Auditor
Monica Huyg, Legal Counsel
Becky Buckmaster, Administrative Support Manager

00:00:01 The Legislative Audit Committee met, June 23, 2009, in Room 152 of the State Capitol. The meeting was called to order by Chair pro tem, Senator Mike Cooney, at 10:40 a.m., noting the presence of a quorum.

Organization and Election of Officers:

Rules for election of officers, according to Audit Committee Rule 3, presented by Legislative Audit Division's legal counsel, Monica Huyg, "upon election of the Chair the Vice Chair shall be elected from the other legislative body," and that the only restrictions on the Committee is the Chair and Vice Chair be from different legislative bodies. Historical practice has been the Chair and Vice Chair are from separate parties; however, this is historical practice and not required in the rules.

Chair Cooney confirmed that Rep. Pease-Lopez was connected and present via phone.

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

Sen. Taylor Brown nominated Rep. Dee Brown

Rep. Bill Wilson nominated Rep. Betsy Hands

Sen. Greg Barkus nominated Sen. Mitch Tropila; Sen. Tropila declined.

Motion by Sen. John Brenden: nominations be closed, motion carried

Roll-call voice vote for Chair of the Audit Committee:

Rep. Dee Brown: (6 votes: Sen. Brenden, Rep. Brown, Rep. Mendenhall, Rep. Stahl, Sen. Brown, Sen. Barkus)

Rep. Betsy Hands: (6 votes: Sen. Cooney, Rep. Wilson, Rep. Pease-Lopez, Sen. Tropila, Sen. Larsen, Rep. Hands)

Monica Huyg was asked to clarify:

- Tie-breaker rule, relating to presiding officer having two votes
- Tie-breaker rule, relating to coin toss
- Secret ballot
- Meaning of "Present," referring to Rule 6 of the Audit Committee Rules

Ms. Huyg noted that according to Mason's Manual of Legislative Procedure, in case of a tie vote, the presiding officer casts two votes, if authorized by rule or statute. In the case of the Audit Committee the tie-breaker rule is not in effect because the Committee does not have a statute or rule that would allow for the second vote to be cast. This committee will proceed until a subsequent vote can be taken and the tie broken.

Secret vote cannot be used because of open meeting laws, all votes need to be available to the public.

Coin toss could be accepted if the Committee votes to accept method as a tie-breaker.

Members via phone are considered present.

Following candidate comments a roll-call voice revote was taken:

Rep. Dee Brown: (6 votes: Sen. Brenden, Rep. Brown, Rep. Mendenhall, Rep. Stahl, Sen. Brown, Sen. Barkus)

Rep. Betsy Hands: (6 votes: Sen. Cooney, Rep. Wilson, Rep. Pease-Lopez, Sen. Tropila, Sen. Larsen, Rep. Hands)

Legal Counsel stated the votes offered no clear decision, therefore, there no ability to act on them. In the interim without leadership the Chair pro tem would remain.

Rep. Pease-Lopez was confirmed connected and present via phone

Motion by Rep. Mendenhall: Legislative Audit Committee conduct a coin toss resolution between Rep. Dee Brown and Rep. Betsy Hands to determine the Chairmanship of the Legislative Audit Committee, motion failed with 6 proponents, and 6 opponents.

Sen. Cooney again opened nominations for Chair of the Legislative Audit Committee:

Sen. Barkus nominated Sen. Tropila

Sen. Tropila declined

There being no further tie-breaker nominations from the floor Chair Cooney stated that the Committee would reopen nominations later in the day.

Motion by Sen. Barkus: resubmitted motion to conduct a coin toss between Rep. Dee Brown and Rep. Betsy Hands to determine the Chairmanship of the Legislative Audit Committee. Motion failed with 6 proponents, and 6 opponents.

Ms. Hunthausen stated that Senator Cooney will continue as Chair pro tem until next meeting.

Senator Cooney stated that the Committee would reopen nominations later in the day.

00:51:35 - Operating Plan – 2010 – presented by Angie Lang, Legislative Audit Division passed out (Exhibit #1)

Rep. Mendenhall moved to adopt the presented Operating Plan for FY 2010; the plan was accepted.

AUDIT REPORTS

MONTANA MEDICAL LEGAL PANEL, CONTRACT AUDIT (08C-01)

00:58:45 **Report presented by:** Angie Lang, Legislative Audit Division

Concerns/Discussion topics:

Committee requests: Assessment fees, the 10-year trend, what the fee amount consists of, who determines the amount to meet all panel costs, what caused spike; trend of claims settled by the Panel over the years (rising/declining)

Public Comment: None

Actions taken: None

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

FLATHEAD VALLEY COMMUNITY COLLEGE, CONTRACT AUDIT (08C-06)

00:59:35 **Report presented by:** Angie Lang, Legislative Audit Division

Concerns/Discussion topics: gained assets of \$10.5 million since 2005; Sen. Barkus explained the gain was from an exchange of property.

Committee requests: None

Public Comment: None

Actions taken: None

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

1:04:19 **Minutes Approval** – January 13, 2009 Minutes were approved. **Motion** by Senator Barkus, motion carried.

FOLLOW-UP AUDIT:

STATE WEB SERVER SECURITY AUDIT (09SP-19)

01:05:41 **Report presented by:** Dale Stout, Senior Information Systems Auditor

Discussion & Actions taken: None

01:09:16 – 02:26:00 – **Lunch break**

UPLAND GAME BIRD ENHANCEMENT PROGRAM, PERFORMANCE AUDIT (08P-01)

02:26:23 **Report presented by:** Nick Hill, Performance Auditor

Present from the agency: Quinten Kujala, Management Bureau Chief, Wildlife Division, and Rick Northrup, Upland Game Bird Coordinator

Agency response presented by: (02:45:00) Rick Northrup presented updates not contained in the response in the report: 12-member Advisory Council has been selected, not all are confirmed yet; drafted a charter and timeline for Council recommendations and report available for next legislative session; adjustments are being made to database and a dedicated biologist is working on database; met with information services to ensure they are continuing to develop the database in a way that is accessible for field workers.

Handouts: None

Concerns/Discussion topics: (02:37:19) If and how abuses are used in audit reports; Program goal; changes occurring in Conservation Reserve Program (CRP) and how Program addresses the changes and renewal of CRP contracts; selection process and staggered terms for Advisory Council; number of out-of-state hunting licenses compared to Montana and difference in license fees; new realignment of FWP and affect on UGBEP.

Committee requests: Number of out-of-state hunting licenses issued in North and South Dakota compared to Montana and differences in license fees; list of Advisory Council members

Public Comment: None

Actions taken: None

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

INTEGRATED REVENUE INFORMATION SYSTEM (IRIS): PROCESSING OF INDIVIDUAL INCOME & CORPORATE TAX RECORDS, INFORMATION SYSTEMS AUDIT (08DP-06)

03:07:11 **Report presented by:** Nate Tobin, Senior Information Systems Auditor

Present from the agency: Dan Bucks, Director; Margaret Kauska, Administrator, Information Technology & Processing Division

Agency response presented by: (03:19:30) Director Dan Bucks

Handouts: None

Concerns/Discussion topics: New data centers and reason for chosen locations; intern employee; terminal security; procedure of an intense attack test on security system; procedure for data backup; benefit of IRIS to citizens of Montana

Committee requests: Corrective Action Plan

Public Comment: None

Actions taken: None

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

MONTANA STATE FUND CORPORATE GOVERNANCE PRACTICES, PERFORMANCE AUDIT (08P-08)

03:37:26 **Report presented by:** Angus Maciver, Performance Audit Manager

Present from the agency: Laurence Hubbard, President/CEO; Mark Barry, Vice President, Corporate Support; Nancy Butler, Vice President/Legal Counsel; Patti Grosfield, Internal Auditor; Carl Kochman, Vice President, Communications & Public Relations

Agency response presented by: (04:13:30) Patti Grosfield, Internal Auditor. Three of six recommendations have been implemented; one will be implemented when they are dealing with the entire package to look at the incentive program, two more complicated recommendations are before the Board at this time.

Handouts: Revised Internal Audit Charter (Exhibit #2)

Concerns/Discussion topics: comparison of executive salaries to other state agencies and insurance agencies; MSF merit based pay primarily based on quantitative financial indicators of performance; plans for audit to be presented to the Board; comparison of affect of incentives on insurance rates, and insurance rates cost drivers being 80 percent of benefits paid; \$17,000 per year spent on advertising of safety program; disclosure of salaries, relationship of new MSF building increasing internal costs; Board meetings dates and reporting to the Committee at next meeting; new MSF building expected completion date, and improperly recorded as an investment rather than an operational asset in Board of Investments December 2008 financial audit

Committee requests: Corrective Action Plan

Public Comment: None

Actions taken: None

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

MONTANA WATER POLLUTION CONTROL & DRINKING WATER STATE REVOLVING FUND PROGRAMS, FINANCIAL AUDIT (09-25)

05:00:45 **Report presented by:** Jay Phillips, Financial-Compliance Auditor

Present from the agency: Dept. of Natural Resources and Conservation (DNRC):
Anna Miller, Bureau Chief, Loan & Financial Management Bureau; Tricia Schiltz, Bureau Chief, Fiscal Bureau; Mo Leo, Fiscal Officer/Accountant Supervisor, Fiscal Bureau
Dept. of Environmental Quality (DEQ): Dean Rude, Chief Financial Officer; Dave Hamer, Financial Accounting Manager

Agency response presented by: (05:09:13) Anna Miller, DNRC; Dean Rude, DEQ

Handouts: Drinking Water Revolving Fund Loans (Exhibit #3); Wastewater Revolving Fund Loans (Exhibit #4); Non Point Source Agriculture Loan-Recycled Loan Funds Wastewater State Revolving Program (Exhibit #5); Revolving Fund Loan Program (Exhibit #6)

Concerns/Discussion topics: material weakness of internal controls in report, *Ineffective Controls to Ensure the Notes to the Financial Statements are Accurately Compiled*, and consultant hired to work with both agencies to open dialog between DNRC and DEQ to remedy the weakness

Committee requests: None

Public Comment: None

Actions taken: None

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

PAYMENT CARD INDUSTRY DATA SECURITY STANDARD & RELATED CONTROLS, INFORMATION SYSTEMS AUDIT (09DP-02)

05:20:47 **Report presented by:** Sean Edgar, Information Systems Auditor

Present from the agency: The University of Montana - Missoula
Kathy Burgmeier, Director, UM Internal Audit
Bob Durringer, Vice President for Administration and Finance
Montana State University - Bozeman
Daniel Adams, Director of Internal Audit
Laura Humberger, Assistant Vice President for Financial Services
Montana State University - Billings
Terrie Iverson, Administrative Vice Chancellor
Montana Department of Transportation
Mike Bousliman, Chief Administrative Officer, Information Services Division
Jody Brandt, Operations Manager, Administration Division

Agency response presented by: (05:30:50) UM-Missoula, Bob Duringer; MSU-Bozeman, Laura Humberger; Terrie Iverson, MSU-Billings; Mike Bousliman, Dept. of Transportation; Jill Lotter, Procurement Bureau Contracts Officer, Department of Administration; and contractor with the state, Sandi Miller, General Manager, MT Interactive

Handouts: None

Concerns/Discussion topics: fees for use of cards and limiting higher fee cards; agencies using payment card service; cost effectiveness of MT Interactive providing service for all state card transactions; state agencies informed of PCI DSS requirements and role of DOA toward awareness in contracts; contract rebidding

Committee requests: list of agencies using payment card service; list of agencies using MT Interactive contract; correspondence from Legislative Auditor to each state agency director on availability of audit report

Public Comment: None

Actions taken: None

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

COMPUTER DISPOSAL POLICY COMPLIANCE, INFORMATION SYSTEMS AUDIT (09DP-05)

05:52:00 **Report presented by:** Dale Stout, Senior Information Systems Auditor

Present from the agency: Dept. of Revenue: Margaret Kauska, Administrator, Information Technology & Processing Division
Dept of Administration: Steve Bender, Deputy Chief Information Officer

Discussion & Actions taken: None

STATEWIDE ACCOUNTING, BUDGETING, AND HUMAN RESOURCES SYSTEM (SABHRS), INFORMATION SYSTEMS AUDIT (09DP-03)

05:55:15 **Report presented by:** Deon Olson, Information Systems Auditor

Present from the agency: Janet R. Kelly, Director, Department of Administration
Dick Clark, Chief Information Officer
Dennis Dickinson, Acting Information Technology Manager
Paul Christofferson, Administrator, State Accounting Division

Agency response presented by: Janet R. Kelly

Handouts: None

Concerns/Discussion topics: None

Committee requests: None

Public Comment: None

Actions taken: None

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

FOLLOW-UP AUDITS:

USE OF SPECIAL EDUCATION FUNDS (09SP-04)

06:02:07 **Report presented by:** Lisa Blanford, Performance Audit Manager

Discussion & Actions taken: None

THE COLLECTION & USE OF GRADUATE & DROPOUT DATA (08SP-10)

06:04:29 **Report presented by:** Lisa Blanford, Performance Audit Manager

Discussion & Actions taken: school's dropout rates are high because transfers to other schools are not tracked and schools lack of access to system to see if students are entered in another school district; an improvement that will happen with the implementation of the AIM system

CONSERVATION EASEMENTS (09SP-15)

06:09:00 **Report presented by:** Lisa Blanford, Performance Audit Manager

Discussion & Actions taken: Committee requested a written response from Dept. of Revenue director, when July 1, 2009, goal of completing data entry into Orion system

IMPROVING TAXPAYER COMPLIANCE (08SP-05)

06:12:45 **Report presented by:** Lisa Blanford, Performance Audit Manager

Discussion & Actions taken: None

THE HELP AMERICA VOTE ACT & OTHER ELECTION RELATED ISSUES (09SP-11)

06:15:40 **Report presented by:** Lisa Blanford, Performance Audit Manager

Discussion & Actions taken: how the \$17 million Montana has received to fund HAVA-related activities is being spent: building new statewide registration system; upgrading equipment; training county election officials and providing information sources

OTHER BUSINESS:

06:20:55 Corrective Action Plan: **Weed Management at State Parks & Fishing Access Sites** (Att. #1)

06:22:41 Corrective Action Plans: **Statewide Radio Communications Interoperability** (Att. #2, #3, #4)

Presented by Will Soller, Performance Auditor

Handouts: Corrective Action Plan update memorandum and report Summary (Att. #5)

Discussion & Actions taken: background and oversight structure of the program, local level of IM plan; cost and lack of education to the public; relationship between federal, state and local government

Legislative Audit Committee, June 23, 2009

Audit Committee Request attachments:

- HAVA update, Secretary of State
- Statewide Radio Communications Interoperability updated Corrective Action Plan (5/26/2009), Dept. of Administration; Interoperability Montana update
- Payment Card Industry Data Security Standard & Related Controls, Legislative Auditor correspondence to all department heads; list of state agencies using First Data and MT Interactive LLC for credit card processing services
- Upland Game Bird license fees for Montana and the Dakotas, Fish, Wildlife and Parks response