

# LEGISLATIVE AUDIT COMMITTEE

## MINUTES SUMMARY

February 8, 2012

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

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

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

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

<u>Members Absent</u>	
Rep Mary McNally	A

Staff Present  
Tori Hunthausen, Legislative Auditor  
Deborah F. Butler, Legal Counsel  
Cindy Jorgenson, Deputy Legislative Auditor  
Angie Grove, Deputy Legislative Auditor  
Ann Hernandez, Admin Support Supervisor

00:00:02 The Legislative Audit Committee met February 8, 2012, in Room 172 of the State Capitol. Chairman, Senator Mitch Tropila called the meeting to order at 8:00:00 a.m., noting the presence of a quorum.

**Minutes Approval February 8, 2011, November 3&4, 2011, Minutes were approved. Motion by Rep Schmidt: motion carried.**

**Minutes approved with the addition**, regarding programs submitted for privatization review, Senator Brown moved the Chair send another letter, similar to the one sent as Chairman in 2009, to let OBPP

know that the two programs that they submitted do not qualify and that we would appreciate it if they would come up with two more.

**Withdraw motion to approve minutes February 8, 2011, November 3&4, 2011, Minutes were reapproved with addition. Motion by Rep Schmidt: motion carried.**

**AUDIT REPORTS**

**MONTANA BOARD OF HOUSING, FINANCIAL-COMPLIANCE (11-07)**

00:08:13 **Report presented by:** John Fine, Financial-Compliance Audit Manager

**Present from the agency:** Bruce Brensdal, Director  
Charles Nemec, Finance Manager

**Agency response presented by:** Bruce Brensdal, Director

**Handouts:** None

00:08:37 **Committee comments and questions:**  
Questions about loaning money with the rates so low and opportunity for housing in eastern Montana.

**Committee requests:** None

**Public Comment:** None

**Actions taken:** None

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

**DEPARTMENT OF COMMERCE, FINANCIAL-COMPLIANCE (11-16)**

00:08:40 **Report presented by:** Jeane Carstensen-Garrett, Financial-Compliance, Audit Manager

**Present from the agency:** Dore Schwinden, Director  
Jeri Duran, Tourism Director  
Teri Juneau, Financial Director

**Agency response presented by:** Dore Schwinden, Director  
Kelly Casillas, Administration, Deputy Legal

**Handouts:** None

00:11:31 **Committee comments and questions:**  
Discussion on HB645 and assurance the 20 million dollars is being well managed; deferred maintenance; discussion on recommendation 1; unconstitutional payments and process for using a clearing account.

**Committee requests:** None

**Public Comment:** None

**Actions taken:** None

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

**IMPROVING CONTROLS OVER SECURITY OF LAPTOP DATA, INFORMATION SYSTEM (11DP-12)**

00:34:10 **Report presented by:** Nathan Tobin, Information Systems Senior Auditor  
Deon Olson, Information Systems Auditor

**Present from the agency: Department of Justice**

Tim Burton, Deputy Director

**Department of Labor and Industry**

George Parisot, Chief Information Officer

**Department of Public Health and Human Services**

Laurie Lamson, Operations Services Branch Manager

Marie Matthews, Business & Financial Services Division Administrator

Ron Baldwin, Chief Information Officer

**Department of Revenue**

Dan Bucks, Director

John Levick, Network Services Unit Manager

Margaret Kauska, IT/Processing Administrator

Tim Bottenfield, Bureau Chief

**Agency response presented by:** Tim Burton, Deputy Director  
George Parisot, Chief Information Officer  
Dan Bucks, Director  
Laurie Lamson, Operations Services Branch Manager

**Handouts:** corrective action plan received for DPHHS

**Committee comments and questions:**

01:09:08 Discussion regarding password security.

**Committee requests:** None

**Public Comment:** None

**Actions taken:** None

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

**BOARD OF INVESTMENTS, FINANCIAL-COMPLIANCE (10-04B)**

01:12:24 **Report presented by:** Alexa O'Dell, Financial-Compliance Senior Auditor

**Present from the agency:** David Ewer, Executive Director  
Cliff Sheets, Chief Investment Officer  
Gayle Moon, Fiscal Administrator

**Agency response presented by:** David Ewer, Executive Director  
Cliff Sheets, Chief Investment Officer

**Handouts:** None

**Committee comments and questions:**

01:18:50 Questions regarding the external and internal managers' fees; handling of the portfolio; percentage of the BOI investments in Montana; holding on to Enron while they go into bankruptcy.

**Committee requests:** None

**Public Comment:** None

**Actions taken:** None

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

*Break 01:54:22*

**TEACHERS' RETIREMENT SYSTEM, FINANCIAL-COMPLIANCE (10-09B)**

02:07:56 **Report presented by:** Paul O'Loughlin, Financial-Compliance Senior Auditor

**Present from the agency:** Dave Senn, Executive Director  
Tammy Rau, Assistant Executive Director

**Agency response presented by:** Dave Senn, Executive Director

**Handouts:** Valuation Results

**Committee comments and questions:**

02:28:23 Questions on TRS plans for 2013; states that have actuarially sound teacher retirement systems; and two tier systems that include a define contribution and a define benefit.

**Committee requests:** Rep. Stahl: asked about a base line salary or average salary comparison.

**Public Comment:** None

**Actions taken:** None

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

**PUBLIC EMPLOYEES' RETIREMENT BOARD, FINANCIAL-COMPLIANCE (10-08B)**

02:42:00 **Report presented by:** Natalie Gibson, Financial-Compliance Senior Auditor

**Present from the agency:** Roxanne Minnehan, Executive Director  
Barb Quinn, Fiscal Services Bureau Chief

Diann Levandowski, Assistant Fiscal Services Bureau Chief

**Agency response presented by:** Roxanne Minnehan, Executive Director

**Handouts:** None

**Committee comments and questions:**

02:51:19 Discussion on two tier systems and actuarially soundness; and strain on the system when someone retires and then comes back to work.

**Committee requests:** None

**Public Comment:** None

**Actions taken:** None

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

**OTHER BUSINESS:**

02:56:24 Hotline Statistics presented by Deborah Butler.

**MONTANA ARTS COUNCIL, FINANCIAL-COMPLIANCE (11-24)**

03:09:41 **Report presented by:** Zac Yates, Financial-Compliance Auditor

**Present from the agency:** Arlynn Fishbaugh, Director  
Carleen Layne, Accountant  
Tama Lutsko, Financial Specialist

**Agency response presented by:** Carleen Layne, Accountant

**Handouts:** None

**Committee comments and questions:**

03:15:50 Discussions regarding recommendations and funding source.

**Committee requests:** none

**Public Comment:** none

**Actions taken:** none

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

**FOLLOW-UP MEMOS:**

03:22:54 **Report presented by:** Lisa Blanford, Performance Audit Manager

**State Building Energy Conservation (12SP-14)**  
**Land Banking Program (12SP-13)**

**Home and Community Based Services Waiver Program (12SP-16)**  
**Montana Public Vehicle Fueling Program (11SP-26)**

**Concerns/Discussion topics:**

03:35:01 Senator Schmidt requested a follow-up on Home and Community Based Services Waiver Program recommendation 2; and a follow-up on Montana Public Vehicle Fueling Program recommendation 5A.

*Lunch 3:45:56*

**MONTANA GUARANTEED STUDENT LOAN PROGRAM, FINANCIAL-COMPLIANCE (11-06A)**

04:50:15 **Report presented by:** Laura L. N. Toeckes, Financial-Compliance Auditor

**Present from the agency:** Bruce Marks, Director  
Robin Graham, Chief Financial Officer  
Dr. Sheila Stearns, Commissioner of Higher Education  
Mick Robinson, Deputy Commissioner of Higher Education

**Agency response presented by:** Dr. Sheila Stearns, Commissioner of Higher Education  
Bruce Marks, Director

**Handouts:** None

**Committee comments and questions:**

05:01:11 Discussion regarding impacts to the Montana tax payer as current student loans mature and as the program shifts to a federal program; default student loans; and teacher loan forgiveness.

**Committee requests:** Rep Schmidt request updated default loan rates.

**Public Comment:** None

**Actions taken:** None

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

**UNIVERSITY OF MONTANA, FINANCIAL-COMPLIANCE (11-10A)**

05:12:13 **Report presented by:** Brenda Kedish, Financial-Compliance Senior Auditor

**Present from the agency:** Royce Engstrom, President  
Kathy Burgmeier, Director of Internal Audit  
Dr. Sheila Stearns, Commissioner of Higher Education  
Mick Robinson, Deputy Commissioner of Higher Education

**Agency response presented by:** Royce Engstrom, President

**Handouts:** Annual Financial Report of the University of Montana

**Committee comments and questions:**

05:15:20 Discussion on the declining graduation rates through 2015; and the University as a defendant in legal actions.

**Committee requests:** None

**Public Comment:** None

**Actions taken:** None

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

**MONTANA STATE UNIVERSITY, FINANCIAL-COMPLIANCE (11-11A)**

05:24:25 **Report presented by:** Vanessa Shaw, Financial-Compliance Auditor

**Present from the agency:** Laura Humberger, Assistant Vice President for Financial Services  
Daniel Adams, Director of Institutional Audit and Advisory Services  
Dr. Sheila Stearns, Commissioner of Higher Education  
Mick Robinson, Deputy Commissioner of Higher Education

**Agency response presented by:** Laura Humberger, Assistant Vice President for Financial Services

**Handouts:** None

**Committee comments and questions:**

05:29:00 Question on hedging derivative; and what constitutes gifts.

**Committee requests:** None

**Public Comment:** None

**Actions taken:** None

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

**MONTANA UNIVERSITY SYSTEM WORKER'S COMPENSATION PROGRAM, CONTRACT (11-10A)**

05:36:35 **Report presented by:** Terry Alborn, JCCS

**Present from the agency:** Russ Fillner, Assistant Dean, University of Montana College of  
Technology Helena  
Dr. Sheila Stearns, Commissioner of Higher Education  
Mick Robinson, Deputy Commissioner of Higher Education

**Agency response presented by:** Terry Alborn, JCCS  
Mick Robinson, Deputy Commissioner of Higher  
Education

**Handouts:** None

**Committee comments and questions:**

05:42:12 Questions on various regarding expenditures for 2011.

**Committee requests:** None

**Public Comment:** None

**Actions taken:** None

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

**FOLLOW-UP MEMO:**

05:47:02 **Report presented by:** Lisa Blanford, Performance Audit Manager

**Contract Management, Department of Corrections (11SP-28)**

**Committee requests:** Rep Schmidt requests a follow-up on the remaining recommendations.

**MONTANA STATE FUND, FINANCIAL-COMPLIANCE (10-05B)**

05:52:18 **Report presented by:** Brenda Kedish, Financial-Compliance Senior Auditor

**Present from the agency:** Laurence Hubbard, President  
Mark Berry, Vice President of Finance  
Patti Grosfield, Internal Auditor  
Rene Silverthorne, Controller

**Agency response presented by:** Mark Berry, Vice President of Finance

**Handouts:** None

**Committee comments and questions:**

05:58:00 Discussion about the \$50,000 transfer from the general fund; state fund market share trend over the last ten years; and jobs in the oil fields.

**Committee requests:** None

06:07:37 **Public Comment:** Dan Villa of the Office of Budget and Program Planning expresses disagreement on reporting of old fund claims liability.

**Actions taken:** None

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

**MONTANA WATER POLLUTION CONTROL AND DRINKING WATER STATE REVOLVING FUND PROGRAMS, FINANCIAL-COMPLIANCE (11-25A)**

06:31:22 **Report presented by:** Chris Darragh, Financial-Compliance Senior Auditor

**Present from the agency:** **Department of Natural Resources and Conservation**  
Tricia Schiltz, Chief Financial Officer



Anna Miller, Financial Bureau Chief, Conservation and Resource  
Development Division

**Department of Environmental Quality**  
Dean Rude, Chief Financial Officer  
George Mathieus, Administrator  
Todd Teegarden, Bureau Chief

**Agency response presented by:** Dean Rude, Chief Financial Officer  
Anna Miller, Financial Bureau Chief, Conservation and Resource

**Handouts:** Revolving Fund Loan Program

**Committee comments and questions:**

06:35:40 Discussion on the advances to other funds of \$16 million; the Nonpoint Source private loan program; the default rate for the revolving loan program; the loans outstanding; and the number of projects as of February 8, 2012.

**Committee requests:** None

**Public Comment:** None

**Actions taken:** None

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

**MINE SAFETY PROGRAM, PERFORMANCE AUDIT (11P-10)**

06:52:00 **Report presented by:** Angus Maciver, Performance Audit Manager

**Present from the agency:** Mark Cadwallader, Agency Counsel, Department of Labor and Industry  
Bryan Page, Safety Bureau Chief, Employment Relations Division

**Agency response presented by:** Bryan Page, Safety Bureau Chief, Employment Relations Division

**Handouts:** None

**Committee comments and questions:**

07:18:07 Discussion on implementation of recommendation 2 and 3; and training.

**Committee requests:** Rep. Schmidt requested update on the recommendations in six months.

07:22:00 **Public Comment:** Debbie Shea

**Actions taken:** None

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

**DEPARTMENT OF LIVESTOCK, FINANCIAL-COMPLIANCE (11-22)**

07:25:42 **Report presented by:** Karen Simpson, Financial-Compliance Auditor

**Present from the agency:** Christian MacKay, Executive Officer  
George Harris, Administrator, Centralized Services Division

**Agency response presented by:** Christian MacKay, Executive Officer

**Handouts:** None

**Committee comments and questions:**

07:36:30 Questions regarding Board of Horse Racing plans to safeguard proper remittances; and discussion on debt owed to the Department of Livestock from the Board of Horse Racing.

07:39:40 **Committee requests:** Senator Brown requested an update by the Board of Horse Racing at the next committee meeting on the liability issue. Chairman Tropila clarified to let the audit follow-up process work.

**Public Comment:** None

**Actions taken:** None

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

**LEGISLATIVE BRANCH EXCLUDING CONSUMER COUNCIL, CONTRACT (11C-09)**

07:57:56 **Report presented by:** Larissa Warren, Audit Manager JCCS

**Present from the agency:** Susan Byorth Fox, Director, Legislative Services Division  
Jennifer Simmons, Financial Services Manager

**Agency response presented by:** Susan Byorth Fox, Director

**Handouts:** Replacement page 7 and 10 for the report.

**Committee comments and questions:**

08:01:22 Question on the negative fund balance in the general fund.

**Committee requests:** None

**Public Comment:** None

**Actions taken:** None

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

**LEGISLATIVE BRANCH CONSUMER COUNCIL, CONTRACT (11C-10)**

08:05:00 **Report presented by:** Larissa Warren, JCCS

**Present from the agency:** Bob Nelson, Consumer Council  
Heather Voeller, Office Manager

**Agency response presented by:** Bob Nelson, Consumer Council

**Handouts:** None

**Committee comments and questions:** None

**Committee requests:** None

**Public Comment:** None

**Actions taken:** None

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

The next meeting of the Legislative Audit Committee will be in June.

There being no further business, the meeting was adjourned at 05:27:37 p.m.

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