

## MINUTES

### MONTANA HOUSE OF REPRESENTATIVES 52ND LEGISLATURE - REGULAR SESSION

#### COMMITTEE ON APPROPRIATIONS, SUBCOMMITTEE CHAIRS

**Call to Order:** By Chairman Francis Bardanouve on January 14, 1991, at 3:45 p.m. in room 104 of the State Capitol.

#### ROLL CALL

#### **Members Present;**

Francis Bardanouve, Chairman Appropriations Committee  
Ray Peck, Chairman, Education subcommittee  
Mary Ellen Connelly, Chair Long Range Planning subcommittee  
Berv Kimberley, Chairman Natural Resources subcommittee  
Wm. "Red" Menahan, Chairman Institutions subcommittee  
Joe Quilici, Chairman General Government & Highways  
subcommittee  
Dorothy Bradley, Chair Human Services subcommittee

**Staff Present:** Teresa Olcott Cohea (LFA)

**Please Note:** These are summary minutes. Testimony and discussion are paraphrased and condensed.

**Announcements /Discussion:** CHAIRMAN BARDANOUVE said this meeting was to try to reach a common agreement on how to handle inflation in the subcommittee budgets to keep everyone going in the same direction.

#### Informational Meeting:

CHAIRMAN BARDANOUVE said Mr. Seacat had to leave and he promised to discuss the issue with his department first. The problem was that there is a request in the budget for several auditors to be added to his department and since this is a Legislative branch of the Government he was concerned with adding FTE's here and not in the other agencies or departments. He thought the Legislature should not set a bad example for other branches of the government.

Mr. Scott Seacat, Executive Director, Legislative Audit Department distributed EXHIBIT 1, 2 and 3, and said they were requesting 7 FTE on the direction of the Audit Committee which had told them to ask for 9. He explained the work load and said a large portion of it as shown on exhibit 1 was due to federally required audits. Their office budget is funded by about half special revenue and half general fund, and because of the way they are funded the agencies should pay for half of it. The question before the subcommittees is whether this should be a part of the adjusted base. Referring to EXHIBIT 1 which lists audits and actual hours he said there were many mandated audits with no corresponding fees for their offices. These audits are

mandated by the federal government or by new state agencies and are hours expended by the office.

**CHAIRMAN BARDANOUVE** asked what is meant by "single audit" and **Mr. Seacat** said the Federal Government passed the Federal Single Audit Act which essentially says the Feds are not going to come to Montana and audit the federal dollars anymore, they are going to delegate that responsibility to the Montana Legislative Audit. It has expanded their work because of the additional requirements in the federal law which they term major federal grants of \$3 million, or more--the superfund grants. They have to do specific and detailed expenditure testing in compliance with all the federal regulations, and they are quite clear Montana will not get any federal money unless it is done.

**CHAIRMAN BARDANOUVE** asked if they pay for the audits and **Mr. Seacat** said they will and they have allocated the cost of the audit work to the various agencies. There is a provision in the boiler plate that their office and the LFA are proposing that agencies shall charge to the maximum extent possible the federal costs since state audits are allowable costs under the federal regulations. He explained that they did not have enough people to handle all the audits. The Statewide Audit is mandatory state audits, is used in conjunction with federal single audits, which must have a statewide financial statement and are also used by the bonding agencies. The next audit is the audit of Family Services, it is required by state law, and without the audit work Family Services could not receive any federal money.

**CHAIRMAN BARDANOUVE** asked for clarifications on the Family Services audit and **Mr. Seacat** said state law requires they audit every agency once every two years, and there was no Department of Family Services prior to 1985.

**CHAIRMAN BARDANOUVE** asked if they were not auditing the same functions before and **Mr. Seacat** said there were comparable programs but there was not a separate internal control system which they now have to audit. This made a new financial audit over and above prior requirements. Under Lottery there is an annual financial audit, they have to observe all the drawings, etc. and there is a biennial performance audit on security which is required. He said at the June special session the Legislature passed a requirement that there be an annual audit of Workers Compensation and this audit does not include this since it is effective for FY'91. When you look at the hours required for the new audits it has an impact of about 7 FTE on our office in terms of direct available audit hours. These are audits for which they have received no funding. They did not receive additional FTE with the mandated federal audits.

**CHAIRMAN BARDANOUVE** questioned the figures on **EXHIBIT 1** and **Mr. Seacat** said these figures are the audit hours for just the new audits. He referred to **EXHIBIT 3** which listed the audits, and said this shows how the Legislature is using the office and as

shown the requests have increased phonemically. This reflects work done on Workers Comp and Education during the special session.

**CHAIRMAN BARDANOUVE** asked if there was a limit to hours for Legislators and **Mr. Seacat** said they don't have specific criteria but if it is a major project he has to notify the Audit Committee. He gave the example of Nancy Keenan writing the office a letter asking them to audit the Education Funding Data Base again, he asked the Chair and the Vice Chair, they had no objection and they did the audit in conjunction with the LFA office and the Budget Office so they did not do the same things. For the most part the Legislative requests are short.

**REPRESENTATIVE PECK** asked if there is a maximum projected time when the Chair and Vice Chair must be consulted and **Mr. Seacat** said not formally but generally if it would take over a week they would let them know.

There was some discussion between **CHAIRMAN BARDANOUVE**, **REPRESENTATIVE PECK** and **Mr. Seacat** on holding down the requests from Legislators.

**REPRESENTATIVE PECK** asked, if they received a request for an audit, say NMC, and did not have time to do it, could they contract it out. **Mr. Seacat** said audits are scheduled, he does have the authority to contract them out, and when they feel it is cost effective to contract, they do so. In the case of NMC, the federal requirements say the audits have to be completed within one year of the close of the fiscal year, and if he could not get the work done he would contract it out.

**REPRESENTATIVE PECK** asked if privatization was cost effective and **Mr. Seacat** said in Eastern Montana they often are, but probably not with NMC. The billing rate is about \$10 an hour cheaper than a private audit since they hire entry level and promote from within and the private companies are more experienced.

**Mr. Seacat** said federal auditors come into his office and review their compliance. The Federal Audit Act requires an annual audit unless Montana is operating under an exemption in state law, we do have that exemption, audit the agencies every two years, and cover both years of the biennium. He also explained what they had to do on the Lottery.

**REPRESENTATIVE BRADLEY** asked if she could get figures on the Legislative audit on how size and number of personnel compare to other states in the region. **Mr. Seacat** said he felt they could pull together something for the subcommittee.

**REPRESENTATIVE BARDANOUVE** said Mrs. Cohea is trying to get comparable size. They can get figures but they may not cover the same areas but will try to get comparable figures.

**REPRESENTATIVE COBB**, representing the Audit Committee, said from his prospective the problem is with all the federal mandates they have to do they are still trying to do all the Legislative requests and other audits. They have wiped out a couple layers of middle management so most of the people are out in the field and there are not enough people to go around. He said people are getting burned out and some decisions will have to be made as to whether to down-size considerably on Legislative requests. Many of the bills before Legislature rely on the audit information, but if we don't get the extra people we are going to have to minimize work on Legislative requests. They need some mandate from the Legislature on how to proceed.

**REPRESENTATIVE PECK** asked if the funding had increased from the Feds along with the requests. **REPRESENTATIVE COBB** answered they can get the Federal reimbursement but have to have the FTE to do the work. They are contracting out as much now as they can.

**REPRESENTATIVE PECK** asked if they could increase the revenue by adding FTE and **REPRESENTATIVE COBB** answered they can get the Federal Government to reimburse them on the Fed side but they have a problem on the general fund side on statute requests. **REPRESENTATIVE PECK** asked if they would get the actual cost, not a portion of it and **Mr. Seacat** said to the extent that Federal dollars are a portion of the agency budget. If the federally allocable related costs are 80% then 80% of the audit costs will be allocable and the Feds will pay for that. The question is, should this be in the base for all of the agencies, since they should pay for their audits as the Legislature set it up in the early '80's.

**Mrs. Cohea** referred to the memo handed out in the previous meeting and asked them to turn to page 2 which listed the major differences in the inflation factors. In most cases the Budget office and the LFA agreed on inflation factors with only a couple of areas that do not. Whatever inflation factors the Committee Chairs adopt needs to be adjusted to the FY'90 base because that is the base adopted as your working base. OBPP decided relatively late in the budgeting process to inflate food but did not inflate it in all agencies, with Institutions as the chief agency inflated, they also applied it to the FY'90 base instead of the FY'91. This is not too difficult an adjustment to make, and depending on which inflation factor you chose, it would be applied in the subcommittees. The OBPP is driven off the CPI and the LFA off Implicit Price Deflator, and basically the only difference is a technical one that the CPI has a fixed market basket, the IPD has a changing market basket, but the difference between the two is not too great.

**Curt Nichols**, OBPP, said as Terry pointed out, they did come from a different spot. The OBPP comes from an appropriated base and have a procedure where agencies made adjustments to that, and in some cases adjusted to what they felt their needs would be. The inflation factors change and if both offices were to update them

today they probably would not see any of these numbers. He suggested the best way to handle this would be no general policy such as asking them to go back and update the factors, but if you are working from the LFA base, the issues can be discussed in the subcommittees as a part of the differences. He felt inflation factors would not be an issue too often but that other items would show up.

**CHAIRMAN BARDANOUE** asked if the LFA and the OBPP could come to some figure that could be mutually agreed upon and **Mr. Nichols** said they could go back at some point in time and agree upon the latest data in terms of inflation but it would probably be a 'fine tuning' that would go beyond the trouble it is worth. He did a comparison on utilities with the LFA taking the large agencies. This figure was \$24 million which was 91% of the total utilities and the difference was \$33,000. Most of the big differences were proposals to down-size Boulder and close the Galen campus for example. The big differences relate to factors other than inflation itself. He would suggest since the subcommittees are proceeding off the LFA base and as the differences are identified, they can be presented as issues.

**Mrs. Cohea** said if it would help the subcommittee understand how the system works, both systems are very similar as to how they work electronically. They both have a base with a number in it and riding separately is inflation. Both have factors you need to put in that run against the base and is kept separate at all times so if late in the session you need to go in and change gasoline prices for example, you can do that. With the recommendation Curt is making, you would adopt the LFA base and implicitly adopt the LFA inflation factors. If the subcommittee decided to down-size Boulder they would decide on an amount in the base that is taken out, the inflation factors would apply against it, and it can be done electronically. **Mr. Nichols** agreed they would bring the factors that go into the down-size as an issue to the committee and the committee would say yes or no to the down-size. The OBPP is not as mechanical as the LFA since there is more discretion in the OBPP where the agencies looked at their expenditures and adjusted them.

**CHAIRMAN BARDANOUE** asked if the two offices could mutually agree on the process. **Mrs. Cohea** said from what Curt had said she felt it could work well. (466) **Mr. Nichols** said it was agreeable with the Budget office.

**MOTION:** **REPRESENTATIVE MENAHAN** moved the subcommittees accept the LFA inflation factors with discussion of base differences to current subcommittee. **REPRESENTATIVE QUILICI** seconded the motion.

**VOTE:** The motion passed unanimously.

**Nick Robinson, Department of Justice** said he would like some kind of guidance in regard to what they are facing on inflation. He

had made calculations on a couple of programs, one of which is the Drivers Services Bureau. They are trying to provide the minimum level of service with the operating budget they have and the LFA inflation level for FY'92 of \$15,187 in increased expenditures as a result of the inflation factors which is on the total operating expense base of \$646,000. This is 2.3% to cover the inflation from FY'90 to FY'92. In FY'92 they had to cut back some of the services they tried to provide because the funding is not adequate for that fiscal year and with the small inflation factor they will again have to cut back on services.

**REPRESENTATIVE PECK** asked if this isn't an issue for the subcommittee and **Mr. Robinson** said it is to a certain extent a general inflation impact and he was not sure how to deal with it in the subcommittees. Many of the expenditures do not have an inflation factor connected with them. He mentioned the Fire Marshall Bureau, the ID bureau, the Forensic Science Bureau, gave examples, and said it impacted services they could offer.

**CHAIRMAN BARDANOUVE** asked how the Governor's budget would affect them and **Mr. Robinson** said because they are different bases. He said the LFA dollar amounts do exceed the Budget office.

**Mrs. Cohea** explained that since 1984 there has not been a general inflation factor applied to state government. The LFA office continued that tradition and if true inflation were applied they would probably have a minimum of 5% on most items with a higher percentage on others. They did a computer run to see which were the biggest expenditures in state government, tried to concentrate on the inflation factors on those, and tried to stay in sync with the budget office on which factors they were inflating. In most cases they were inflating the same factors **Mr. Robinson** has mentioned and in most cases LFA factors are slightly higher than those of the budget office. It is true that for many expenditures in state government there is no inflation factor in either budget.

**REPRESENTATIVE PECK** said he would request that the analyst for his subcommittee get together with the budget office and the committee will work out the problems so a fair and adequate job can be done.

**REPRESENTATIVE PECK** said he had a problem in his subcommittee. They had an agency in that wanted \$10,000 additional each year because two positions in administration had been increased by an action of the "responsible board". His committee members are asking why not do it by having them ask first rather than putting them in place and saying "you guys fund them, you have contracts on them and if you don't fund them we will have to take it out of operations". He said an exempt position gets an increase, and these are \$10,000 in two positions for each year which is fairly significant. How can we as a Legislature influence that or do we have any authority to even look at it?

**CHAIRMAN BARDANOUE** said he was concerned about the exempt positions. Some of the agencies and some elected officials have taken very big raises. We have a no man's land or no control land out there in certain areas and these select people are being treated royally compared to the rest of the peons and we may have to submit some very rigid pay plan changes. **REPRESENTATIVE PECK** said the suggestion of his subcommittee was that the House Appropriations Committee notify these agencies or boards that they are going to have to let us know prior to action and not come back in after the fact for more money to fund the increase. (Tape 1, side 2) **REPRESENTATIVE PECK** said this should be discussed in full Appropriations Committee. **REPRESENTATIVE QUILICI** said he felt some guidelines should be set down so a policy could be made in the form of statutory requirements. **CHAIRMAN BARDANOUE** said the subcommittees had the power, but the decision should be uniform. The Board of Investments and Petroleum and Workers Comp as well as DNC has been expanded and there was some discussion on this expansion being the result of Legislative action, administrative action, etc.

**REPRESENTATIVE CONNELLY** mentioned the collapse of the roof on the museum at Thompson Falls, said they had called to see if it would take a separate bill or if the repair could be included in LRP. There was discussion as to whether the state was responsible for it or if they wished to apply for a grant and **CHAIRMAN BARDANOUE** said they would look into it.

At a question from Mr. Marks and Mr. Ashley, Mrs. Cohea said the issue of Networking is now in the subcommittee.

#### ADJOURNMENT

The meeting was adjourned at 4:10 p.m.

  
FRANCIS BARDANOUE, Chairman

  
Sylvia Kinsey, Secretary

FB/sk





Legislative Auditor  
 New Audits 1985 through 1990  
 January 1991

EXHIBIT 1  
 DATE 1-14-91  
 HB 2

AUDIT	HOURS/FTE				
	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990
SINGLE AUDIT	49	819	2124	746	2302
STATEWIDE AUDIT	6110	7526	7354	6550	5418
FAMILY SERVICES				1565	2605
LOTTERY (financial, observation, security)		286	1202	2309	412
SUNRISE					182
TOTAL	<u>6159</u>	<u>8631</u>	<u>10680</u>	<u>11170</u>	<u>10919</u>
DIRECT EFFECT ON FTE	3.9	5.5	6.8	7.2	7.0

Note: This does not include the required annual audit of the State Compensation Mutual Insurance Fund, effective for the fiscal year ended June 30, 1991.

EXHIBIT 2  
DATE 1-14-91  
HB 2

**Legislative Auditor**  
**Hours on Legislative Requests and Projects**  
January 1991

	<u>CY 1984</u>	<u>CY 1985</u>	<u>CY 1986</u>	<u>CY 1987</u>	<u>CY 1988</u>	<u>CY 1989</u>	<u>CY 1990</u>
LEGISLATIVE REQUESTS	37.0	1099.5	2441.5	3394.0	2653.5	4635.0	3017.0
SPECIAL PROJECTS	1737.0	2834.0	5708.0	10165.5	10912.0	9087.0	7697.0
TOTAL	<u>1774.0</u>	<u>3933.5</u>	<u>8149.5</u>	<u>13559.5</u>	<u>13565.5</u>	<u>13722.0</u>	<u>10714.0</u>
DIRECT EFFECT ON FTE	1.1	2.5	5.2	8.7	8.7	8.8	6.9

Office of the Legislative Auditor  
Audit Work for the 1993 Biennium  
January 1991

EXHIBIT - 3  
DATE 1-14-91  
HB 4

AUDIT WORK

TYPE OF AUDIT

REQUIRED/REQUESTED BY

COMMENTS

99-06	Department of Revenue	Financial-Compliance	Federal law/State law	In Progress
99-07	Department of Institutions	Financial-Compliance	Federal law/State law	In Progress
99-21	Historical Society	Financial-Compliance	Federal law/State law	In Progress
99-21	Statewide Audit	Financial-Compliance	Federal law/State law	In Progress
99-02	Single Audit Report	Financial-Compliance	Federal law/State law	In Progress
99-03	Board of Investments	Financial-Compliance	Federal law/State law	In Progress
99-05	Montana State University	Financial-Compliance	Federal law/State law	In Progress
99-05	University of Montana	Financial-Compliance	Federal law/State law	In Progress
99-07	Northern Montana College	Financial-Compliance	Federal law/State law	In Progress
99-08	Department of Administration	Financial-Compliance	Federal law/State law	In Progress
99-09	Social & Rehab Services	Financial-Compliance	Federal law/State law	In Progress
99-10	Commerce	Financial-Compliance	Federal law/State law	In Progress
99-11	Highways	Financial-Compliance	Federal law/State law	In Progress
99-12	Family Services	Financial-Compliance	Federal law/State law	In Progress
99-13	Land	Financial-Compliance	Federal law/State law	In Progress
99-15	Billings Vocational-Technical Center	Financial-Compliance	Federal law/State law	In Progress
99-16	Butte Vocational-Technical Center	Financial-Compliance	Federal law/State law	In Progress
99-17	Great Falls Vocational-Technical Center	Financial-Compliance	Federal law/State law	In Progress
99-18	Helena Vocational-Technical Center	Financial-Compliance	Federal law/State law	In Progress
99-19	Missoula Vocational-Technical Center	Financial-Compliance	Federal law/State law	In Progress
99-21	Agriculture	Financial-Compliance	Federal law/State law	In Progress
99-22	Livestock	Financial-Compliance	Federal law/State law	In Progress
99-23	DMV, Junk Vehicle Program	Performance	Audit Committee	In Progress
99-24	Family Services, Preliminary Review	Performance	Audit Committee	In Progress
99-29	Vendor Selection	Performance	Audit Committee	In Progress
99-30	State Vehicle Repair Division	Performance	Audit Committee	In Progress
99-31	State Telephone Contracts	Performance	Audit Committee	In Progress
99-32	Science & Technology Board	Performance	Audit Committee	In Progress
99-34	Crime Victims' Compensation Fund	Performance	Audit Committee	In Progress
99-35	Satellite Print Shops	Performance	Audit Committee	In Progress
99-36	P/P/S System	Performance	Audit Committee	In Progress
99-27	Highways EDP Audit	EDP Audit	Highways/Audit Standards	In Progress
99-28.1	Central Review, Harvart Waiver	EDP Audit	Federal law/State law/Audit standards	In Progress
99-28.2	Central Review, Central Payroll	EDP Audit	Federal law/State law/Audit standards	In Progress
99-29.3	Central Review, EDPs	EDP Audit	Federal law/State law/Audit standards	In Progress
99-28.4	Central Review, ITF	EDP Audit	Federal law/State law/Audit standards	In Progress
99-13	Schedule of Adjustments	Financial (project)	Audit standards	In Progress
99-14	Prison Assets and Inventory	Compliance	Audit standards	In Progress
99-17	School Equalization	Financial (project)	Legislators	In Progress
99-32	Markers Camp Cash Flow	Financial (project)	Legislators	In Progress
99-37	QPI, Data Base	Financial (project)	Legislators	In Progress
99-44	Medicaid Waiver	Financial-Compliance	Federal law/Agency	In Progress
99-50	General Fund Deposit - Bond Issuance	Compliance	Legislative Auditor	In Progress
99-57	DD Waiver	Compliance	Federal law/State law	In Progress
99C	Contracts General/PTOP	Compliance	Federal law/State law	In Progress
99-01	Statewide Audit	Financial	Federal law/State law	In Progress
99-02	Single Audit Report	Financial	Federal law/State law	In Progress
99-03	Board of Investments	Financial-Compliance	Federal law/State law	In Progress
99-04	Appropriation Central Review	Financial-Compliance	Federal law/State law	In Progress
99-05	Labor and Industry	Financial-Compliance	State law/Audit standards	In Progress
99-05	Revenue	Financial-Compliance	Federal law/State law	In Progress
99-07	Indefinitives	Financial-Compliance	Federal law/State law	In Progress

