A Report
to the
Montana
Legislature

Legislative Audit
Division

18-14

Financial-Compliance Audit

Department of Revenue

For the Two Fiscal Years Ended June 30, 2018

November 2018

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Financial-Compliance Audits

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most 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, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

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LEGISLATIVE AUDIT DIVISION

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Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

November 2018

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Revenue for the two fiscal years ended June 30, 2018. Included in this report are three recommendations related to property tax allocation, Statutory Appropriation Authority, and capitalization of GenTax improvements.

During the audit we focused our audit efforts primarily on the department's activities related to tax collections and distributions to local governments. The department receives approximately $2 billion dollars each year in taxes, comprised of individual income, corporate, natural resources, and property taxes. Other testing included, but was not limited to, transactions related to liquor, coal taxes, and transfers-in and out. Our audit work included understanding the department's internal control policies and procedures, performing analytical procedures, and reviewing accounting transactions. We also reviewed and tested compliance with selected state laws and department policy.

The department's written response to the audit recommendation is included in the audit report on page C-1. We thank the director 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 Revenue

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Kristan Barbour, Director, Taxpayer Assistance and Public Outreach

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Ed Caplis, Director, Tax Policy and Research

Lee Baerlocher, Administrator, Business and Income Tax Division

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Montana Legislative Audit Division

Financial-Compliance Audit
Department of Revenue
For the Two Fiscal Years Ended June 30, 2018

November 2018 | 18-14 | Report Summary

The Montana Department of Revenue administers state tax laws by enforcing regulations for more than 38 state taxes and fees. The department collected approximately $1.9 billion in taxes in fiscal year 2017, and $2.2 billion in fiscal year 2018. Of this, over $56.6 million was distributed to local governments in fiscal year 2017, and $64 million in fiscal year 2018.

Context

Of the total tax collections, the Department of Revenue (department) deposited around $1.7 billion in fiscal year 2017, and $1.9 billion in fiscal year 2018 in the General Fund. The main sources of these taxes are listed below.

- Individual Income
- Property
- Natural Resources
- Corporate
- Liquor/Alcohol

In addition to tax administration, the department establishes values for all taxable property. The department also manages unclaimed property, such as abandoned safety deposit boxes, and attempts to return property to its rightful owners. They oversee liquor distribution and licensing operations in the state and administer the eStop licensing program and bad debt collections on behalf of state agencies. The eStop program allows businesses to apply for or renew up to eight state licenses all at once with one payment.

We reviewed the department's internal controls, performed analytical procedures, and reviewed accounting transactions. We also tested the department's compliance with over 70 state laws and regulations, related but not limited to, income tax deductions, unclaimed property, estate tax, cement taxes, and disposal of tax records.

Results

This report contains three recommendations related to property tax allocation, statutory appropriation, and capitalization of GenTax upgrades. We determined education-related property tax submitted to the department is not allocated as required by state law. The 2017 budgeted amount for the combined oil and gas production distribution to local governments was significantly more than the distributed amount due to a budget input error. In addition, costs incurred by the department for a GenTax system upgrade in fiscal year 2017 were capitalized by the Department of Administration resulting in a misstatement on the Department of Revenue's financial schedules.

As a result of the audit, we issued an unmodified opinion on the department's financial schedules except for the Schedule of Total Expenditures & Transfers -Out for the fiscal year ended June 30, 2017, for which we issued a Qualified Opinion. We issued a qualified opinion related to the Budget Authority amount in the Citizen Services &

(continued on back)

Resource Management Division. This means readers can rely on all other information presented on the financial schedules.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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Call toll-free 1-800-222-4446, or e-mail **lad@mt.gov.**

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Department of Revenue (department) for the two fiscal years ended June 30, 2018. The objectives of our audit were to:

1. Determine whether the department's financial schedules present fairly the results of operations and changes in fund equity for each of the fiscal years ended June 30, 2018, and 2017.
2. Obtain an understanding of the department's internal control system to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.
3. Determine whether the department complied with selected state laws and regulations during the audit period.
4. Determine the implementation status of prior audit recommendations.

During the audit we focused our audit efforts primarily on the department's activities related to tax collections and distributions to local governments. The department receives approximately $2 billion dollars each year in taxes, comprised of individual income, corporate, natural resources, and property taxes. Other testing included, but was not limited to, transactions related to liquor, coal taxes, and transfers-in and out. Our audit work included understanding the department's internal control policies and procedures, performing analytical procedures, and reviewing accounting transactions. We also reviewed and tested compliance with selected state laws and department policy.

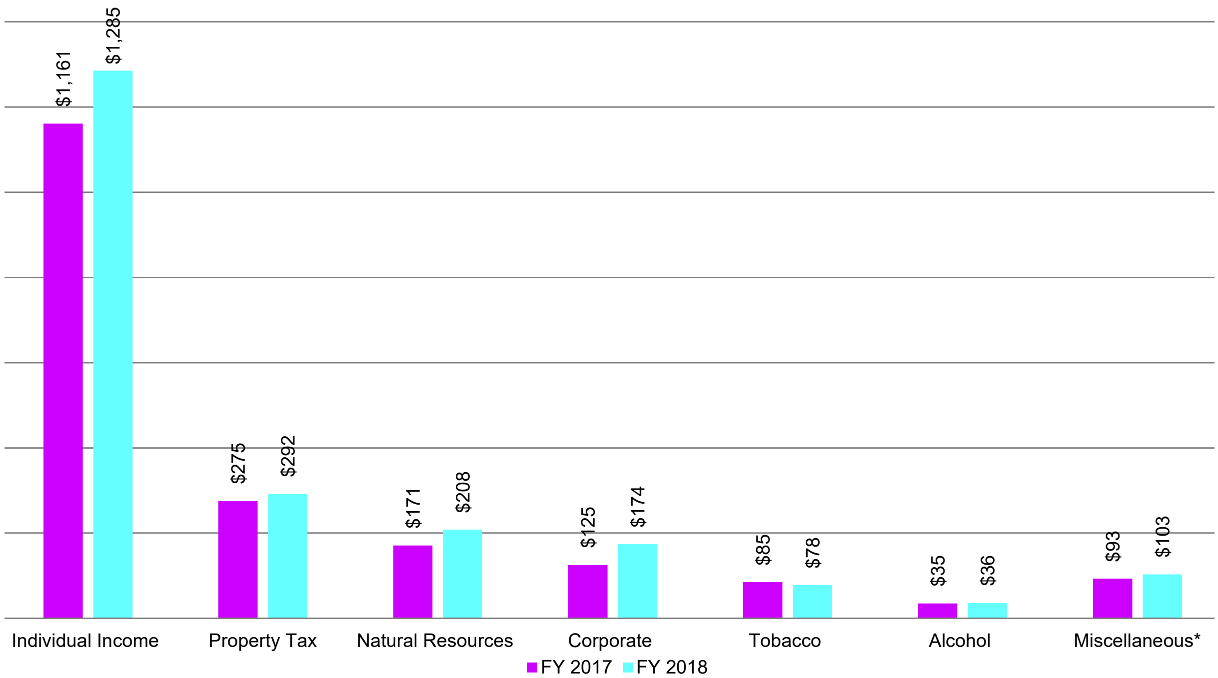
As required by §17-8-101(6), MCA, we analyzed the fees and charges for services and the fund equity of the department's internal service fund, which is used to provide bad debt collection services to state agencies. Bad debt collections primarily occur during the months of January through June when the department is able to offset the debts against requested tax refunds. Due to the timing of the collections, our review noted that at June 30, 2018, and 2017, ending fund equity was around $50,000. The fund equity is spent down from July through December when collections lag and expenditures exceed revenues. Because fees are commensurate with cost for the year as a whole and working capital was not excessive, we consider fund equity reasonable.

Department Organization and Functions

The department is responsible for the administration of state tax laws and enforcing regulations for numerous state taxes and fees. Revenues collected by the department include, but are not limited to, individual income, corporate income, natural resource, lodging facility use, accommodation, property, alcohol, and tobacco taxes.

Department tax revenues are recorded primarily in the General, State Special Revenue, and Permanent Funds. Additionally, the department regulates the sale and distribution of alcoholic beverages in the state. The associated taxes are recorded in the Enterprise Fund. Figure 1 shows the total taxes collected by the department in fiscal years 2017 and 2018 by type.

Figure 1
Taxes by Tax Type
Fiscal Years 2017 and 2018 (in millions)



Source: Compiled by the Legislative Audit Division from State Accounting, Budgeting and Human Resources System records.

*Includes railroad car, energy, contractors gross receipts, car rental consumer counsel, and Public Service Commission taxes.

The department also distributes various tax revenues based on requirements in law. The two largest distributions relate to the local government's entitlement share revenue and oil and natural gas production taxes. The entitlement share is recorded in the Director's Office Program. The distributions of oil and natural gas production taxes to counties and school districts are recorded in the Citizen Services & Resource Management Division Program.

For fiscal year 2017-18, the department employed a total of 665 full-time equivalent (FTE) employees. The department consists of the Director's Office administering four divisions.

Alcoholic Beverage Control Division (formerly the Liquor Control Division) (32.75 FTE) administers the state's Alcoholic Beverage Code, which governs the control, sale, and distribution of alcoholic beverages. The division includes licensing of brokers, manufacturers, wholesalers, importers, and retailers.

Business and Income Taxes Division (138.61 FTE) administers and collects 38 Montana taxes and fees, oversees tax audits and verifies compliance with Montana tax laws for all state taxes, oversees state revenue collection activity, and completes appraisals and assessments of industrial and centrally assessed property.

Citizen Services and Resource Management Division (104.45 FTE) administers the call center (tax help), forms design, eStop business licensing coordination, receipt and distribution of unclaimed property, collection of delinquent accounts and return and payment processing. The division provides support services to the department in the areas of accounting, purchasing and facilities, and asset management. The division includes the Citizen Services, Financial, and Asset Management Bureau, the Collections Bureau, and the Information Management Bureau.

Director's Office (87.19 FTE) provides overall department direction and management. It also supports the agency's director and is composed of the following ten work units:

- Legal Services
- Tax Policy and Research
- Human Resources
- Executive Office
- Office of Taxpayer Assistance
- Information Technology Office
- Enterprise Planning & Analysis Office
- Security Office
- Public Information Office
- Budget and Finance Office

Property Assessment Division (302.77 FTE) is responsible for the valuation and assessment of residential, commercial, agricultural, forestland, and business equipment property throughout the state for property tax purposes. The division has a central office located in Helena, and four regional offices.

Advisory Councils, Boards, and Memberships

The department is a member of the Multistate Tax Commission, the Federation of Tax Administrators, the Western States Association of Tax Administrators, the National Alcohol and Beverage Control Association, the International Association of Assessing Officers, and the National Association of Unclaimed Property Administrators. The department's advisory councils include the:

Agricultural Land Valuation Advisory Council is created by §15-7-201(7), MCA, to advise the department concerning the valuation of agricultural property. This council must include a staff member from the Montana State University-Bozeman, College of Agriculture. This advisory council is not a policy making body and has no rule making authority.

Board of Review established in §30-16-302, MCA, and provides policy direction to the department in establishing and operating the eStop business licensing program. The board is attached to the department for administrative purposes only and has separate rule-making authority under §30-16-104, MCA.

Forest Land Taxation Advisory Council is created by §15-44-103(10), MCA, to advise the department concerning the valuation of forest land property. The committee consists of seven members, four members with expertise in forest matters, and three members appointed by the governor.

Prior Audit Recommendations

The prior audit for the two fiscal years ended June 30, 2016, contained two recommendations. The department implemented the one related to prior year tax revenues and partially implemented the other.

The partially implemented recommendation relates to the department being late in providing property tax documents required by state law to around 20 percent of the counties. Section 15-10-202, MCA, requires the department to certify to each taxing authority the total taxable value within the jurisdiction of the taxing authority by the first Monday in August. Section 15-10-305(2), MCA, also requires the department to complete the computation of the amount of taxes, fees, and assessments to be levied against property and notify the county clerk and recorder and county treasurer by the second Monday in October. Property taxes are a key source of revenue for K-12 schools and the universities. Meeting the dates set in law for reporting tax information is key for ensuring property taxes levied are accurate and complete. Department personnel acknowledged their tardiness, but deemed the delays necessary to get the most accurate information to certify tax values, which sometimes involves additional exchanges of data with counties that take more time.

We found the department improved on providing tax information to counties by the required deadlines since the last audit. The department submitted information to eight counties after the deadline (ranging from 1 day to 16 days late) in fiscal year 2017, and to two counties (both were one day late) in fiscal year 2018. Since the department improved, we make no further recommendation at this time, and will follow up on this recommendation in the department's next audit.

Chapter II – Findings and Recommendations

Financial Reporting Internal Controls

State accounting policy requires state agencies to implement internal control procedures. A control procedure is a process designed to provide management with reasonable assurance it will achieve its objectives related to financial accountability and compliance with laws and regulations. Deficiencies in internal controls increase the risk an agency will not identify inappropriate or inaccurate transactions and financial information in a timely manner, or be able to ensure its financial schedules are free from material misstatement. The following two sections describe areas where the Department of Revenue (department) can make improvements in internal control.

Misstatement in Budget Authority

The department's fiscal year 2017 statutory appropriation budget authority for oil and gas tax distributions contained a significant error.

A statutory appropriation is an appropriation made by permanent law that authorizes spending by a state agency without the need for a biennial legislative appropriation or budget amendment. The Governor's Office of Budget and Program Planning (OBPP) calculates the amount of the statutory appropriations that are initially loaded into the state's accounting system based on the best information they have at the time, including estimates made by individual departments. Many of the amounts are driven by the amount of the revenue estimate for the revenue source of the appropriation. The appropriation amount may be adjusted during the year if necessary through the Budget Change Document process.

Prior to each legislative session, the department calculates an initial appropriation amount for its statutory authority as part of its budget package submission to OBPP. The department's statutory appropriations include oil and gas revenues to be disbursed to local governments. Those initial appropriation amounts are subject to change as a result of new legislation, such as changes in tax rates and distribution requirements. The effect of these types of changes are included in the final budget amounts.

According to OBPP staff, for the 2015 Legislative Session, the legislature used the first year of the previous biennium as the base budget rather than using actual expenditures from the second year. This means the department's 2017 statutory appropriation was based on actual expenditures incurred for fiscal year 2012. Fiscal year 2012 expenditures were significantly higher as the oil and gas production taxes collected in fiscal year 2012 were more than double the revenues realized in fiscal year 2017. As a result, the Citizen Services & Resource Management Division budget authority is overstated by $46 million on the Schedule of Total Expenditures & Transfers-Out. The budget authority is correctly established in fiscal year 2018.

Department personnel state the budget authority submitted by the department was changed during the session resulting in the overstatement. However, the department can submit a budget change request to decrease the budget authority if the final statutory appropriation amount is unreasonable. It is common for the department to submit these requests to increase their budget authority if the estimates made to calculate the initial statutory appropriations turn out to be too low. But it is also their responsibility to submit requests to decrease their budget authority if the reverse is true and the estimates turn out to be too high. While the department monitors its budget to ensure appropriations are not overspent, the department's monitoring controls do not include reviews for reasonable levels of statutory authority. The risk exists of over spending if the budget authority is too high.

Recommendation #1

We recommend the Department of Revenue review final statutory authority amounts and seek budget reductions when necessary.

Allocation of Property Tax Collected

Enhancements in the department's internal control are required to ensure appropriate allocation of property tax revenues in support of Montana's public elementary schools and high schools and of the Montana University System.

County governments are required to collect and remit monies due to the state monthly. This includes property taxes assessed per the mill levies in support of the state's public elementary and high school districts, as well as the Montana University system. The department monitors to ensure a collection is received from each county every month, and reconciles the amount reported by the county to the amount received monthly.

Using the mills established in state law, we developed an expectation of the allocation of property tax revenues to each the general fund (in support of public elementary and high school districts) and state special revenue fund (in support of the Montana University System). We compared the breakdown of property tax receipts for each county to the actual monies collected and recorded on State Accounting, Budget and

Human Resource System (SABHRS). We identified 11 counties in fiscal year 2017 and ten counties in fiscal year 2018 for which the expected allocation was not achieved. We identified differences in the revenues recorded in the state's general fund and the state special revenue fund account, as compared to the expected allocation of property tax mill revenues. Differences at the county level, between the General Fund and State Special Revenue Fund ranged from $168 and $334,000. State law dictates the way property taxes, based on mills, should be credited on the state's accounting system.

We estimate the following misstatements recorded on SABHRS:

Table 1

Mill Levy Allocation

Fiscal Year	General Fund - 55 Mills Elementary Aid	General Fund - 40 Mills High School Aid	State Special Revenue Fund - 6 Mills (University System Aid)
2017	Overstated by $264,352	Understated by $420,488	Overstated by $156,096
	In Total, General Fund is understated by $156,096		
2018	Overstated by $609,941	Understated by $546,948	Understated by $62,993
	In Total, General Fund is overstated by $62,993		

Source: Compiled by the Legislative Audit Division from SABHRS records.

For completeness purposes, the department analyzes the property tax collections as a whole and not to the individual account level. The counties are submitting the property tax through the County Collection Report and are required to allocate the property tax properly between the mills. We found 11 counties in fiscal year 2017 and 10 counties in fiscal year 2018 where amounts submitted by the counties did not equate to the expected allocation in statute. The department receives the collection reports and enters the amounts reported by the counties into SABHRS as long as the total tax reported agrees to the amount of dollars submitted to the department. The department does not have a control to ensure the allocation between the mills is correct, but rather enters the amounts as reported by the counties. The department is the only agency that sees the total amount collected and would have the ability to monitor the allocation between the various mills accounts. Without controls to evaluate whether property taxes are received in the appropriate allocations, the department cannot ensure funds are available to entities intended in state law.

Recommendation #2

We recommend the Department of Revenue enhance internal controls to review county-submitted property tax revenue allocations to ensure they are in compliance with state law.

GenTax Upgrade Capitalization

GenTax upgrades were paid for by the Department of Revenue, but capitalized by the Department of Administration.

GenTax is a complete tax processing software package designed to support the department's implementation of multiple taxes. In fiscal year 2017, the Department of Revenue (department) completed a $2.5 million upgrade to the GenTax computer system. Approximately $800,000 in costs were incurred in fiscal year 2016. Upon completion, the total cost incurred by the department was capitalized by the Department of Administration. By capitalizing costs, the department recognizes the expense of the GenTax upgrade over the life of the asset.

The 2003 Legislative Session provided funding for the GenTax system. It also required the project costs be paid through the Department of Administration's Capital Projects Fund. Department personnel stated that since the initial capitalization of the system and subsequent costs have consistently been capitalized through the Department of Administration's capital projects fund, the recent upgrade followed suit. The costs of the upgrade added value to the system and therefore, must be capitalized. According to state accounting policy, these expenses were properly charged against funds appropriated to the department. Unlike the initial implementation, the department incurred and paid the costs being capitalized for the GenTax upgrade, and therefore, should report those costs as capital outlay costs.

State accounting policy requires specific transactions to be recorded to the states accounting records when costs are capitalized. The department did not record all required transactions resulting in the capital outlay costs being recorded by the Department of Administration, the department's Personal Services costs are overstated by $1,162,622, Contracted Service Costs are overstated by $500,000 and Capital Outlay costs were understated by $1,662,622 in fiscal year 2017. (Table 2 see page 11).

Table 2

Errors in Department of Revenue's General Fund Expenditures

Fiscal Year 2017

	GenTax Upgrade Expenditures Recorded	Amount Over (Under)stated
Personal Services	$1,162,622	$1,162,622
Operating	$500,000	$500,000
Capital Outlay		($1,662,622)

Source: Compiled by the Legislative Audit Division from SABHRS records.

The corresponding errors on the Department of Administrations accounting records is addressed in the #18-13 Department of Administration report, Recommendation #4. In combination with the error identified at the Department of Administration, there is no effect on the state's Comprehensive Annual Financial Report (CAFR).

Recommendation #3

We recommend the Department of Revenue record expenditures related to GenTax upgrades according to state accounting policy.

Independent Auditor’s Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction
We have audited the accompanying Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Revenue for each of the fiscal years ended June 30, 2018, and 2017, and the related notes to the financial schedules.

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

Auditor's Responsibility
Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the department's preparation and fair presentation of the financial schedules 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, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness

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of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

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

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.

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" paragraph, 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, 2018, and June 30, 2017, or changes in financial position for the years then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

As described in note 6, the 2017 budgeted amount for the combined oil and gas production distribution to local governments was significantly more than the distributed amount due to a budget input error. The statutory appropriation was not properly adjusted to reflect expected fiscal year 2017 revenue collections. As a result, the Citizen Services & Resources Management Division budget authority is overstated by $46 million on the Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2017.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2017, presents fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Department of Revenue for the fiscal year ended June 30, 2017, in conformity with the basis of accounting described in Note 1.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, for each of the fiscal years ended June 30, 2018, and 2017, and the Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2018, presents fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Department of Revenue for each of the fiscal years ended June 30, 2018, and 2017, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2018, on our consideration of the Department of Revenue'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 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

October 5, 2018

DEPARTMENT OF REVENUE
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2017	$ (48,568,544)	$ 30,164,820	$ (4)	$ 547,536	$ 1,352,307	$ 5,195,562	$ (45,301)	$ 0	$ 1,466,666	$ 1,206,552,412
PROPERTY HELD IN TRUST: July 1, 2017								$ 435,815		
ADDITIONS										
Budgeted Revenues & Transfers-In	1,997,396,178	275,631,257	437,315		8,811,775	127,909,905	260,921			77,210,957
Nonbudgeted Revenues & Transfers-In	1,400,231	5,580,662	236	1,852,521		80,747	2,361		3,928,101	(6,946,622)
Prior Year Revenues & Transfers-In Adjustments	(736,950)	1,563,959	4	11,068	301,304	(16,591)			(143)	575,020
Direct Entries to Fund Equity	(1,816,254,693)	(213,874,008)		(1,748,280)	(8,654,232)	(421,484)	33,388	0		(1,113,940)
Additions to Property Held in Trust								7,882,067		
Total Additions	181,804,768	68,901,871	437,554	115,309	458,846	127,552,578	296,671	7,882,067	3,927,958	69,725,415
REDUCTIONS										
Budgeted Expenditures & Transfers-Out	183,142,877	65,838,407	437,550			125,941,631	216,816			
Nonbudgeted Expenditures & Transfers-Out	29,156	762,276			0	102,830	9,773		4,086,103	77,250,920
Prior Year Expenditures & Transfers-Out Adjustments	(88,975)	(423,667)				(3,655)				
Reductions in Property Held in Trust								8,015,592		
Total Reductions	183,083,058	66,177,017	437,550	0	0	126,040,805	226,589	8,015,592	4,086,103	77,250,920
FUND EQUITY: June 30, 2018	$ (49,846,834)	$ 32,889,673	$ 0	$ 662,845	$ 1,811,153	$ 6,707,334	$ 24,781	$ 0	$ 1,308,522	$ 1,199,026,907
PROPERTY HELD IN TRUST: June 30, 2018								$ 302,290		

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 REVENUE
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2016	$ (50,802,295)	$ 25,436,523	$ (13)	$ 496,993	$ 2,241,852	$ 4,106,326	$ 106,821	$ 0	$ 1,466,919	$ 1,215,903,368
PROPERTY HELD IN TRUST: July 1, 2016								$ 160,874		
ADDITIONS										
Budgeted Revenues & Transfers-In	1,798,388,164	255,018,118	476,128		8,818,632	123,951,309	78,093			83,887,160
Nonbudgeted Revenues & Transfers-In	10,694,860	4,684,652		1,585,078		563,487	2,420		3,562,759	(11,660,425)
Prior Year Revenues & Transfers-In Adjustments	(1,975,930)	45,778		(18,799)	(1,342,340)	(315,556)	(24,237)			(6,229,910)
Direct Entries to Fund Equity	(1,616,603,619)	(197,192,365)		(1,515,736)	(8,365,837)	(1,082,139)				(1,070,924)
Additions to Property Held in Trust								7,474,679		
Total Additions	190,503,475	62,556,183	476,128	50,542	(889,545)	123,117,100	56,277	7,474,679	3,562,759	64,925,901
REDUCTIONS										
Budgeted Expenditures & Transfers-Out	188,301,975	57,114,538	475,252			122,193,759	196,480			
Nonbudgeted Expenditures & Transfers-Out		175,274	0			114,441	11,888		3,566,994	74,276,857
Prior Year Expenditures & Transfers-Out Adjustments	(32,252)	538,074	866			(280,336)	31		(3,982)	
Reductions in Property Held in Trust								7,199,739		
Total Reductions	188,269,723	57,827,887	476,119	0	0	122,027,864	208,399	7,199,739	3,563,012	74,276,857
FUND EQUITY: June 30, 2017	$ (48,568,544)	$ 30,164,820	$ (4)	$ 547,536	$ 1,352,307	$ 5,195,562	$ (45,301)	$ 0	$ 1,466,666	$ 1,206,552,412
PROPERTY HELD IN TRUST: June 30, 2017								$ 435,815		

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 REVENUE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS										
Licenses and Permits	$ 4,434,255	$ 35,813,719				$ 2,321,996				$ 42,569,969
Taxes	1,918,649,109	187,581,764		$ 1,863,589	$ 9,113,078	28,825,810			$ 32,493,690	2,178,527,041
Charges for Services	4,034	14,417,196				6,660	$ 260,921			14,688,810
Investment Earnings	(41,925)							$ 11,638	8,239,256	8,208,969
Fines and Forfeits						237,524				237,524
Sale of Documents, Merchandise and Property						96,512,973				96,512,973
Grants, Contracts, and Donations	9,450,532	633,101				28,335	2,361	3,916,320		14,030,649
Transfers-in	52,621,710	37,357,899							30,106,409	120,086,018
Federal Indirect Cost Recoveries	67,148		$ 236							67,383
Miscellaneous	(7,958,053)	27,983				40,763				(7,889,306)
Federal	20,832,651	6,944,217	437,318							28,214,186
Total Revenues & Transfers-In	1,998,059,460	282,775,878	437,554	1,863,589	9,113,078	127,974,062	263,282	3,927,958	70,839,355	2,495,254,217
Less: Nonbudgeted Revenues & Transfers-In	1,400,231	5,580,662	236	1,852,521		80,747	2,361	3,928,101	(6,946,622)	5,898,238
Prior Year Revenues & Transfers-In Adjustments	(736,950)	1,563,959	4	11,068	301,304	(16,591)		(143)	575,020	1,697,672
Actual Budgeted Revenues & Transfers-In	1,997,396,178	275,631,257	437,315	0	8,811,775	127,909,905	260,921	0	77,210,957	2,487,658,308
Estimated Revenues & Transfers-In	2,024,039,963	263,288,599	300,001		8,573,000	134,482,824	200,000		75,980,687	2,506,865,074
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (26,643,785)	$ 12,342,658	$ 137,314	$ 0	$ 238,775	$ (6,572,919)	$ 60,921	$ 0	$ 1,230,270	$ (19,206,766)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS										
Licenses and Permits	$ 101,942	$ 4,356,151				$ (2,419,604)				$ 2,038,488
Taxes	(22,664,594)	6,389,198			$ 238,775	(1,586,577)			$ 490,550	(17,132,648)
Charges for Services	(274,694)	(182,271)	$ (1)			1,860	$ 60,921			(394,184)
Investment Earnings	(41,926)	(1)							196,679	154,752
Fines and Forfeits						115,100				115,100
Capital Contributions	(77,000)									(77,000)
Sale of Documents, Merchandise and Property						(2,683,697)				(2,683,697)
Grants, Contracts, and Donations	5,587,373	17,869								5,605,242
Transfers-in	(3,054,533)	1,880,646							543,042	(630,845)
Federal Indirect Cost Recoveries	(18,330)									(18,330)
Miscellaneous	(5,844,222)	(1)								(5,844,223)
Federal	(357,801)	(118,934)	137,315							(339,420)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (26,643,785)	$ 12,342,658	$ 137,314	$ 0	$ 238,775	$ (6,572,919)	$ 60,921	$ 0	$ 1,230,270	$ (19,206,766)

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DEPARTMENT OF REVENUE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS										
Licenses and Permits	$ 4,646,620	$ 31,491,955				$ 2,371,412				$ 38,509,986
Taxes	1,713,405,846	173,547,633		$ 1,566,279	$ 7,476,292	27,938,936			$ 24,715,749	1,948,650,735
Charges for Services	3,950	14,393,806				7,162	$ 53,857			14,458,774
Investment Earnings								$ 7,057	13,805,693	13,812,750
Fines and Forfeits						136,615				136,615
Sale of Documents, Merchandise and Property						93,673,649				93,673,649
Grants, Contracts, and Donations	8,150,062	651,046				32,396	2,420	3,555,703		12,391,626
Transfers-in	53,981,705	33,556,561							27,475,383	115,013,649
Federal Indirect Cost Recoveries	75,011									75,011
Miscellaneous	8,713,180	63,975				39,071				8,816,226
Federal	18,130,720	6,043,573	$ 476,128							24,650,422
Total Revenues & Transfers-In	1,807,107,094	259,748,549	476,128	1,566,279	7,476,292	124,199,240	56,277	3,562,759	65,996,825	2,270,189,444
Less: Nonbudgeted Revenues & Transfers-In	10,694,860	4,684,652		1,585,078		563,487	2,420	3,562,759	(11,660,425)	9,432,831
Prior Year Revenues & Transfers-In Adjustments	(1,975,930)	45,778		(18,799)	(1,342,340)	(315,556)	(24,237)		(6,229,910)	(9,860,992)
Actual Budgeted Revenues & Transfers-In	1,798,388,164	255,018,118	476,128	0	8,818,632	123,951,309	78,093	0	83,887,160	2,270,617,605
Estimated Revenues & Transfers-In	2,011,646,950	276,447,859	225,001		8,715,900	119,386,846	200,000		99,413,500	2,516,036,056
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (213,258,786)	$ (21,429,741)	$ 251,127	$ 0	$ 102,732	$ 4,564,463	$ (121,907)	$ 0	$ (15,526,340)	$ (245,418,451)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS										
Licenses and Permits	$ 146,877	$ (453,119)				$ (234,054)				$ (540,296)
Taxes	(203,776,219)	(22,273,143)			$ 102,732	2,489,115			$ (878,630)	(224,336,145)
Charges for Services	(274,013)	(785,008)	$ (1)			4,000	$ (121,907)			(1,176,929)
Investment Earnings	(1)	(1)							406,264	406,262
Fines and Forfeits						54,712				54,712
Capital Contributions	(77,000)									(77,000)
Sale of Documents, Merchandise and Property						2,250,690				2,250,690
Grants, Contracts, and Donations	4,127,462	47,045								4,174,506
Transfers-in	(190,605)	4,485,398							(15,053,974)	(10,759,180)
Federal Indirect Cost Recoveries	(18,330)									(18,330)
Miscellaneous	(5,844,222)	(1)								(5,844,223)
Federal	(7,352,735)	(2,450,912)	251,128							(9,552,518)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (213,258,786)	$ (21,429,741)	$ 251,127	$ 0	$ 102,732	$ 4,564,463	$ (121,907)	$ 0	$ (15,526,340)	$ (245,418,451)

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 REVENUE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Alcoholic Beverage Control Division	Business & Income Taxes Division	Citizen Services & Resource Management	Director's Office	Property Assessment Division	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT						
Personal Services						
Salaries	$ 1,555,853	$ 6,868,392	$ 3,601,660	$ 5,578,406	$ 12,054,982	$ 29,659,292
Employee Benefits	465,186	2,535,627	1,511,980	1,784,080	4,956,273	11,253,146
Personal Services-Other	6,630		(1,514)			5,116
Total	2,027,669	9,404,019	5,112,126	7,362,486	17,011,255	40,917,555
Operating Expenses						
Other Services	114,809	490,748	701,917	2,048,400	707,711	4,063,585
Supplies & Materials	62,543	90,674	68,301	225,032	370,630	817,179
Communications	45,629	178,445	869,550	170,287	439,319	1,703,230
Travel	40,573	104,788	2,334	57,157	66,543	271,397
Rent	44,628	333,502	745,879	200,205	1,751,262	3,075,477
Utilities	49,245					49,245
Repair & Maintenance	34,768	178	26,003	2,429,924	4,717	2,495,590
Other Expenses	171,297	176,785	95,591	194,435	36,213	674,321
Goods Purchased For Resale	81,686,081					81,686,081
Total	82,249,573	1,375,120	2,509,576	5,325,440	3,376,396	94,836,104
Equipment & Intangible Assets						
Equipment	(24,100)			10,135	10,135	(3,830)
Total	(24,100)			10,135	10,135	(3,830)
Capital Outlay						
Other Improvements	(79,304)					(79,304)
Total	(79,304)					(79,304)
Local Assistance						
From State Sources			64,206,155	133,852,757		198,058,913
Total			64,206,155	133,852,757		198,058,913
From Other Sources						
Distrib from Priv Purp Trusts			4,080,269			4,080,269
Total			4,080,269			4,080,269
Transfers-out						
Fund transfers	41,271,703	697,041		10	77,256,754	119,225,508
Total	41,271,703	697,041		10	77,256,754	119,225,508
Debt Service						
Loans	9,124					9,124
Capital Leases				1,858	376	2,234
Installment Purchases					270	270
Total	9,124			1,858	646	11,628
Post Employment Benefits						
Other Post Employment Benefits	8,356		860			9,216
Employer Pension Expense	227,066		18,917			245,983
Total	235,422		19,777			255,199
Total Expenditures & Transfers-Out	$ 125,690,086	$ 11,476,181	$ 75,927,903	$ 146,552,686	$ 97,655,186	$ 457,302,042
EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund		$ 9,630,242	$ 7,134,847	$ 145,933,838	$ 20,384,131	$ 183,083,058
State Special Revenue Fund	$ 63,521	1,408,388	64,446,196	244,611	14,301	66,177,017
Federal Special Revenue Fund		437,550				437,550
Capital Projects Fund		0				0
Enterprise Fund	125,626,565		40,003	374,237		126,040,805
Internal Service Fund			226,589			226,589
Private Purpose Trust Fund			4,080,269		5,834	4,086,103
Permanent Fund					77,250,920	77,250,920
Total Expenditures & Transfers-Out	125,690,086	11,476,181	75,927,903	146,552,686	97,655,186	457,302,042
Less: Nonbudgeted Expenditures & Transfers-Out	166,351	756,297	4,083,796	(7,527)	77,242,141	82,241,058
Prior Year Expenditures & Transfers-Out Adjustments	(3,655)		(424,617)	(92,504)	4,479	(516,297)
Actual Budgeted Expenditures & Transfers-Out	125,527,391	10,719,884	72,268,724	146,652,717	20,408,566	375,577,281
Budget Authority	153,852,914	11,037,400	78,397,611	147,417,345	20,428,220	411,133,490
Unspent Budget Authority	$ 28,325,523	$ 317,516	$ 6,128,887	$ 764,628	$ 19,654	$ 35,556,208
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund		$ 14,647	$ 8,237	$ 418,469	$ 19,654	$ 461,007
State Special Revenue Fund		47,689	6,118,258	346,159		6,512,107
Federal Special Revenue Fund		255,179				255,179
Enterprise Fund	$ 28,325,523					28,325,523
Internal Service Fund			2,392			2,392
Unspent Budget Authority	$ 28,325,523	$ 317,516	$ 6,128,887	$ 764,628	$ 19,654	$ 35,556,208

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DEPARTMENT OF REVENUE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Business & Income Taxes Division	Citizen Services & Resource Management Division	Director's Office	Liquor Control Division	Property Assessment Division	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT						
Personal Services						
Salaries	$ 6,813,564	$ 4,070,653	$ 5,737,372	$ 1,577,456	$ 12,674,886	$ 30,873,931
Hourly Wages					51	51
Employee Benefits	2,730,555	1,862,215	1,946,914	551,173	5,680,108	12,770,964
Personal Services-Other		2,161		(65,667)		(63,506)
Total	9,544,119	5,935,029	7,684,286	2,062,962	18,355,044	43,581,440
Operating Expenses						
Other Services	469,470	681,351	2,674,180	82,173	666,935	4,574,109
Supplies & Materials	129,200	90,614	612,058	120,324	448,925	1,401,122
Communications	183,939	1,104,683	169,218	50,809	457,526	1,966,174
Travel	202,163	17,598	123,799	29,290	191,833	564,683
Rent	261,076	797,281	229,272	13,989	1,718,340	3,019,959
Utilities				54,844		54,844
Repair & Maintenance	15,501	31,695	3,578,087	58,638	29,318	3,713,239
Other Expenses	129,594	23,893	260,039	(46,998)	30,164	396,690
Goods Purchased For Resale				78,961,363		78,961,363
Total	1,390,944	2,747,115	7,646,652	79,324,432	3,543,041	94,652,184
Equipment & Intangible Assets						
Equipment		14,529	13,906	32,892	22,845	84,172
Total		14,529	13,906	32,892	22,845	84,172
Capital Outlay						
Total						
Local Assistance						
From State Sources		56,635,328	133,457,310			190,092,638
Total		56,635,328	133,457,310			190,092,638
From Other Sources						
Distrib from Priv Purp Trusts		3,544,011				3,544,011
Total		3,544,011				3,544,011
Transfers-out						
Fund transfers		0	250	39,952,657	74,428,643	114,381,551
Total		0	250	39,952,657	74,428,643	114,381,551
Debt Service						
Loans				9,775		9,775
Capital Leases			4,459		502	4,960
Installment Purchases					1,138	1,138
Total			4,459	9,775	1,640	15,874
Post Employment Benefits						
Other Post Employment Benefits		8,867		128,431		137,298
Employer Pension Expense		11,169		149,523		160,692
Total		20,036		277,954		297,990
Total Expenditures & Transfers-Out	$ 10,935,063	$ 68,896,050	$ 148,806,863	$ 121,660,673	$ 96,351,213	$ 446,649,862
EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund	$ 9,781,491	$ 8,259,889	$ 148,320,074		$ 21,908,269	$ 188,269,723
State Special Revenue Fund	677,453	56,843,747	117,111	$ 42,489	147,086	57,827,887
Federal Special Revenue Fund	476,119	0				476,119
Enterprise Fund		40,003	369,678	121,618,183		122,027,864
Internal Service Fund		208,399				208,399
Private Purpose Trust Fund		3,544,011			19,001	3,563,012
Permanent Fund					74,276,857	74,276,857
Total Expenditures & Transfers-Out	10,935,063	68,896,050	148,806,863	121,660,673	96,351,213	446,649,862
Less: Nonbudgeted Expenditures & Transfers-Out		3,559,881		156,931	74,428,643	78,145,455
Prior Year Expenditures & Transfers-Out Adjustments	(42)	510,304	(6,771)	(280,336)	(753)	222,402
Actual Budgeted Expenditures & Transfers-Out	10,935,105	64,825,865	148,813,634	121,784,078	21,923,323	368,282,004
Budget Authority	11,193,221	118,256,603	149,408,509	147,979,116	21,950,491	448,787,940
Unspent Budget Authority	$ 258,116	$ 53,430,738	$ 594,875	$ 26,195,038	$ 27,168	$ 80,505,935
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund	$ 236,741	$ 213,572	$ 594,875		$ 27,168	$ 1,072,356
State Special Revenue Fund	265	53,216,999				53,217,264
Federal Special Revenue Fund	21,110					21,110
Enterprise Fund				$ 26,195,038		26,195,038
Internal Service Fund		167				167
Unspent Budget Authority	$ 258,116	$ 53,430,738	$ 594,875	$ 26,195,038	$ 27,168	$ 80,505,935

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 Revenue
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2018

1. Summary of Significant Accounting Policies

Basis of Accounting

The department 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.

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

Expenditures and expenses may include: entire budgeted service contracts even though the 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 records various tax receipts in the General Fund. The primary expenditures in the General

Fund include department payroll costs and distribution of the General Fund entitlement share payments to cities and counties.

- **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 various earmarked tax accounts.
- **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds relate to the Federal Mineral Royalty Audit Program.
- **Debt Service Fund** – to account for accumulated resources for the payment general long-term debt of principal and interest. The department deposits coal, metal mine, and resource indemnity taxes into this fund type.
- **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. Coal severance tax and cigarette tax revenues collected by the department in support of the state Long Range Building Program are accounted for in capital project funds.
- **Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs. The department uses this fund to account for its activity in the Permanent Coal Trust Fund; the Cultural Trust Fund; the Coal Severance Tax Income and Bond Funds; the Resource Indemnity Trust and Income Funds; the Treasure State Endowment, Income Regional Water System, and Regional Water Income Funds; the Big Sky Economic Development Funds; and the School Facilities Fund and Income Fund.

Proprietary Fund Category

- **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The department's Internal Service Fund accounts for other agency debt collection activity.
- **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The department's Enterprise Fund accounts for the Alcoholic Beverage Control Division's administration of the alcoholic beverage code.

Fiduciary Fund Category

- **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. Department Private-Purpose Trust Funds are used to account for unclaimed property, escheated property, and unlocated mineral owner interests.
- **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency 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. Property Held in Trust, accounts 2504A and 2504B, have a balance at fiscal year-end because other agency debts captured during the offset process must be held in a custodial manner for thirty days for debtor notification and appeal. The department agency funds are used as clearing accounts to facilitate the distribution of receipts from the administration of the eStop licensing program, the county collection reports, other agency debt collections, dishonored checks, treasury deposit and bank corrections, Automated Clearing House (ACH) collections and reversals, and account receivable activity.

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 placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2017, and June 30, 2018.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General, State Special Revenue, Debt Service, Capital Projects, Enterprise, and Permanent funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. The General Fund includes adjustments for Insure Montana Tax Credits for previous periods that occurred at least two fiscal years prior. The General Fund also includes adjustments for recording the value of unclaimed property securities and stocks. The Enterprise Fund includes correcting entries related to the retirement and reinstatement of the Alcoholic Control Division Warehouse.

4. Revenues Over (Under)

The Schedule of Total Revenues & Transfers-In for the fiscal year ended June 30, 2017, reports revenues under estimate by (213,258,786) in the General Fund and under estimate by (21,429,741) in the State Special Revenue Fund. In addition, the Schedule of Total Revenues & Transfers-In for the fiscal year ended June 30, 2018, reports revenues under estimate by (26,643,785) in the General Fund and over estimate by 12,342,658 in the State Special Revenue Fund. These are explained below:

General Fund –For the fiscal year ended June 30, 2017, income tax was overestimated by approximately $139 million because the assumptions underlying the estimates did not match actual experience. Natural resource tax revenue was less than estimated by approximately $32.3 million due to a decrease in the price of oil. In addition, actual revenues collected for property tax (95 mills) were $2.5 million less than estimated and corporation license tax revenues collected were $30.8 million less than estimated. There was also a $5.8 million unnecessary revenue estimate established in the miscellaneous receipts account. Finally, telephone license taxes were overestimated by $3 million.

For the fiscal year ended June 30, 2018, individual income tax collections were $22.7 million less than estimated because the assumptions underlying the estimates did not match actual experience. Natural resource tax revenue was higher than estimated by $6.5 million due to an increase in the price of oil. Property tax revenues were $2 million less than estimated. Also, cigarette tax revenue was $2.9 million less than estimated. Finally, there was a $5.8 million unnecessary revenue estimate established in the miscellaneous receipts account.

State Special Revenue Fund – Revenues in the state special revenue fund were less than estimated for the fiscal year 2017. Natural resource tax revenue was overestimated by $20.6 million due to a decrease in the price of oil. Also, bentonite collections were overestimated by $1.5 million. Accommodations tax collections were lower than estimated by $2.3 million. Interest earnings transfers for coal severance tax were more than estimated. The Treasure State Endowment Program Regional Water System Fund received $5 million more interest earnings transfers than originally estimated due to the Department of Natural Resources and Conservation (DNRC) establishing a large dollar amount of contract-related expenditure accruals at the end of fiscal year 2017. To avoid a negative fund balance issue, DNRC requested Department of Revenue transfer additional interest earnings. Additional revenue of $2 million was also transferred into the Treasure State Endowment Fund. The Schedule of Total Revenue & Transfers-In includes a $3 million revenue estimate in a non-budgeted transfer account for the Big Sky Economic Development Fund. Revenue transfers to this fund are not included in budgeted revenue collections on the schedule.

Revenues in the state special revenue fund were more than estimated for the fiscal year ending June 30, 2018. Natural resource tax revenue was $8.9 million higher than estimated due to an increase in the price of oil. The Schedule of Total Revenue & Transfers-In includes a $3.6 million revenue estimate in a non-budgeted transfer account for the Big Sky Economic Development Fund. Revenue transfers to this fund are not included in budgeted revenue collections on the schedule. The Treasure State Endowment Program Regional Water System Fund was established with a $3 million revenue estimate. At the end of fiscal year 2018, DNRC had established additional expenditure accruals, but did not request Department of Revenue transfer additional interest earnings. The nursing facilities fee revenue estimate was underestimated by $4.4 million due to a rate increase in fiscal year 2018. Also, due to passage of House Bill 6 in the 2017 Legislative Special Session, additional interest earnings were transferred to the Treasure State Endowment Fund. The Treasure State Endowment Fund was underestimated by $8.8 million. Finally, cigarette tax revenue was overestimated by $3.5 million.

5. Nonbudgeted Expenditures and Transfers-Out

Nonbudgeted Expenditures and Transfers-Out in the permanent fund, on the Schedule of Changes in Fund Equity & Property Held in Trust, is approximately 74,276,857 for fiscal year 2017 and 77,250,920 in fiscal year 2018. This amount is also reflected on the Schedule of Total Expenditures & Transfers-Out and is related to the coal tax transfers required by state law. These include transfers from the Coal Tax Bond Fund, distributions of investment earnings on the Treasure State Endowment Funds, Big Sky Economic Development Fund, Resource Indemnity Trust Fund, School Facilities Fund, and the coal tax trust funds.

6. Unspent Budget Authority

The Schedule of Total Expenditures & Transfers-Out for fiscal years 2017 and 2018 report unspent budget authority under the Citizen Services and Resource Management Division of 53,430,738 and $6,118,258 respectively, in the State Special Revenue Fund and $26,195,038 and $28,325,523, respectively, under the Alcoholic Beverage Control Division in the Enterprise Fund.

The fiscal unspent budget authority in the Citizen Services and Resource Management Division is created due to fiscal years 2018 and 2017 revenues collected or accrued and distributed to local governments being less than estimated. Fiscal years 2018 and 2017 combined oil and natural gas production tax estimates were created based on higher natural gas prices and production than were realized. In addition, the fiscal year 2017 budgeted amount for the combined oil and gas production distribution to local governments was significantly more than the distributed. During the 2015 legislative session, distributions that occurred in the base year of the prior biennium were used to establish the base year budget. Because the actual distributions in fiscal year 2012 were significantly higher than the total combined oil and gas tax revenues collected in fiscal year 2017, the department's budget authority was overstated. Also, due to the Board of Oil and Gas rate increase, only a small portion of revenue was a distribution of bentonite taxes to Carbon and Carter counties for fiscal years 2017 and 2018 were less than estimated.

The Alcoholic Beverage Control Division receives language appropriations for funds necessary to maintain adequate inventories; pay freight charges; and transfer profits, taxes, and liquor licensing revenues to the appropriate accounts. In fiscal years 2017 and 2018, the appropriation was not to exceed $147.9 million and $153.8 million, respectively. The department purchased inventory and distributed profits and taxes based upon the volume of sales and did not spend up to the total appropriation authority. The language appropriation for the transfer of licensing revenues also includes appropriation authority for both the Department of Revenue and the Department of Justice to administer liquor licensing. By law, the transfer of the licensing revenue is net of the appropriation authority for the Department of Revenue and the Department of Justice and deferred revenues.

7. Prior Year Revenues

On the Schedule of Changes in Fund Equity & Property Held in Trust and the Schedule of Total Revenues & Transfers-In for fiscal year 2018, the department recorded transactions that total $1,563,959 in the State Special Revenue Fund; ($1,975,930) and ($736,950) in the General Fund for fiscal years 2017 and 2018, respectively; and ($1,342,340) in the capital projects fund in fiscal year 2017 as explained below:

- **General Fund** – The majority of this activity includes the difference between reversing estimated revenues accrued in the prior year versus reclassifying current year actual revenue collections as prior year revenues plus the reversal of accounts receivable revenues accrued in the prior year at fiscal year-end. In addition, an $8 million payment was initially deposited in a miscellaneous revenue account in fiscal year 2017, but was later determined to be a corporation tax payment in fiscal year 2018. Both the reduction of miscellaneous revenue and increase in corporation tax revenue were re-classified to the prior year.
- **Capital Projects Fund** – This activity represents the difference between the estimated fiscal year 2016 revenue accrual for coal severance tax and reclassifying current year actual revenue collections as prior year revenue.

8. Financial Schedules Rounding

The financial schedules for the two fiscal years ended June 30, 2018, do not foot or cross-foot due to rounding. However, the rounding issue is immaterial and the department considers the schedules an accurate representation of the financial activity reported in SABHRS by the department.

9. Program Name Change

The Liquor Control Division was renamed the Alcoholic Beverage Control Division in fiscal year 2018. The fiscal year 2017 and 2018 Schedule of Expenditures and Transfers-Out reflects the name change. The name change was requested to more accurately reflect the responsibilities of the division. The Alcoholic Beverage Control Division is responsible for administering Title 16 of the Montana Code Annotated (MCA), which is the Alcoholic Beverage Code. The MCA provides laws related to all types of alcoholic beverages, not just liquor.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

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 & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Revenue for each of the fiscal years ended June 30, 2018, and 2017, and the related notes to the financial schedules, and have issued our report thereon dated October 5, 2018. Our report includes a qualified opinion on the Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2017.

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 to determine the 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 controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material

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weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described below, that we consider to be a significant deficiency.

The 2017 budgeted amount for the combined oil and gas production distribution to local governments was significantly more than the distributed amount due to a budget input error. The department's internal controls did not properly detect and adjust the budgeted amount to reflect expected fiscal year 2017 revenue collections. As a result, the Citizen Services & Resources Management Division budget authority is overstated by $46 million on the Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2017.

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 determination on financial schedule amounts. 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*.

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

October 5, 2018

Department of Revenue

Department Response

Montana Department of Revenue

Gene Walborn
Director

Steve Bullock
Governor

November 5, 2018

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LEGISLATIVE AUDIT DIV.

Angus Maciver, Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
P O Box 201705
Helena, MT 59620-1705

Dear Mr. Maciver:

Thank you for the opportunity to respond to the Financial-Compliance Audit Report recently completed for the two fiscal years ended June 30, 2018. This audit report includes three recommendations with which the department concurs. Our response to the recommendations is as follows:

Recommendation #1:

We recommend the Department of Revenue review final statutory authority amounts and seek budget reductions when necessary.

Concur. The Department of Revenue (DOR) will enhance its statutory appropriations review process to include requesting reductions in authority when necessary. The department is granted a statutory appropriation to distribute to local governments their share of combined oil and gas production taxes. During the 2015 legislative session, distributions that occurred in the base year of the prior biennium were used to establish the base year budget. Because the actual distributions in fiscal year 2012 were significantly higher than the total combined oil and gas tax revenues collected in fiscal year 2017, the department's budget authority was overstated. Although the department concurs the statutory appropriation was overstated, the department did not overspend its budget authority and properly distributed what was due to local governments. The risk of DOR overspending its budget authority is minimal as the distributions to local governments are calculated by the department's integrated tax system based on statutory amounts and the tax revenues collected. As well, there are statewide controls in place to alert an agency if an accounting transaction overspends cash in a fund.

Recommendation #2:

We recommend the Department of Revenue enhance internal controls to review county-submitted property tax revenue allocations to ensure they are in compliance with state law.

Concur. The department monitors overall revenue collections, including property tax collections, on a monthly basis, for reasonableness. The differences cited by the auditors in the expected property tax revenues amount to less than one percent of the statewide property tax collections in both fiscal years; (.06%) of total 40 and 55 state mills in fiscal year 2017 and .02%

of the totals in fiscal year 2018. The department deems such differences immaterial to overall statewide property tax collections considering 56 different counties may apply the mills somewhat differently to the revenues collected. The department; however, concurs that we could be more finite in our tests for reasonableness and will evaluate doing county-by-county calculations on mills applied at the county level as a comparison to property tax revenues received.

Recommendation #3:

We recommend the Department of Revenue record expenditures related to GenTax upgrades according to State Accounting Policy.

Concur. The funding for the department's integrated tax system, Gentax, was established in the 2003 legislative session which directed the project costs to be paid from the Department of Administration's (DOA) Capital Projects Fund. DOA was granted the spending authority for the system costs, and accordingly, capitalized Gentax on their books. Subsequent phases and enhancements to the system have consistently been capitalized on DOA's books. During fiscal year 2017, the system was upgraded to a newer version with the spending authority granted to DOR, rather than DOA. In order for the system to be reflected on only one agency's financial statements, the upgrade was capitalized by DOA. Because the spending authority was granted to DOR, capitalizing the upgrade on DOA's books created misstatements on DOR's and DOA's financial statements. The net effect to the state's comprehensive financial statements; however, is zero as DOR's and DOA's financial activity is combined for reporting purposes. The department will work with DOA to make the necessary accounting transactions to properly reflect capitalization of the Gentax upgrade.

The department appreciated the opportunity to discuss the Financial-Compliance Audit Report with your staff during the exit conference on October 29, 2018. I also want to thank your staff who conducted the audit for their professional approach and their fairness in working through the issues as they were raised.

Sincerely,

Gene Walborn
Director