

Legislative Audit Division

State of Montana



Report to the Legislature

May 2003

Financial-Compliance Audit For the Fiscal Year Ended June 30, 2002

Department of Justice

This report contains seven recommendations regarding:

- ▶ Federal Cash Management.
- ▶ Youth Justice Advisory Council.
- ▶ Highway Patrol Retirement System contributions.
- ▶ Cash controls.
- ▶ Revenue accruals.
- ▶ Legal Services Division personal services.

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Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. 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, 2003, will be issued by March 31, 2004. The Single Audit Report for the two fiscal years ended June 30, 2001, was issued on March 26, 2002. Copies of the Single Audit Report can be obtained by contacting:

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May 2003

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report for the Department of Justice for the fiscal year ended June 30, 2002. The written responses to the audit recommendations are included at the end of the audit report. We thank the Attorney General and the Department staff for their cooperation and assistance during the audit.

Respectfully submitted,

(Signature on File)

James Gillett
Deputy Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Fiscal Year Ended June 30, 2002

Department of Justice

Members of the audit staff involved in this audit were Chris G. Darragh,
Cindy S. Jorgenson, and Amber Long.

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Elected, Appointed, and Administrative Officials

Department of Justice

Mike McGrath, Attorney General
 Larry Fasbender, Deputy Director/Chief of Staff
 Galen Hollenbaugh, Deputy Chief of Staff
 Chris Tweeten, Chief Civil Counsel
 John Connor, Chief Criminal Counsel

Division Administrators

Doug Booker, Central Services
 Jim Oppedahl, Crime Control
 Steve Tesinsky, Information Technology Services
 Bill Unger, Forensic Science
 Colonel Shawn Driscoll, Highway Patrol
 Mike Batista, Criminal Investigation
 Dean Roberts, Motor Vehicle
 Gene Huntington, Gambling Control

Montana Board of Crime Control

| | <u>Representation</u> | <u>Term Expires January 1</u> |
|--|---|-------------------------------|
| William Mercer, Chair | Federal Judicial System | 2005 |
| Janet Stevens, Vice Chair | Citizen-at-Large | 2005 |
| Elaine Allestad | Local Elected Officials | 2005 |
| Representative Sylvia Bookout-Reinicke | Montana Legislature | 2007 |
| Robert Brooks | Citizen-at-Large | 2005 |
| Clifford Brophy | Local Law Enforcement | 2005 |
| Alex Capdeville | Citizen-at-Large | 2007 |
| John Flynn | County Attorney | 2005 |
| Honorable Karla M. Gray | Judicial System | 2005 |
| Bob Jones | Local Law Enforcement | 2005 |
| Senator Bob Keenan | Montana Legislature | 2005 |
| Rick Kirn | Local Elected Officials | 2007 |
| Marko Lucich | Juvenile Probation | 2007 |
| Honorable Dorothy B. McCarter | Judicial System | 2005 |
| Mike McGrath | Attorney General | 2005 |
| Steve Rice | Faith Based Organizations and Youth Justice Council | 2007 |
| Godfrey Saunders | Education System | 2005 |
| Bill Slaughter | Montana Corrections | 2005 |

Elected, Appointed, and Administrative Officials

| Youth Justice Council | <u>Representation</u> | Term Expires <u>June 14</u> |
|------------------------------|--|--------------------------------|
| Steve Rice, Chair | Faith Based Organizations | 2003 |
| Sally Stansberry, Vice-Chair | Private Providers | 2003 |
| Brock Albin | Public Defenders | 2003 |
| Dan Anderson | Department of Public Health & Human Services | 2003 |
| Marc Aune | Youth-at-Large | 2003 |
| Peggy Beltrone | Local Government | 2003 |
| Beverly Boyd | Supreme Court | 2003 |
| Shirley Brown | Department of Public Health & Human Services | 2003 |
| Shanna Bulik-Chism | Juvenile Detention | 2003 |
| Steve Gibson | Department of Corrections | 2003 |
| Joe Johnson | Youth-at-Large | 2003 |
| Tracy King | Native Americans | 2003 |
| Marko Lucich | Juvenile Probation | 2003 |
| Senator Jeff Mangan | Montana Legislature | 2003 |
| Don Munro | Youth-at-Large | 2003 |
| Steven Nelson | Community Service | 2003 |
| Misti Robertson | Law Enforcement | 2003 |
| Spencer Sartorius | Education | 2003 |
| Tony Wagner | Community Service | 2003 |
| Ron Whitmoyer | School Administrators and Educators | 2003 |
| Kathy Yother | Youth-at-Large | 2003 |

Department of Justice

This report documents the results of our financial-compliance audit of the Department of Justice (Department) for the fiscal year ended June 30, 2002. The previous audit report contained eight recommendations. Of these, seven were implemented and one was partially implemented.

This report contains seven recommendations and two disclosure issues. The issues discussed in this report include noncompliance with state and federal laws and regulations related to federal cash management, Youth Justice Advisory Council operations, Highway Patrol Retirement System contributions, Legal Services Division personal services, cash controls, and revenue accruals. The disclosure issues address Internal Service Fund fees not being commensurate with cost and recreational vehicle registration fees.

We issued an unqualified opinion on the financial schedules contained in this report. This means the reader can rely on the presented financial information and the supporting data on the state's accounting records.

The listing below serves as a means of summarizing the recommendations contained in the report, the responses thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the Department establish procedures to ensure cash draws from the federal government are executed in accordance with federal regulations and state law..... 7

Department Response: Concur. See page B-3.

Recommendation #2

We recommend the Department work with the Office of Budget and Program Planning to ensure Legal Services Division positions are paid by the appropriate funding source..... 9

Department Response: Concur. See page B-3.

Report Summary

| | | |
|--------------------------|---|----|
| <u>Recommendation #3</u> | We recommend the Youth Justice Advisory Council establish by-laws and practices that comply with federal law and the Executive Order..... | 10 |
| | <u>Crime Control Division Response:</u> Concur. See page B-5. | |
| <u>Recommendation #4</u> | We recommend the Crime Control Division establish procedures to: A. Ensure travel reimbursements comply with state law. B. Obtain the Governor’s authorization to conduct meetings outside of Helena. | 11 |
| | <u>Crime Control Division Response:</u> Concur. See page B-5. | |
| <u>Recommendation #5</u> | We recommend the Department work with the Department of Administration to ensure state accounting policy results in the proper and complete implementation of Generally Accepted Accounting Principles. | 12 |
| | <u>Department Response:</u> Concur. See page B-4. | |
| <u>Recommendation #6</u> | We recommend the Department review cash controls utilized by all Driver Exam Stations and Highway Patrol Division offices and take appropriate measures to ensure compliance with state law and policy.. | 14 |
| | <u>Department Response:</u> Concur. See page B-4. | |
| <u>Recommendation #7</u> | We recommend the Crime Control Division, in consultation with the Department of Administration, review federal revenue accruals for compliance with state accounting policy and process necessary correcting entries..... | 15 |
| | <u>Crime Control Division Response:</u> Concur. See page B-6. | |

Introduction

Introduction

We performed a financial-compliance audit of the Department of Justice (Department) for fiscal year 2001-02. The objectives of the audit were to:

1. Determine if the Department complied with applicable state and federal laws and regulations.
2. Identify areas for improvement in the internal and management controls of the Department.
3. Determine if the Department's financial schedules present fairly, in accordance with state accounting policy, the results of its operations for the fiscal year ended June 30, 2002.
4. Determine the implementation status of prior audit recommendations.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report. Areas of concern deemed not to have a significant effect on the successful operations of the Department are not specifically included in this report, but have been discussed with management.

As required by section 17-8-101(6), MCA, we analyzed the rates charged and fund equity in the Department's Internal Service Fund. The Internal Service Fund contains the Agency Legal Services and Bankruptcy Unit operations. We determined the charges for the operations were not commensurate with costs in fiscal year 2001-02. Our findings are reported on page 17.

Background

The Attorney General, who is elected to serve a four-year term, heads the Department. The Department's primary functions are to provide effective statewide law enforcement, legal services, and public safety.

The Board of Crime Control (Board) is attached to the Department for administrative purposes. The Board is composed of 18 members appointed by the Governor and confirmed by the Senate. The

Introduction

Board's operations are presented in the Department's financial schedules as the Justice System Support Service Program.

The Youth Justice Advisory Council (Council) was established by Executive Order. The Council is responsible for administration and implementation of the federal Juvenile Justice and Delinquency Prevention Act of 1974. The Council also advises the Governor, Board, and the Legislature on policy matters and legislation related to juvenile justice, juvenile delinquency, and compliance with federal regulations. The Council's operations are also presented in the Department's financial schedules as part of the Justice System Support System Program.

The Department's divisions are described below.

Legal Services - provides legal research and analysis for the Attorney General; legal counsel for state government and state officials, bureaus, and boards; legal assistance to local governments; legal assistance, training, and support for county prosecutors; assistance through the office of victim services and restorative justice; and legal advice and support for all state agencies. The Natural Resource Damage Litigation Program, which conducts litigation of claims arising from damages to natural resources in the Clark Fork River Basin between Butte and Milltown, operates in this division. Also included is the Bankruptcy/Collection Unit, which collects money due the state, with emphasis on bankruptcy cases.

Gambling Control - licenses and regulates gambling activities and enforces gambling laws in the state of Montana. The division collects license fees, gambling taxes, and investigates applications and complaints relating to alcoholic beverage licensing.

Motor Vehicle - administers vehicle registration and driver licensing. The Title and Registration Bureau in Deer Lodge is part of this division.

Highway Patrol - enforces commercial vehicle regulations and general traffic laws, investigates accidents and auto thefts, inspects vehicles, and provides motorist assistance.

Criminal Investigation - includes the administration, management, and coordination of criminal investigative services and training performed by the Investigations Bureau, the Narcotics Bureau, the Fire Prevention and Investigation Bureau, and the Law Enforcement Academy Bureau. Investigators conduct criminal investigations of homicide, fraud, robbery, assault, corruption, arson, organized crime, computer crime, dangerous drug activity, and other felony crimes.

Central Services - provides centralized accounting, administrative, budgetary, personnel, payroll, and fiscal support for the Department. The division also oversees the County Attorney Payroll Program. Effective with fiscal year 2001-02, the Extradition and Transportation of Prisoners Program was transferred to the Governor's Office.

Information Technology Services - provides a full range of services for the Department of Justice and the criminal justice community. The division maintains several statewide criminal justice systems, including the state criminal history records system and the state criminal justice information network that links law enforcement agencies in Montana with various state, regional and national criminal justice databases. It also maintains several non-criminal justice computer systems, including the Vehicle Title and Registration System and the Driver Control System. The division provides project management for the Criminal Justice Information Services Project and the Motor Vehicle Information Technology System Project.

Forensic Sciences - performs scientific analyses of evidence submitted by law enforcement officials, coroners, and state agencies; promotes forensic science training and scientific criminal investigations in the state and manages a statewide system of death investigations.

Introduction

Crime Control - prepares and implements an annual plan for strengthening Montana's criminal and juvenile justice systems. The division provides support services to criminal justice agencies such as peace officer certification, data collection, and research. The division is also responsible for the administration of various state and federal programs to help reduce crime and compensate its victims.

Settlements Handled by the Department

Natural Resource Damage Litigation Program

The Natural Resource Damage Litigation Program oversees the environmental restoration litigation in the Clark Fork River Basin. The litigation expenses were funded with money loaned from the Coal Tax Trust Fund by the state's Board of Investments.

On June 26, 1998, the Department received \$15 million from ARCO for administrative, scientific, and legal costs associated with the litigation. In July 1999, the Department received an additional \$129 million settlement to be used for environmental restoration work. The state has an outstanding claim against ARCO for an additional \$200 million, which has not been resolved. The Natural Resource Damage Litigation Program administers environmental restoration contracts to assure the terms of the settlement are followed.

Tobacco Settlement

The state of Montana may receive an estimated \$920 million over 25 years as party to a settlement agreement with seven tobacco companies. The total amount of tobacco settlement funds available will be affected by a number of adjustments, including inflation and sales volume changes contained in the master settlement agreement. In November 2000, Montana voters approved a referendum which requires 40 percent of the settlement money received on or after January 1, 2001, to be placed in a trust fund to pay expenses of tobacco use prevention programs as a means to reduce health care costs. The remaining 60 percent is deposited in the General Fund. The state of Montana received settlement payments totaling \$31,079,018 in fiscal year 2001-02. The Department deposited \$18,647,411 of tobacco settlement receipts in the General Fund and

the remaining \$12,431,607 was deposited in the Tobacco Settlement Trust Fund.

In November 2002, Montana voters approved a referendum modifying the allocation of the Tobacco Settlement funds. Beginning July 1, 2003, the funds are to be distributed as follows:

- ▶ 40 percent is to be placed in the trust fund.
- ▶ 32 percent in the State Special Revenue Fund for a Statewide Tobacco Prevention Program and the Tobacco Prevention Advisory Board.
- ▶ 17 percent in the State Special Revenue Fund as matching funds for the Children's Health Insurance Program and to fund programs of the comprehensive health association.
- ▶ 11 percent to the General Fund.

If signed by the Governor, Senate Bill 485 from the 2003 Legislature will temporarily modify the restrictions placed on the use of the Tobacco Settlement funds through the November 2002 referendum.

Prior Audit Recommendations

Our office performed the Department's financial-compliance audit for the two fiscal years ended June 30, 2001. The report contained eight recommendations. The Department implemented seven recommendations and partially implemented one recommendation related to compliance with federal cash management requirements for the Medicaid Fraud Control Unit. This issue is addressed on page 7 of this audit report.

Findings and Recommendations

Medicaid Fraud Control Unit Cash Management

The state receives a federal Medicaid fraud control grant as a required element of the federal Medicaid program. The state Department of Public Health and Human Services administers the Medicaid program. The Department of Justice operates the federal Medicaid Fraud Control Unit (unit). The unit is charged with identifying, investigating, and prosecuting potential fraud in the Medicaid program.

To finance the unit, the Department executes cash draws from the federal government on a reimbursement basis. Federal regulations require cash draws be based on expenditures incurred by the program. In addition, section 17-2-108, MCA, requires expenditures be applied against appropriated non-general fund money whenever possible before using general fund appropriations.

We noted inconsistent cash draws in relation to expenditures for the unit during fiscal year 2001-02. Some federal cash draws exceeded expenditures while other cash draws were less than actual expenditures. In addition, the draws were not executed as often as allowed. By drawing funds in this fashion the Department is alternately out of compliance with federal regulations and state law. Department personnel modified cash draw procedures in March 2002, improving compliance with federal regulations and state law.

Recommendation #1

We recommend the Department establish procedures to ensure cash draws from the federal government are executed in accordance with federal regulations and state law.

Legal Services Division Personal Services

The Legal Services Division provides legal services for the state of Montana. During the audit, we identified two instances where personal services expenditures for division staff were not charged to the appropriate fund. The following paragraphs discuss our findings.

Agency Legal Services Internal Service Fund

During fiscal year 2001-02, the Department charged the personal services expenditures for two Appellate Legal Services Bureau

Findings and Recommendations

employees to the Agency Legal Services Internal Service Fund. According to Department officials, the two employees work about half-time providing support services to Agency Legal Services. The remainder of their time is related to Appellate Legal Services Bureau activities. Section 17-8-101, MCA, requires fees for the Internal Service Fund to be commensurate with the cost of providing services. Charging the Agency Legal Services Internal Service Fund for unrelated personal service expenditures inflates the true costs of that program and may result in inflated charges to agencies utilizing the services of the program. In addition, including these costs in future rates will result in unallowable expenditures for agencies utilizing these legal services in the administration of federal awards. We estimate these unrelated personal service costs to be \$28,500 for fiscal year 2001-02.

As discussed in the disclosure issue on page 17 of this report, the Department has historically been unable to maintain fees commensurate with costs in its Internal Service Fund. This practice compounds that problem.

Gambling Control Division Special Revenue Fund

During fiscal year 2001-02, the Department charged the personal services expenditures for one Prosecution Services Bureau employee to the Gambling Control Division Special Revenue Fund. Department officials indicated this employee works solely on Prosecution Services Bureau activities and provides no support services to the Gambling Control Division. Section 23-5-612, MCA, establishes a state special revenue fund for the purpose of administering the gambling control function. Prosecution Services Bureau operations do not benefit the gambling control function and should not be charged to the Gambling Control Division Special Revenue Fund. We estimate the unrelated personal service costs to be \$28,777 for fiscal year 2001-02.

According to Department personnel, these employees are budgeted from the Internal Service and State Special Revenue Funds. Department personnel indicated their requests to budget the positions from the General Fund have been denied by the Office of Budget &

Findings and Recommendations

Program Planning because there are insufficient General Fund resources. We believe the personal services expenditures should be paid by the program receiving the related benefit in order to comply with state law. The Department should work with the Office of Budget and Program Planning to ensure division employees are paid from the appropriate funding source.

Recommendation #2

We recommend the Department work with the Office of Budget and Program Planning to ensure Legal Services Division positions are paid by the appropriate funding source.

Youth Justice Advisory Council

The Youth Justice Advisory Council (Council) was established through Executive Order to comply with the federal Juvenile Justice and Delinquency Prevention Act of 1974 (Act). The Act required the state of Montana to create an advisory group with training, experience, or special knowledge in the prevention and treatment of juvenile delinquency or the administration of juvenile justice in order to receive certain federal grants. Under the Executive Order, the Council is responsible for administering the juvenile justice federal grants. During the audit, we reviewed Council operations. The following paragraphs summarize concerns identified during our review.

Unauthorized Council Membership

Under state law, the Governor is responsible for appointing the members of the Council. Through Executive Order, the Governor designated the Director of the Department of Corrections or his designee as one of the members. We noted the following instances where official business was conducted by individuals not appointed by the Governor.

- ▶ The Governor appointed a state employee as a representative of a public agency dealing with high-risk youth and delinquency prevention. This individual subsequently accepted employment in an unrelated position. Beginning in September 2002, another state employee began participating in the Council meetings instead of the appointed member. Department personnel prepared a request for the Governor to appoint this individual to

Findings and Recommendations

the Council. At the time of our audit, the appointment had not been made. Department personnel were not aware of this situation, but made a second request when we brought it to their attention. The Governor appointed this individual to the Council effective March 17, 2003.

- ▶ A state employee appointed by the Governor delegated his responsibility as a council member to another individual. This member represents educational services. Department personnel indicated this individual consistently does not attend council meetings.

Crime Control Division personnel indicated the by-laws adopted by the Council provide each member with the authority to send another individual on their behalf. We reviewed the by-laws and noted it designates certain department directors as ex-officio, voting members of the Council. The by-laws provide these ex-officio members with the authority to designate other representatives. Except for the Director of the Department of Corrections, the by-laws conflict with the provisions of the Executive Order.

By allowing individuals not appointed by the Governor to participate in Council meetings, Council operations are inconsistent with the authority provided by state law to the Governor. In addition, the Council places itself in a position to be in noncompliance with the Act, which designated the representation of the Council. We believe the Council should establish by-laws and practices that are consistent with federal law and the Executive Order.

Recommendation #3

We recommend the Youth Justice Advisory Council establish by-laws and practices that comply with federal law and the Executive Order.

Unallowable Federal Expenditures

The Crime Control Division reimburses Council members for travel costs incurred to participate in Council meetings. These reimbursements are charged to the juvenile justice federal grant. To be an allowable charge to a federal grant, the costs incurred must comply with state law and regulation. We reviewed certain travel

Findings and Recommendations

costs incurred by the Council and identified costs charged to federal grants that are not allowable.

During fiscal year 2001-02, the Council conducted a meeting in Great Falls. Section 2-15-122, MCA, prohibits advisory councils from meeting outside of the city of Helena without the express prior authorization of the Governor. Crime Control Division personnel did not obtain prior authorization because they were not aware of the requirement. The Crime Control Division expended a total of \$3,526 in travel costs for the instances described above.

The Crime Control Division should establish procedures to ensure travel reimbursements are paid only to those individuals entitled to reimbursement under state law. The Crime Control Division should also establish procedures to obtain the Governor's prior express authorization to conduct meetings outside of Helena.

Recommendation #4

We recommend the Crime Control Division establish procedures to:

- A. Ensure travel reimbursements comply with state law.**
- B. Obtain the Governor's authorization to conduct meetings outside of Helena.**

Highway Patrol Retirement System Contributions

The Department is required to make contributions on behalf of its highway patrol officers to the Highway Patrol Officers' Retirement System, which is administered by the Public Employees' Retirement Board (PERB). The Department is required to pay a portion of these contributions from the driver's license and duplicate driver's license fees it collects. In fiscal year 2001-02, the amount of contributions paid from this source was \$765,205. Based on a recommendation from the Department of Administration and in accordance with state accounting policy issued July 2, 2002, the Department recorded this activity as a transfer-out on the state's accounting records.

Findings and Recommendations

State law requires the Department to record its financial activity on the state's accounting records in accordance with generally accepted accounting principles (GAAP). The PERB is a discretely presented component unit of the state of Montana. This means the PERB is a separate legal entity for financial reporting purposes. Because of this relationship, GAAP requires the contributions paid to the PERB be recorded as expenditures by the Department, rather than as transfers-out. Accounting Entity Transfers are overstated and Personal Services – Other expenditures are understated by \$765,205 on the Schedule of Total Expenditures and Transfers-Out for the fiscal year ended June 30, 2002.

In response to this issue, Department personnel requested appropriation authority for the fiscal year 2004-05 biennium to allow them to record these contributions as expenditures rather than transfers-out. We believe current state accounting policy does not properly or completely implement current GAAP for transactions between the state and its discretely presented component units and that in addition to obtaining appropriation authority for the expenditures, we believe the Department should work with the Department of Administration to ensure state accounting policy addresses current GAAP.

Recommendation #5

We recommend the Department work with the Department of Administration to ensure state accounting policy results in the proper and complete implementation of Generally Accepted Accounting Principles.

Cash Controls

The Department's Driver Exam Stations and Highway Patrol Division Offices collect cash from the public in the administration of their duties. State and Department policy prescribe internal control to be utilized in order to reduce the risk of theft or loss. Section

Findings and Recommendations

17-6-105, MCA, requires deposits be made daily when the accumulated amount of coin and currency exceeds \$100. State policy also requires collections be appropriately secured.

Control Weaknesses

During the audit, we reviewed cash collection procedures at three collection sites and noted instances of non-compliance with applicable state law and policy.

- ▶ The Missoula Driver Exam Station maintains a \$150 cash change fund. The fund is kept in an unlocked desk to which all employees have unlimited access. Cash and currency received during the day are held in the same unlocked desk until one of the clerks transports it to the bank in the evening for safekeeping. The cash and currency are retrieved from the bank the following morning, at which time the daily reconciliation is performed and the deposit is prepared. The cash and currency is deposited in the bank at the end of the second business day. On the day procedures were observed, the office deposited \$1,748.
- ▶ The Billings Driver Exam Station also transports its daily collections to the bank for safekeeping, retrieving the collections from the bank the following morning in order to prepare the reconciliation and deposit. The cash and currency is deposited in the bank at the end of the second day. On the day procedures were observed, the office deposited \$888.
- ▶ The Missoula Highway Patrol Office uses a basket in an open area to collect citations issued by highway patrol officers and any bond received during the issuance of those citations. Even though the office has a lockbox available to it, the citations and bond remain in the basket until it can be delivered to the appropriate county offices.

Cash Discrepancy

During the course of the audit, Department personnel informed us that the Billings Driver Exam Station is unable to account for \$75 in petty cash. In fiscal year 2001-02, two separate Driver Exam Stations were operated in Billings. The two stations merged into one operation in July 2002. In February 2003, station personnel performed a reconciliation between the state's accounting records and the petty cash on hand and identified the \$75 cash discrepancy. Department personnel indicated the office responsible for the cash did not maintain sufficient records. Insufficient records created a

Findings and Recommendations

control weakness limiting the Department's ability to determine whether loss or theft of the cash has occurred.

Summary

Noncompliance with state law and policy requiring internal control over cash limits the Department's ability to prevent or detect the loss or theft of state moneys. Due to the amount of cash collected at remote locations, we believe the Department should review the cash controls utilized by all Driver Exam Stations and Highway Patrol Division Offices for the purpose of determining compliance with state law and policy. Instances of noncompliance should be immediately rectified to reduce the risk of loss or theft of state and county revenues.

Recommendation #6

We recommend the Department review cash controls utilized by all Driver Exam Stations and Highway Patrol Division offices and take appropriate measures to ensure compliance with state law and policy.

Revenue Accruals

State accounting policy requires state agencies to accrue federal revenue during the fiscal year-end period for revenue earned, but not yet received from the federal government. We determined that revenue accruals recorded by the Crime Control Division were not processed in accordance with state accounting policy during fiscal year 2001-02. The Federal Special Revenue Fund ending fund balance on the Schedule of Changes in Fund Balances for the fiscal year ended June 30, 2002, is overstated by \$19,093. We were unable to conclusively determine whether revenues are overstated by the same amount or if asset and liability accounts are also misstated. Crime Control Division personnel indicated a misunderstanding occurred regarding revenue accruals. We believe Crime Control Division personnel, in consultation with the Department of Administration, should review the fiscal year 2001-02 federal revenue accruals for compliance with state policy. Correcting entries should be processed to prevent the errors from compounding in future fiscal years.

Findings and Recommendations

Recommendation #7

We recommend the Crime Control Division, in consultation with the Department of Administration, review federal revenue accruals for compliance with state accounting policy and process necessary correcting entries.

Disclosure Issues

Internal Service Fund

In accordance with section 17-8-101(6), MCA, we reviewed the rates and the fund equity of the Department's Internal Service Fund. The following section discloses our findings.

Internal Service Fund Fees Not Commensurate With Costs

The Department's Agency Legal Services Bureau (ALS) and Bankruptcy Unit operate as an Internal Service Fund. These operations historically were recorded in separate funds, but were combined during fiscal year 2001-02. ALS provides requested legal services to state agencies and the Bankruptcy Unit collects money due the state from bankruptcy cases.

From fiscal year 1993-94 through fiscal year 1996-97, ALS routinely billed for and collected less revenue than the costs of its operations. The imbalance of revenues and expenditures created a negative fund balance of approximately \$158,000 at June 30, 1997 for the operation. Since June 30, 1997, revenues have consistently exceeded expenditures by small margins. This reduced the negative ending fund balance for ALS to \$35,847 at June 30, 2001. ALS operated by using inter-entity loans from the Highway Patrol Retirement Fund. Through fiscal year 2000-01, the Bankruptcy Unit collected sufficient revenue to cover the costs of its operations.

Department management requested, and the 2001 Legislature approved, an increase in fees for ALS. This increase in fees allowed ALS to continue to collect revenues in excess of expenditures during fiscal year 2001-02. The Bankruptcy Unit, however, was unable to generate revenue sufficient to cover its costs during the same period. Department personnel indicated this is primarily due to an insufficient caseload. At June 30, 2002, the combined operations had a negative ending fund balance of \$2,147. Department personnel believe the negative ending fund balance will increase by June 30, 2003, due to the inability of the Bankruptcy Unit to generate revenue.

Department personnel are taking measures to address the projected deficit in the Internal Service Fund. In addition to requesting an increase in the hourly rate from the 2003 Legislature, they are

Disclosure Issues

considering eliminating or restructuring the Bankruptcy Unit. Because the Department is actively addressing this issue, we make no recommendation at this time. We will continue to monitor ALS fees in future audits.

Recreational Vehicle Registration Fees

Chapter 574, Laws of 2001, modified the fees assessed for motor vehicles registered with the Department. A registration fee of \$3.50 was established on recreational vehicles, which includes travel trailers and motor homes. The legislation directs the recreational vehicle fee revenues be transferred from the General Fund to a state special revenue fund administered by the Department of Fish, Wildlife & Parks for the benefit of state parks. Chapter 574, Laws of 2001, became effective July 1, 2001.

During fiscal year 2002-03, Department personnel determined state law includes the \$3.50 recreational vehicle fee in the motor home and travel trailer registration fees as well as establishing it as a separate fee. As a result, motor home and travel trailer owners were charged the recreational vehicle fee twice for vehicles registered in fiscal year 2001-02. Department personnel estimate the General Fund received an additional \$64,173 and \$139,860 from motor home and travel trailer registrations, respectively, during fiscal year 2001-02. We believe the excess charges in fiscal year 2002-03 will be similar to those in fiscal year 2001-02.

Department personnel indicated they intend to seek a legal opinion to determine if the fees established by Chapter 574, Laws of 2001, reflect the intent of the 2001 Legislature. The legal opinion will determine whether the Department seeks additional legislation or continues to charge the fees established by Chapter 574, Laws of 2001. Because the Department is in the process of addressing the duplication of fees, we make no recommendation at this time.

**Independent Auditor's Report &
Department Financial Schedules**

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedule of Changes in Fund Balances, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out of the Department of Justice for the fiscal year ended June 30, 2002. The information contained in these financial schedules is the responsibility of the Department's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the Department's assets, liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Justice for the fiscal year ended June 30, 2002, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

April 2, 2003

DEPARTMENT OF JUSTICE
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

| | <u>General Fund</u> | <u>State Special Revenue Fund</u> | <u>Federal Special Revenue Fund</u> | <u>Capital Projects Fund</u> | <u>Enterprise Fund</u> | <u>Internal Service Fund</u> |
|---|----------------------|---------------------------------------|---|----------------------------------|----------------------------|----------------------------------|
| FUND BALANCE: July 1, 2001 | \$ 10,598,544 | \$ 146,242,455 | \$ 281,248 | \$ 0 | \$ 0 | \$ (25,935) |
| ADDITIONS | | | | | | |
| Budgeted Revenues & Transfers-In | 168,600,420 | 6,942,115 | 14,996,620 | 1,404,672 | | 1,254,041 |
| Nonbudgeted Revenues & Transfers-In | 36,577 | 12,941,232 | 74 | 1 | 99 | 10,028 |
| Prior Year Revenues & Transfers-In Adjustments | 40,144 | 4,561 | (548,035) | | | 25 |
| Direct Entries to Fund Balance | <u>(136,190,059)</u> | <u>16,437,720</u> | | | <u>627,487</u> | |
| Total Additions | <u>32,487,082</u> | <u>36,325,628</u> | <u>14,448,659</u> | <u>1,404,673</u> | <u>627,586</u> | <u>1,264,094</u> |
| REDUCTIONS | | | | | | |
| Budgeted Expenditures & Transfers-Out | 25,600,058 | 23,751,479 | 14,553,953 | 1,308,666 | 665,823 | 1,203,351 |
| NonBudgeted Expenditures & Transfers-Out | 33,346 | 3,478,020 | | | 70,311 | 27,020 |
| Prior Year Expenditures & Transfers-Out Adjustments | <u>96,248</u> | <u>(112,903)</u> | <u>1,077</u> | | | <u>9,935</u> |
| Total Reductions | <u>25,729,652</u> | <u>27,116,596</u> | <u>14,555,030</u> | <u>1,308,666</u> | <u>736,134</u> | <u>1,240,306</u> |
| FUND BALANCE: June 30, 2002 | <u>\$ 17,355,974</u> | <u>\$ 155,451,487</u> | <u>\$ 174,877</u> | <u>\$ 96,007</u> | <u>\$ (108,548)</u> | <u>\$ (2,147)</u> |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF JUSTICE
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

| | <u>General Fund</u> | <u>Special Revenue Fund</u> | <u>Internal Service Fund</u> | <u>Agency Fund</u> |
|--|-----------------------------|---------------------------------|----------------------------------|--------------------|
| FUND BALANCE: July 1, 2000 | \$ <u>2,746,879</u> | \$ <u>136,529,400</u> | \$ <u>(56,182)</u> | |
| PROPERTY HELD IN TRUST: July 1, 2000 | | | | \$ <u>4,065</u> |
| | | | | |
| ADDITIONS | | | | |
| Budgeted Revenues & Transfers-In | 54,950,454 | 42,085,627 | 1,107,806 | |
| NonBudgeted Revenues & Transfers-In | 5,181 | 16,444,160 | 718 | |
| Prior Year Revenues & Transfers-In Adjustments | (75,317) | (1,073,875) | (514) | |
| Direct Entries to Fund Balance | <u>(22,349,208)</u> | <u>16,422,460</u> | | |
| Total Additions | <u>32,531,110</u> | <u>73,878,372</u> | <u>1,108,010</u> | |
| | | | | |
| REDUCTIONS | | | | |
| Budgeted Expenditure & Transfers-Out | 24,781,396 | 59,734,567 | 1,074,068 | |
| NonBudgeted Expenditure & Transfers-Out | | 4,892,743 | 2,672 | |
| Prior Year Expenditure & Transfers-Out Adjustments | (101,951) | (743,241) | 1,023 | |
| Reductions in Property Held in Trust | | | | 4,065 |
| Total Reductions | <u>24,679,445</u> | <u>63,884,069</u> | <u>1,077,763</u> | <u>4,065</u> |
| | | | | |
| FUND BALANCE: June 30, 2001 | \$ <u><u>10,598,544</u></u> | \$ <u><u>146,523,703</u></u> | \$ <u><u>(25,935)</u></u> | |
| PROPERTY HELD IN TRUST: June 30, 2001 | | | | \$ <u><u>0</u></u> |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF JUSTICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

| | <u>General Fund</u> | <u>State Special Revenue Fund</u> | <u>Federal Special Revenue Fund</u> | <u>Capital Projects Fund</u> | <u>Enterprise Fund</u> | <u>Internal Service Fund</u> | <u>Total</u> |
|---|---------------------|---------------------------------------|---|----------------------------------|----------------------------|----------------------------------|---------------------|
| TOTAL REVENUES & TRANSFERS-IN BY CLASS | | | | | | | |
| Licenses and Permits | \$ 102,879,210 | \$ 5,885,890 | | | | | \$ 108,765,100 |
| Taxes | 43,648,377 | 25,349 | \$ 11 | \$ 1 | \$ 99 | \$ 117 | 43,673,954 |
| Charges for Services | 2,774,855 | 1,323,944 | 100 | | | 1,254,066 | 5,352,965 |
| Investment Earnings | | 12,021,964 | 36,744 | | | | 12,058,708 |
| Fines and Forfeits | 18,782,322 | 116,510 | | | | | 18,898,832 |
| Sale of Documents, Merchandise and Property | 249,975 | | | | | | 249,975 |
| Miscellaneous | 241,036 | 73,114 | | | | | 314,150 |
| Other Financing Sources | 45,631 | 441,137 | | 1,404,672 | | 9,912 | 1,901,351 |
| Federal | | | 14,411,804 | | | | 14,411,804 |
| Federal Indirect Cost Recoveries | 55,735 | | | | | | 55,735 |
| Total Revenues & Transfers-In | <u>168,677,141</u> | <u>19,887,908</u> | <u>14,448,659</u> | <u>1,404,673</u> | <u>99</u> | <u>1,264,095</u> | <u>205,682,574</u> |
| Less: Nonbudgeted Revenues & Transfers-In | 36,577 | 12,941,232 | 74 | 1 | 99 | 10,028 | 12,988,011 |
| Prior Year Revenues & Transfers-In Adjustments | 40,144 | 4,561 | (548,035) | | | 25 | (503,305) |
| Actual Budgeted Revenues & Transfers-In | <u>168,600,420</u> | <u>6,942,115</u> | <u>14,996,620</u> | <u>1,404,672</u> | <u>0</u> | <u>1,254,041</u> | <u>193,197,867</u> |
| Estimated Revenues & Transfers-In | 159,201,026 | 7,122,205 | 19,724,671 | 2,500,000 | | 1,250,000 | 189,797,902 |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | <u>\$ 9,399,394</u> | <u>\$ (180,090)</u> | <u>\$ (4,728,051)</u> | <u>\$ (1,095,328)</u> | <u>\$ 0</u> | <u>\$ 4,041</u> | <u>\$ 3,399,966</u> |
| BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS | | | | | | | |
| Licenses and Permits | \$ 7,350,703 | \$ (197,150) | | | | | \$ 7,153,553 |
| Taxes | 1,666,145 | (3,096) | | | | | 1,663,049 |
| Charges for Services | 221,761 | 66,708 | \$ 100 | | | \$ 4,041 | 292,610 |
| Investment Earnings | | | (79,306) | | | | (79,306) |
| Fines and Forfeits | 89,069 | (53,737) | | | | | 35,332 |
| Sale of Documents, Merchandise and Property | 29,999 | | | | | | 29,999 |
| Miscellaneous | 18,698 | 26,048 | | | | | 44,746 |
| Other Financing Sources | 12,284 | (18,863) | | \$ (1,095,328) | | | (1,101,907) |
| Federal | | | (4,648,845) | | | | (4,648,845) |
| Federal Indirect Cost Recoveries | 10,735 | | | | | | 10,735 |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | <u>\$ 9,399,394</u> | <u>\$ (180,090)</u> | <u>\$ (4,728,051)</u> | <u>\$ (1,095,328)</u> | <u>\$ 0</u> | <u>\$ 4,041</u> | <u>\$ 3,399,966</u> |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF JUSTICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

| | <u>General Fund</u> | <u>Special Revenue Fund</u> | <u>Internal Service Fund</u> | <u>Total</u> |
|---|----------------------|---------------------------------|----------------------------------|---------------------|
| TOTAL REVENUES & TRANSFERS-IN BY CLASS | | | | |
| Licenses and Permits | \$ 14,749,494 | \$ 5,238,382 | | \$ 19,987,876 |
| Taxes | 20,537,729 | 19,576,131 | \$ 98 | 40,113,958 |
| Charges for Services | 2,505,391 | 1,247,891 | 1,107,293 | 4,860,575 |
| Investment Earnings | | 15,816,883 | | 15,816,883 |
| Fines and Forfeits | 16,046,115 | 196,050 | | 16,242,165 |
| Sale of Documents, Merchandise and Property | 793,757 | | | 793,757 |
| Miscellaneous | 187,560 | 174,130 | | 361,690 |
| Grants, Contracts, Donations and Abandonments | | 34,563 | 619 | 35,182 |
| Other Financing Sources | 7,544 | 1,007,700 | | 1,015,244 |
| Federal | | 14,164,182 | | 14,164,182 |
| Federal Indirect Cost Recoveries | 52,728 | | | 52,728 |
| Total Revenues & Transfers-In | <u>54,880,318</u> | <u>57,455,912</u> | <u>1,108,010</u> | <u>113,444,240</u> |
| Less: Nonbudgeted Revenues & Transfers-In | 5,181 | 16,444,160 | 718 | 16,450,059 |
| Prior Year Revenues & Transfers-In Adjustments | <u>(75,317)</u> | <u>(1,073,875)</u> | <u>(514)</u> | <u>(1,149,706)</u> |
| Actual Budgeted Revenues & Transfers-In | 54,950,454 | 42,085,627 | 1,107,806 | 98,143,887 |
| Estimated Revenues & Transfers-In | 38,797,404 | 50,397,861 | 1,270,000 | 90,465,265 |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | <u>\$ 16,153,050</u> | <u>\$ (8,312,234)</u> | <u>\$ (162,194)</u> | <u>\$ 7,678,622</u> |
| BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS | | | | |
| Licenses and Permits | \$ 184,866 | \$ (3,502,976) | | \$ (3,318,110) |
| Taxes | (138,551) | (449,947) | | (588,498) |
| Charges for Services | (103,050) | (296,557) | \$ (162,194) | (561,801) |
| Investment Earnings | | (487,033) | | (487,033) |
| Fines and Forfeits | 15,915,714 | (121,899) | | 15,793,815 |
| Sale of Documents, Merchandise and Property | 571,969 | | | 571,969 |
| Miscellaneous | (278,170) | 110,275 | | (167,895) |
| Federal | 7,544 | 507,700 | | 515,244 |
| Federal Indirect Cost Recoveries | | (4,071,797) | | (4,071,797) |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | <u>(7,272)</u> | <u>(8,312,234)</u> | <u>(162,194)</u> | <u>(7,272)</u> |
| | <u>\$ 16,153,050</u> | <u>\$ (8,312,234)</u> | <u>\$ (162,194)</u> | <u>\$ 7,678,622</u> |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF JUSTICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

| PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT | AGENCY LEGAL SERVICES | CENTRAL SERVICES DIVISION | COUNTY ATTORNEY PAYROLL | DIVISION OF CRIMINAL INVESTIGATION | EXTRADITION & TRANSPORTATION OF PRISONERS | FORENSIC SCIENCE DIVISION | GAMBLING CONTROL DIVISION | HIGHWAY PATROL DIVISION | INFORMATION TECHNOLOGY SERVICE | JUSTICE SYSTEM SUPPORT SERVICE | LAW ENFORCEMENT ACADEMY DIVISION | LEGAL SERVICES DIVISION | MOTOR VEHICLE DIVISION | Total |
|---|-----------------------------|---------------------------------|-------------------------------|--|---|---------------------------------|---------------------------------|-------------------------------|--------------------------------------|---|---|-------------------------------|------------------------------|----------------------|
| Personal Services | | | | | | | | | | | | | | |
| Salaries | \$ 751,216 | \$ 526,028 | \$ 1,421,230 | \$ 2,644,092 | | \$ 1,094,672 | \$ 1,607,475 | \$ 9,211,335 | \$ 1,625,938 | \$ 616,228 | | \$ 2,390,637 | \$ 3,604,355 | \$ 25,493,207 |
| Other Compensation | | | | | | | 978 | | | 900 | | 431 | | 2,309 |
| Employee Benefits | 181,954 | 140,797 | 213,592 | 747,665 | | 262,219 | 442,852 | 3,551,351 | 417,704 | 157,183 | \$ 976 | 574,351 | 1,104,343 | 7,794,987 |
| Personal Services-Other | 27,020 | | | | | | 70,311 | | | | | | | 97,331 |
| Total | 960,190 | 666,825 | 1,634,822 | 3,391,757 | | 1,356,891 | 2,121,616 | 12,762,686 | 2,043,643 | 774,311 | 976 | 2,965,419 | 4,708,698 | 33,387,834 |
| Operating Expenses | | | | | | | | | | | | | | |
| Other Services | 153,474 | 74,409 | | 673,629 | | 113,788 | 519,213 | 1,843,955 | 2,113,905 | 245,848 | 108 | 785,996 | 2,295,541 | 8,819,866 |
| Supplies & Materials | 18,136 | 89,796 | | 403,394 | | 262,127 | 34,916 | 1,533,328 | 362,417 | 49,744 | 4,250 | 87,893 | 214,417 | 3,060,418 |
| Communications | 12,108 | 44,214 | | 127,749 | | 23,547 | 74,125 | 247,617 | 43,600 | 26,666 | 106 | 64,041 | 625,155 | 1,288,928 |
| Travel | 12,927 | 1,728 | | 141,643 | \$ (11,699) | 34,226 | 30,284 | 513,969 | 112,232 | 67,494 | 109 | 65,413 | 76,336 | 1,044,662 |
| Rent | 33,059 | 37,884 | | 228,608 | | 536,930 | 185,820 | 321,600 | 74,134 | 80,010 | 1,209 | 135,248 | 482,520 | 2,117,022 |
| Utilities | | | | 69,180 | | 16,445 | 10 | 6,778 | 2,227 | | | | 16,686 | 111,326 |
| Repair & Maintenance | 5,358 | 2,458 | | 100,916 | | 46,925 | 23,157 | 386,961 | 14,216 | 838 | (242) | 14,278 | 93,498 | 688,363 |
| Other Expenses | 11,083 | 22,116 | | 123,530 | | 32,108 | 18,847 | 180,828 | 61,023 | 26,104 | 3,000 | 111,480 | 47,915 | 638,034 |
| Goods Purchased For Resale | | | | | | | | | | 26 | | | | 26 |
| Total | 246,145 | 272,605 | | 1,868,649 | (11,699) | 1,066,096 | 886,372 | 5,035,036 | 2,783,754 | 496,730 | 8,540 | 1,264,349 | 3,852,068 | 17,768,645 |
| Equipment & Intangible Assets | | | | | | | | | | | | | | |
| Equipment | | 146,862 | | 52,270 | | 309,485 | | 1,558,933 | 35,144 | 7,016 | (4,350) | | | 2,105,360 |
| Capital Leases-Equipment-Nonbudgeted | | | | | | | | | | | | 33,345 | | 33,345 |
| Intangible Assets | | 5,500 | | | | | | | | | | | | 5,500 |
| Total | | 152,362 | | 52,270 | | 309,485 | | 1,558,933 | 35,144 | 7,016 | (4,350) | 33,345 | | 2,144,205 |
| Capital Outlay | | | | | | | | | | | | | | |
| Land & Interest In Land | | | | | | | | | | | | 2,067,673 | | 2,067,673 |
| Total | | | | | | | | | | | | 2,067,673 | | 2,067,673 |
| Local Assistance | | | | | | | | | | | | | | |
| From State Sources | | | | | | | 1,911,495 | 139,471 | | | | | | 2,050,966 |
| Total | | | | | | | 1,911,495 | 139,471 | | | | | | 2,050,966 |
| Grants | | | | | | | | | | | | | | |
| From State Sources | | | | | | | | | | 1,059,194 | | | | 1,059,194 |
| From Federal Sources | | | | | | | | | | 9,782,438 | | | | 9,782,438 |
| From Other Sources | | | | | | | | | | | | 10,000 | | 10,000 |
| Total | | | | | | | | | | 10,841,632 | | 10,000 | | 10,851,632 |
| Benefits & Claims | | | | | | | | | | | | | | |
| To Individuals | | | | | | | | | | | | 804,398 | | 804,398 |
| Total | | | | | | | | | | | | 804,398 | | 804,398 |
| Transfers | | | | | | | | | | | | | | |
| Accounting Entity Transfers | 9,912 | | | | | | | 765,205 | | | | 81,800 | | 856,917 |
| Total | 9,912 | | | | | | | 765,205 | | | | 81,800 | | 856,917 |
| Debt Service | | | | | | | | | | | | | | |
| Bonds | | | | 64,250 | | | | | | | | | | 64,250 |
| Loans | | | | | | | | | | | | | 6,855 | 6,855 |
| Installment Purchases | | | | 14,593 | | 4,566 | 1,815 | | 513,472 | | (2,212) | 2,499 | 148,276 | 683,009 |
| Total | | | | 78,843 | | 4,566 | 1,815 | | 513,472 | | (2,212) | 2,499 | 155,131 | 754,114 |
| Total Expenditures & Transfers-Out | \$ 1,216,247 | \$ 1,091,792 | \$ 1,634,822 | \$ 5,391,519 | \$ (11,699) | \$ 2,737,038 | \$ 4,921,298 | \$ 20,261,331 | \$ 5,376,013 | \$ 12,119,689 | \$ 2,954 | \$ 7,229,483 | \$ 8,715,897 | \$ 70,686,384 |
| EXPENDITURES & TRANSFERS-OUT BY FUND | | | | | | | | | | | | | | |
| General Fund | | \$ 419,010 | \$ 1,634,822 | \$ 3,456,524 | \$ (11,699) | \$ 2,158,470 | \$ 380,790 | \$ 1,257,820 | \$ 2,927,627 | \$ 1,804,455 | \$ 3,204 | \$ 3,481,779 | \$ 8,216,850 | \$ 25,729,652 |
| State Special Revenue Fund | | 425,774 | | 473,596 | | 303,204 | 3,804,374 | 17,513,734 | 750,743 | | (250) | 3,346,374 | 499,047 | 27,116,596 |
| Federal Special Revenue Fund | | 233,148 | | 1,461,399 | | 275,364 | | 1,489,777 | 378,778 | 10,315,234 | | 401,330 | | 14,555,030 |
| Capital Projects Fund | | | | | | | | | 1,308,666 | | | | | 1,308,666 |
| Enterprise Fund | | | | | | | 736,134 | | | | | | | 736,134 |
| Internal Service Fund | \$ 1,216,247 | 13,860 | | | | | | | 10,199 | | | | | 1,240,306 |
| Total Expenditures & Transfers-Out | 1,216,247 | 1,091,792 | 1,634,822 | 5,391,519 | (11,699) | 2,737,038 | 4,921,298 | 20,261,331 | 5,376,013 | 12,119,689 | 2,954 | 7,229,483 | 8,715,897 | 70,686,384 |
| Less: Nonbudgeted Expenditures & Transfers-Out | 27,019 | | | | | | 70,311 | 833,733 | | | | 2,677,634 | | 3,608,697 |
| Prior Year Expenditures & Transfers-Out Adjustments | 9,935 | (1,444) | | 1,446 | (11,699) | 1,703 | (59,623) | 58,628 | (17,020) | 10,368 | 2,954 | 2,561 | (3,452) | (5,643) |
| Actual Budgeted Expenditures & Transfers-Out | 1,179,293 | 1,093,236 | 1,634,822 | 5,390,073 | 0 | 2,735,335 | 4,910,610 | 19,368,970 | 5,393,033 | 12,109,321 | 0 | 4,549,288 | 8,719,349 | 67,083,330 |
| Budget Authority | 1,227,942 | 1,673,764 | 1,652,054 | 5,804,729 | | 2,843,329 | 9,303,714 | 25,922,439 | 9,038,015 | 14,745,899 | | 5,013,410 | 10,382,394 | 87,607,689 |
| Unspent Budget Authority | \$ 48,649 | \$ 580,528 | \$ 17,232 | \$ 414,656 | \$ 0 | \$ 107,994 | \$ 4,393,104 | \$ 6,553,469 | \$ 3,644,982 | \$ 2,636,578 | \$ 0 | \$ 464,122 | \$ 1,663,045 | \$ 20,524,359 |
| UNSPENT BUDGET AUTHORITY BY FUND | | | | | | | | | | | | | | |
| General Fund | | \$ 176,553 | \$ 17,232 | \$ 17,291 | | \$ 6,684 | \$ 1 | \$ 1 | \$ 3,889 | \$ 22,573 | | \$ 127,658 | \$ 114,862 | \$ 486,744 |
| State Special Revenue Fund | | 365,573 | | 84,708 | | 1 | 4,393,102 | 2,256,417 | 11,926 | 200,000 | | 279,985 | 986,295 | 8,578,007 |
| Federal Special Revenue Fund | | 37,852 | | 312,657 | | 101,309 | | 4,297,051 | 437,833 | 2,414,005 | | 56,479 | 561,888 | 8,219,074 |
| Capital Projects Fund | | | | | | | | | 3,191,334 | | | | | 3,191,334 |
| Enterprise Fund | | | | | | | 1 | | | | | | | 1 |
| Internal Service Fund | \$ 48,649 | 550 | | | | | | | | | | | | 49,199 |
| Unspent Budget Authority | \$ 48,649 | \$ 580,528 | \$ 17,232 | \$ 414,656 | \$ 0 | \$ 107,994 | \$ 4,393,104 | \$ 6,553,469 | \$ 3,644,982 | \$ 2,636,578 | \$ 0 | \$ 464,122 | \$ 1,663,045 | \$ 20,524,359 |

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-9.

DEPARTMENT OF JUSTICE
 SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
 FOR FISCAL YEAR ENDED JUNE 30, 2001

| PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT | PROGRAM (SUBCLASS) NOT SPECIFIED | AGENCY LEGAL SERVICES | CENTRAL SERVICES DIVISION | COUNTY ATTORNEY PAYROLL | DIVISION OF CRIMINAL INVESTIGATION | EXTRADITION & TRANSP PRISONERS | FORENSIC SCIENCE DIVISION | GAMBLING CONTROL DIVISION | HIGHWAY PATROL DIVISION | INFORMATION TECHNOLOGY SERVICES | JUSTICE SYSTEM SUPPORT SERVICE | LAW ENFORCEMENT ACADEMY DIVISION | LEGAL SERVICES DIVISION | MOTOR VEHICLE | TOTAL |
|---|----------------------------------|-----------------------|---------------------------|-------------------------|------------------------------------|--------------------------------|---------------------------|---------------------------|-------------------------|---------------------------------|--------------------------------|----------------------------------|-------------------------|---------------|---------------|
| PERSONAL SERVICES | | | | | | | | | | | | | | | |
| SALARIES | \$ 2,966 | \$ 667,051 | \$ 506,890 | \$ 1,379,595 | \$ 2,214,688 | \$ 1,083,091 | \$ 1,523,903 | \$ 8,622,370 | \$ 1,358,568 | \$ 671,566 | \$ 348,254 | \$ 2,320,424 | \$ 3,492,428 | \$ 24,191,794 | |
| OTHER COMPENSATION | | | | | | | 307 | | | 950 | | 119 | | 1,376 | |
| EMPLOYEE BENEFITS | | 155,423 | 118,348 | 206,445 | 608,981 | | 253,646 | 413,200 | 4,149,978 | 343,594 | 169,889 | 99,082 | 547,149 | 1,380,919 | 8,446,654 |
| PERSONAL SERVICES-OTHER | 2,672 | | | | | | | | | | | | | 2,672 | |
| Total | 5,638 | 822,474 | 625,238 | 1,586,040 | 2,823,669 | | 1,336,737 | 1,937,410 | 12,772,348 | 1,702,162 | 842,405 | 447,336 | 2,867,692 | 4,873,347 | 32,642,496 |
| Operating Expenses | | | | | | | | | | | | | | | |
| Other Services | | 145,621 | 268,185 | | 326,026 | \$ 39,255 | 55,064 | 683,733 | 1,520,402 | 571,877 | 263,673 | 320,381 | 1,287,889 | 2,059,670 | 7,541,776 |
| Supplies & Materials | 100 | 14,611 | 33,115 | | 218,424 | 21 | 218,424 | 51,815 | 1,822,763 | 426,432 | 53,751 | 133,152 | 70,126 | 246,338 | 3,254,753 |
| COMMUNICATIONS | 29 | 12,393 | 10,464 | | 88,875 | | 25,013 | 72,195 | 178,644 | 41,368 | 35,647 | 23,746 | 56,739 | 557,573 | 1,102,686 |
| TRAVEL | | 15,211 | 18,850 | | 119,600 | | 34,155 | 51,945 | 531,981 | 35,045 | 62,503 | 53,800 | 64,874 | 85,722 | 1,244,063 |
| Rent | | 36,119 | 26,406 | | 217,619 | | 535,659 | 175,898 | 254,364 | 80,912 | 47,289 | 4,773 | 127,665 | 501,298 | 2,008,032 |
| UTILITIES | | | | | 119 | | 15,665 | 21,883 | 5,810 | | | 72,912 | | 19,374 | 135,763 |
| REPAIR & MAINTENANCE | | 5,266 | 1,917 | | 66,238 | | 58,930 | 19,207 | 388,004 | 18,431 | 2,459 | 52,445 | 12,284 | 87,811 | 712,992 |
| OTHER EXPENSES | | 10,665 | 10,594 | | 134,313 | | 25,928 | 25,420 | 180,652 | 35,707 | 32,401 | 12,369 | 78,510 | 75,760 | 622,319 |
| Total | 129 | 239,886 | 369,531 | | 1,136,895 | 210,253 | 968,838 | 1,080,213 | 4,898,693 | 1,215,582 | 497,723 | 673,578 | 1,698,117 | 3,633,546 | 16,622,984 |
| Equipment & Intangible Assets | | | | | | | | | | | | | | | |
| Equipment | | | 44,748 | | 58,800 | | 245,091 | | 1,340,973 | 17,545 | | 4,350 | | | 1,711,507 |
| INSTALLMNT PURCHASES-EQUIP-NB | | | | | | | | | | 2,700 | | | | | 2,700 |
| Total | | | 44,748 | | 58,800 | | 245,091 | | 1,340,973 | 20,245 | | 4,350 | | | 1,714,207 |
| CAPITAL OUTLAY | | | | | | | | | | | | | | | |
| LAND & INTEREST IN LAND | | | | | | | | | | | | | 4,371,973 | | 4,371,973 |
| Total | | | | | | | | | | | | | 4,371,973 | | 4,371,973 |
| LOCAL ASSISTANCE | | | | | | | | | | | | | | | |
| FROM STATE SOURCES | | | | | | | | | | | | | | | |
| Total | | | | | | | 21,874,547 | | | | | | | | 21,874,547 |
| GRANTS | | | | | | | | | | | | | | | |
| FROM STATE SOURCES | | | | | | | | | | | 1,134,942 | | | | 1,134,942 |
| FROM FEDERAL SOURCES | | | | | | | | | | | 9,850,131 | | | | 9,850,131 |
| Total | | | | | | | | | | | 10,985,073 | | | | 10,985,073 |
| BENEFITS & CLAIMS | | | | | | | | | | | | | | | |
| TO INDIVIDUALS | | | | | | | | | | | | | | | |
| Total | | | | | | | | | | | 763,536 | | | | 763,536 |
| TRANSFERS | | | | | | | | | | | | | | | |
| ACCOUNTING ENTITY TRANSFERS | | | 60,030 | | | | | | | | | | 40,000 | | 100,030 |
| Total | | | 60,030 | | | | | | | | | | 40,000 | | 100,030 |
| Debt Service | | | | | | | | | | | | | | | |
| BONDS | | | | | | | | | | | | 69,600 | | | 69,600 |
| INSTALLMENT PURCHASES | | 850 | | | 1,657 | | 4,044 | 829 | | 327,303 | | 12,223 | 1,649 | 148,276 | 496,831 |
| Total | | 850 | | | 1,657 | | 4,044 | 829 | | 327,303 | | 81,823 | 1,649 | 148,276 | 566,431 |
| Total Expenditures & Transfers-Out | \$ 5,767 | \$ 1,063,210 | \$ 1,099,547 | \$ 1,586,040 | \$ 4,021,021 | \$ 210,253 | \$ 2,554,710 | \$ 24,892,999 | \$ 19,012,014 | \$ 3,265,292 | \$ 13,088,737 | \$ 1,207,087 | \$ 8,979,431 | \$ 8,655,169 | \$ 89,641,277 |
| EXPENDITURES & TRANSFERS-OUT BY FUND | | | | | | | | | | | | | | | |
| General Fund | | | \$ 303,643 | \$ 1,586,040 | \$ 2,353,808 | \$ 210,253 | \$ 1,915,163 | \$ 673,647 | \$ 861,802 | \$ 2,307,729 | \$ 2,524,220 | \$ 1,054,240 | \$ 2,636,784 | \$ 8,252,116 | \$ 24,679,445 |
| Special Revenue Fund | \$ 3,095 | | 784,023 | | 1,667,213 | | 639,547 | 24,219,352 | 18,150,212 | 957,563 | 10,564,517 | 152,847 | 6,342,647 | 403,053 | 63,884,069 |
| Internal Service Fund | 2,672 | \$ 1,063,210 | 11,881 | | | | | | | 0 | | | | | 1,077,763 |
| Total Expenditures & Transfers-Out | 5,767 | 1,063,210 | 1,099,547 | 1,586,040 | 4,021,021 | 210,253 | 2,554,710 | 24,892,999 | 19,012,014 | 3,265,292 | 13,088,737 | 1,207,087 | 8,979,431 | 8,655,169 | 89,641,277 |
| Less: Nonbudgeted Expenditures & Transfers-Out | 5,767 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,700 | 0 | 0 | 4,886,948 | 0 | 4,895,415 |
| Prior Year Expenditures & Transfers-Out Adjustments | 0 | 1,023 | 108 | 636 | 2,104 | 0 | (3,123) | (731,741) | (143,122) | 27,233 | 0 | 905 | 7,552 | (5,744) | (844,169) |
| Actual Budgeted Expenditures & Transfers-Out | 0 | 1,062,187 | 1,099,439 | 1,585,404 | 4,018,917 | 210,253 | 2,557,833 | 25,624,740 | 19,155,136 | 3,235,359 | 13,088,737 | 1,206,182 | 4,084,931 | 8,660,913 | 85,590,031 |
| Budget Authority | 0 | 1,176,895 | 1,335,735 | 1,630,606 | 4,173,019 | 210,255 | 2,613,730 | 34,232,807 | 20,112,407 | 3,480,487 | 16,422,499 | 1,257,737 | 4,514,869 | 8,777,502 | 99,938,548 |
| Unspent Budget Authority | \$ 0 | \$ 114,708 | \$ 236,296 | \$ 45,202 | \$ 154,102 | \$ 2 | \$ 55,897 | \$ 8,608,067 | \$ 957,271 | \$ 245,128 | \$ 3,333,762 | \$ 51,555 | \$ 429,938 | \$ 116,589 | \$ 14,348,517 |
| UNSPENT BUDGET AUTHORITY BY FUND | | | | | | | | | | | | | | | |
| General Fund | | | \$ 129,398 | \$ 45,202 | \$ 29,537 | \$ 2 | \$ 12,306 | \$ 20,067 | \$ 133,290 | \$ 41,415 | \$ 29,693 | \$ 28,208 | \$ 147,603 | \$ 116,589 | \$ 733,310 |
| Special Revenue Fund | | | 106,897 | | 124,565 | | 43,591 | 8,588,000 | 823,981 | 193,499 | 3,304,069 | 23,347 | 282,335 | | 13,490,284 |
| Internal Service Fund | | \$ 114,708 | 1 | | | | | | | 10,214 | | | | | 124,923 |
| Unspent Budget Authority | \$ 0 | \$ 114,708 | \$ 236,296 | \$ 45,202 | \$ 154,102 | \$ 2 | \$ 55,897 | \$ 8,608,067 | \$ 957,271 | \$ 245,128 | \$ 3,333,762 | \$ 51,555 | \$ 429,938 | \$ 116,589 | \$ 14,348,517 |

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 Justice

Notes to the Financial Schedules

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, and Capital Projects) and certain liabilities of defined benefit pension plans and certain post employment healthcare plans. In applying the modified accrual basis, the Department records:

Revenues when it receives cash or when receipts are measurable 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 leave and sick leave when used or paid.

The Department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) fund category. Under the accrual basis, as defined by state accounting policy, the Department records revenues in the accounting period earned when measurable 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.

Department of Justice

Notes to the Financial Schedules

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

Department accounts are organized in funds according to state law applicable at the time transactions were recorded. 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.

State Special Revenue Fund - to account for proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes. Department State Special Revenue Funds account for Highway Patrol operations, collections of gambling license revenues, and the Natural Resources Damage Litigation Program.

Federal Special Revenue Fund - to account for money received from federal sources used for the operation of state government.

Capital Projects Fund - to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The Department uses this fund to account for the costs related to developing the information technology system authorized by Chapter 394, Laws of 2001, related to the production and maintenance of motor vehicle title and registration records and drivers' license records.

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 Internal Service Fund includes the Agency Legal Services Bureau which provides requested legal services for other state agencies, and the Bankruptcy and Collection Unit which provides bankruptcy and collection services to state agencies.

Department of Justice
Notes to the Financial Schedules

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; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. A portion of the Gambling Control Division's operations are financed through appropriations from the Department of Revenue's Liquor Enterprise Fund.

2. General Fund Balance

Each agency has authority to pay obligations from the statewide General Fund within its appropriation limits. The Department's total assets placed in the fund exceed outstanding liabilities, resulting in a positive ending General Fund balance for the fiscal year ended June 30, 2002. These balances reflect activity at the agency and not the fund balance of the statewide General Fund.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General, State Special Revenue, and Enterprise funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

4. Reorganizations

Chapter 371, Laws of 2001, moved the Extradition and Transportation of Prisoners program from the Department of Justice to the Governor's Office effective for fiscal year 2001-02. In addition, during fiscal year 2001-02, the Department consolidated the Law Enforcement Academy operations into the Division of Criminal Investigation. Prior year expenditure adjustments recorded in fiscal year 2001-02 related to these operations are shown in the Law Enforcement Academy Division and Extradition & Transportation of Prisoners subclasses on the Schedule of Total Expenditures & Transfers Out for the fiscal year ended June 30, 2002.

5. Gambling Control

The 1999 Legislature approved funding for the Automated Accounting and Reporting System (AARS) which would allow video gambling machines to communicate via telephone lines with a central computer system to verify that only approved gaming software is running and to

Department of Justice

Notes to the Financial Schedules

collect information on machine play. The Department signed a contract with Lodging and Gaming Systems, Inc. (company) to deliver a system. The Department paid the company \$930,000 in fiscal years 1999-00 and 2000-01. The system was not delivered and the Department filed a lawsuit against the company for breach of contract. The company filed a counter-suit. The Department and the company entered into a settlement agreement in June 2002 requiring the company to provide the state with the final tested product and title to the system. The system and title were not delivered and the state is continuing to pursue legal action against the company.

6. **Tobacco Settlement**

The state of Montana could receive an estimated \$920 million over 25 years as party to a settlement agreement with seven tobacco companies. The total amount of tobacco settlement funds available will be affected by a number of adjustments, including inflation and sales volume changes contained in the master settlement agreement. State law requires the Department to deposit 60 percent of the money received in the General Fund. The Department recorded settlement payments totaling \$18.6 million as settlements in the General Fund in fiscal year 2001-02. Settlement revenue is included in the Fines and Forfeits revenue classification on the Schedule of Total Revenues and Transfers-In. Ongoing annual payments began in April 2000 and continue through 2025. The state will continue to receive settlement payments as long as tobacco is sold in Montana. The remainder is placed in a trust fund administered by the Department of Public Health & Human Services.

7. **Natural Resource Damage Litigation Settlement**

In 1983 the Department filed a lawsuit against Atlantic Richfield Co. (ARCO) for damages to natural resources in the Upper Clark Fork River Basin. In 1998 several portions of the lawsuit were settled. The Department received \$129 million from the settlement in fiscal year 1999-00. Funds are earmarked for environmental restoration work. The state has an outstanding claim against ARCO for an additional \$200 million, which has not been resolved.

8. Contingent Liabilities

In Babinecz, et al. v. Montana Highway Patrol, plaintiffs allege that the Department of Justice did not appropriately provide overtime compensation to Montana Highway Patrol Officers. On April 24, 2003, the Montana Supreme Court ruled that the officers are not subject to the federal Fair Labor Standards Act. This ruling changes the basis for overtime compensation from 170 hours in a 28-day period to a 40-hour workweek. Department officials indicated the ruling will result in the litigation being considered at a wage and hour hearing and, subsequently, in district court. These plaintiffs are also within a putative class seeking compensation for lunch hours and for inclusion of subsistence pay in the base salary used in the calculation of overtime compensation in Swingley, et al. v. Montana Highway Patrol. The district court has granted a motion for class certification in Swingley and once defined the class will include approximately 280 officers. The class is also seeking overtime compensation based on the change from 170 hours in a 28-day period to a 40-hour workweek. Further, the class is seeking an increase in overtime rates paid over a period of approximately 6 and one-half years based on the argument that subsistence pay should have been included in their base pay rate for purposes of computing overtime. Finally, the class is also contending that subsistence pay should have been included in their base pay rate for purposes of computing the contributions to the Highway Patrol Officers' Retirement System. Subsistence pay includes reimbursement for meals, travel, uniform maintenance, and home telephone. Department officials indicated this legal proceeding is in District Court. Department officials estimate the combined possible amount of loss in monetary terms for these legal proceedings at \$9 million.

Department Response

ATTORNEY GENERAL
STATE OF MONTANA

Mike McGrath
Attorney General



Department of Justice
215 North Sanders
PO Box 201401
Helena, MT 59620-1401

May 12, 2003

Mr. Jim Gillett
Deputy Legislative Auditor
Legislative Audit Division
P. O. Box 201705
Helena, MT 59620-1705

RECEIVED

MAY 12 2003

LEGISLATIVE AUDIT DIV.

Dear Jim:

The staff of the Department of Justice and I wish to express our appreciation for the manner in which your staff conducted the Financial Compliance Audit. Your willingness to schedule around legislative hearings was important to our operation. We appreciate the audit function for the review it provides us and allows us to make compliance changes to conform to State laws and Generally Accepted Accounting Principles. The audit also provides an opportunity for us to share with your staff how this department functions, and hopefully, this information can be used when questions are asked of your division about the Department of Justice.

Following are the responses of the Department of Justice to the audit recommendations presented in your audit report covering fiscal year 2002.

Recommendation #1

We recommend the Department establish procedures to ensure cash draws from the federal government are executed in accordance with federal regulations and state law.

The Department concurs. Cash draw procedures have already been changed to ensure compliance.

Recommendation #2

We recommend the Department work with the Office of Budget and Program Planning to ensure Legal Services Division positions are paid by the appropriate funding source.

The Department concurs. We will continue to work with the Office of Budget and Program Planning to address the funding issue.

Recommendation #5

We recommend the Department work with the Department of Administration to ensure state accounting policy results in the proper and complete implementation of Generally Accepted Accounting Principles.

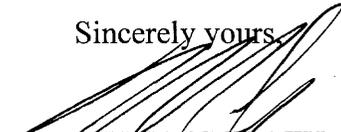
The Department concurs. The two departments have already addressed this issue.

Recommendation #6

We recommend the Department review cash controls utilized by all Driver Exam Stations and Highway Patrol Division offices and take appropriate measures to ensure compliance with state law and policy.

The Department concurs. The Motor Vehicle Division and the Highway Patrol Division have already taken steps to address this issue.

Sincerely yours,



MIKE MCGRATH
Attorney General

STATE OF MONTANA
DEPARTMENT OF JUSTICE
BOARD OF CRIME CONTROL
3075 N Montana Ave - PO Box 201408 - Helena, MT 59620-1408

RECEIVED
MAY 01 2003
LEGISLATIVE AUDIT DIV.

Mike McGrath
Attorney General



Phone (406) 444-3604
FAX (406) 444-4722

April 25, 2003

Jim Gillett
Deputy Legislative Auditor
Room 160, State Capitol
P.O. Box 201705
Helena, Montana 59620-1705

Dear Jim:

First of all, thank you and your staff for the work that you have completed for the Crime Control Division in this most recent audit. We appreciate the opportunity to work with you to ensure we are meeting our statutory responsibilities and believe that the recommendations you have made will help us to do so.

The Crime Control Division makes the following responses to the financial-compliance audit for the fiscal year ended June 30, 2002:

Recommendation #3

We recommend the Youth Justice Advisory Council establish by-laws and practices that comply with federal law and the Executive Order.

Agency Response:

We concur. The Youth Justice Council will review the by-laws and practices at its next regularly scheduled meeting and ensure that both by-laws and practices comply with the federal law and the Executive Order.

Recommendation #4

We recommend the Crime Control Division establish procedures to:

- A. Ensure travel reimbursement comply with state law.
- B. Obtain the Governor's authorization to conduct meetings outside of Helena.

Agency Response:

We concur. We were not aware of the restrictions imposed by section 2-15-122 MCA, for the Youth Justice Council. We will ensure that travel reimbursement is done only

when it complies with section 2.15-122, MCA and we will contact the Governor's Office for authorization of any YJC meeting to be held outside of Helena at least one month prior to any such meeting.

For the record we do want to note that the two meetings that were held outside of Helena were held in Great Falls and Butte and resulted in travel reimbursement savings to the Youth Justice Council and other participants. The Great Falls meeting was a special two day meeting designed to discuss Native American issues. Representatives from the seven Tribal Governments were invited to participate in the technical assistance and planning process. Because of the number of participants anticipated, it was determined that we needed to meet in a location that could hold up to 90 people and would be centrally located. The largest number of tribal representatives were from Rocky Boy's, Fort Peck and Fort Belknap Reservations. Holding the meeting in Great Falls actually saved money and was more convenient for participants. In addition, the speakers that we invited were from the Great Falls area. We saved funds by not having to pay for speakers travel to Helena.

We also met in Butte in September of 2002. We saved funds by meeting in Butte in conjunction with the Montana Correctional Association and the Juvenile Probation Officers Association Conference.

Recommendation #7

We recommend that the Crime Control Division, in consultation with the Department of Administration, review federal revenue accruals for compliance with state accounting policy and process necessary correcting entries.

Agency Response:

We concur. We will review federal revenue accruals with the Accounting Division of the Department of Administration and process necessary correcting entries.

Again, thank you for your work and recommendations. If you need any additional information or have any questions, please do not hesitate to call.

Sincerely,

Jim Oppedahl
Executive Director