

# Legislative Audit Division

State of Montana



Report to the Legislature

October 2004

## Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 2004

### Department of Environmental Quality

This report contains nine recommendations to the department.  
Issues addressed in the report include:

- ▶ Accounting for supplemental environmental projects
- ▶ Recording of fixed assets
- ▶ Recording of reclamation bonds
- ▶ Non-compliance with state laws, policy, and regulations

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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, 2005, will be issued by March 31, 2006. The Single Audit Report for the two fiscal years ended June 30, 2003, was issued on March 23, 2004. Copies of the Single Audit Report can be obtained by contacting:

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Office of Budget and Program Planning  
State Capitol  
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# LEGISLATIVE AUDIT DIVISION

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James Gillett, Financial-Compliance Audit

October 2004

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Environmental Quality for the two fiscal years ended June 30, 2004. Our report contains nine recommendations concerning accounting for supplemental environmental projects, recording of fixed assets, recording of reclamation bonds, and non-compliance with state laws, policy and regulations.

We thank the department director and staff for their assistance and cooperation during the audit.

Respectfully submitted,

*(Signature on File)*

Scott A. Seecat  
Legislative Auditor

# **Legislative Audit Division**

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**Financial-Compliance Audit**

**For the Two Fiscal Years Ended June 30, 2004**

## **Department of Environmental Quality**

Members of the audit staff involved in this audit were Jennifer Erdahl, Amber Long, Laura L. Norris, Sonia Powell, Vickie Rauser, and Joyce Weber.

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## Appointed and Administrative Officials

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### **Department of Environmental Quality**

Jan Sensibaugh, Director

Tom Livers, Deputy Director

Ann Danzer, Financial Services Division Administrator

John Arrigo, Enforcement Division Administrator

Steve Welch, Permitting and Compliance Division Administrator

Art Compton, Planning, Prevention and Assistance Division  
Administrator

Sandi Olsen, Remediation Division Administrator

### **Board of Environmental Review**

		<u>Term Expires</u>
Joe Russell, Chairperson	Kalispell	January 1, 2007
Susan Kirby Brooke	Helena	January 1, 2007
David Fishbaugh	Billings	January 1, 2005
Russell Hudson	Libby	January 1, 2005
Ward Shanahan	Helena	January 1, 2005
Garon Smith	Missoula	January 1, 2005
Kim Lacy	Glasgow	January 1, 2007

### **Petroleum Tank Release Compensation Board**

		<u>Term Expires</u>
Barry Johnston, Chairperson	Bigfork	June 30, 2005
Gary Basso	Billings	June 30, 2004
Terry Cosgrove	Helena	June 30, 2006
Greg Cross	Billings	June 30, 2004
Daniel Manson	Butte	June 30, 2005
Jo Murphy	Great Falls	June 30, 2004
Frank Schumacher	Great Falls	June 30, 2006

For additional information concerning the  
Department of Environmental Quality, contact:

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Department of Environmental Quality  
PO Box 200901  
Helena MT 59620-0901

e-mail: [lpeterson@state.mt.us](mailto:lpeterson@state.mt.us)

**Department of  
Environmental Quality**

We performed a financial-compliance audit of the Department of Environmental Quality (department) for the two fiscal years ended June 30, 2004. The department implemented four and partially implemented two of the six prior audit recommendations.

This report contains nine recommendations where the department could improve accounting and enhance compliance with state policies and laws.

We issued a qualified opinion on the financial schedules contained in this report. The opinion on page A-3 discusses reclamation bond misstatements in the agency fund. The reader should use caution when analyzing the presented financial information and the supporting data on the Statewide Accounting, Budgeting, and Human Resources System (SABHRS).

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

Recommendation #1

We recommend the department record supplemental environmental project revenue and expenditures in accordance with state policy. .... 6

Department Response: Concur. See page B-4.

Recommendation #2

We recommend the department:

- A. Develop a policy for communicating settlements to the Office of Financial Services.
- B. Record all equipment and buildings awarded to it through settlements on the accounting records as required by state accounting policy. .... 6

Department Response: Concur. See page B-4.

## **Report Summary**

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<u>Recommendation #3</u>	We recommend the department record the reclamation bond, principal and interest, if applicable, in the private-purpose trust fund in accordance with state accounting policy.....	8
	<u>Department Response:</u> Concur. See page B-4.	
<u>Recommendation #4</u>	We recommend the department properly record deferred revenue received for mine reclamation. ....	8
	<u>Department Response:</u> Concur. See page B-5.	
<u>Recommendation #5</u>	We recommend the department make correcting entries for the outstanding balances in the federal special revenue, state special revenue, and general funds.....	10
	<u>Department Response:</u> Concur. See page B-5.	
<u>Recommendation #6</u>	We recommend the department:  A. Revise its policy to require each unit to submit cash collections to the office of Financial Services on a daily basis.  B. Deposit cash collections in accordance with state law. ....	10
	<u>Department Response:</u> Concur. See page B-6.	
<u>Recommendation #7</u>	We recommend the department accurately record and monitor its revenue estimates.....	12
	<u>Department Response:</u> Concur. See page B-6.	
<u>Recommendation #8</u>	We recommend the department develop outcome measures for the Alternative Energy System Loan Program as required by section 75-25-103, MCA.....	12
	<u>Department Response:</u> Concur. See page B-7.	



## **Report Summary**

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Recommendation #9

We recommend the department establish fees that are commensurate with costs for the review of public water or sewage system plans and specifications as required by section 75-6-108(3), MCA. .... 13

Department Response: Concur. See page B-7.

# Introduction

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## Introduction

We performed a financial-compliance audit of the Department of Environmental Quality (department) for the two fiscal years ended June 30, 2004. The objectives of the audit were to:

1. Make recommendations for improvements in the department's management and internal accounting controls.
2. Determine department compliance with applicable state and federal laws and regulations.
3. Determine if the department's financial schedules are fairly presented for each of the two fiscal years ended June 30, 2004.
4. Determine the implementation status of prior audit recommendations.

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

As required by section 17-8-101(6), MCA, we audited and are reporting on the reasonableness of Internal Service Fund type fees and fund equity balances at the department. The statute requires fees and charges for services, which are deposited into Internal Service Funds, be based upon commensurate costs. The department has one Internal Service Fund, which funds the Central Management Program and is administered by the Office of Financial Services. We reviewed the Internal Service Fund activity and determined the rates are commensurate with costs and the fund equity balance is reasonable.

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## Background

The 1995 Legislature created the department as part of a reorganization of the environmental and natural resources functions of state government. The enabling legislation, Chapter 418, Laws of 1995, assigned functions related to permitting facilities, enforcement

## Introduction

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of environmental standards and remediation of environmental degradation to the department. In March 1996, the department initiated an internal reorganization along the functional lines of planning, permitting, enforcement, and remediation. Total full-time equivalent employees (FTE) for the department were 408.53 for fiscal year 2003-04.

The Planning, Prevention and Assistance Division (85.58 FTE) develops air, water, waste management, and energy plans to protect Montana's resources. The division monitors environmental conditions, maintains data on the condition of Montana's environment, and encourages businesses and government units to adopt environmental practices.

The Permitting and Compliance Division (175.70 FTE) administers the permitting and compliance activities related to various federal and state statutes, including air quality, water quality, solid waste, hazardous waste, junk vehicle, mining, mine reclamation, public water supply, and sanitation in subdivision laws. The division reviews and assesses all environmental permit applications; prepares appropriate environmental impact documents; and inspects facilities to determine compliance with permit terms and the underlying laws and regulations. The division is also responsible for financial assurance activities relative to some of the permitting programs.

The Enforcement Division (14 FTE) implements, coordinates, and tracks the department's enforcement activities. The department has enforcement authority for emissions affecting air quality, handling and disposal of hazardous wastes, asbestos removal and disposal, coal mining, gravel pits, hard rock mining, construction of large powerlines/pipelines/electrical generation facilities, discharges of pollutants to surface or ground water, disposal of solid wastes, disposal of junk vehicles, subdivision development, community wastewater disposal, and public drinking water supplies.

The Remediation Division (63.75 FTE) is responsible for overseeing investigation and cleanup activities at state and federal Superfund

sites; reclaiming abandoned mine lands; regulating, permitting, and licensing underground storage tanks; implementing corrective actions at sites with leaking underground storage tanks; overseeing groundwater remediation at sites where agricultural and industrial chemical spills have caused groundwater contamination.

The Central Management Program consists of the director's office (25 FTE), a financial services office (18 FTE), and an information technology office (20.50 FTE). The director's office includes the director's staff, the deputy director, an administrative officer, a public information officer, a centralized legal services unit, and a centralized personnel office. The financial services office provides budgeting, accounting, payroll, internal auditing, procurement and contract management support to other divisions. The information technology office provides information technology services support to other divisions.

Petroleum Tank Release Compensation Board (6 FTE). Chapter 245, Laws of 2003, transferred the claims review and approval function from the department to the Petroleum Tank Release Compensation Board (the board). The law took effect October 1, 2003. The board oversees the Petroleum Tank Release Cleanup Fund, which reimburses eligible owners for the costs of petroleum release cleanup.

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### **Prior Audit Recommendations**

The prior financial-compliance audit of the Department of Environmental Quality for the two fiscal years ended June 30, 2002, contained six recommendations. The department implemented four recommendations and partially implemented two recommendations. The status of the two partially implemented recommendations is summarized below.

In the last audit report, we recommended the department file federal reports in accordance with federal regulations. The department has implemented procedures to remind personnel when reports are due.

## **Introduction**

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The next reports are due September 30, 2004. At this time we make no further recommendation.

We also recommended the department implement oversight procedures to facilitate compliance with state law and accounting policy by detecting and correcting accounting errors in a timely manner. As of June 2004, some of the correcting entries we recommended in the prior report had not yet been recorded. Unrecorded deferred revenue is discussed on page 8. We reviewed the accrual and deferral of federal revenue. We noted the department had small balances in a few funds, but had made significant improvements from the prior audit. We make no further recommendation at this time related to this prior audit recommendation.

# Findings and Recommendations

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## Supplemental Environmental Projects

### **The department recorded revenue before it was earned.**

The Enforcement Division is responsible for bringing businesses and individuals into compliance with state environmental laws and regulations by assessing fines and penalties on those entities who violate those statutes. The division has the ability to negotiate settlements with entities who are in violation of state environmental laws. These negotiations may result in a reduced fine, and an agreement between the violator and the department to complete a supplemental environmental project (SEP), which is a project that benefits the community where the violation took place. In the event a SEP is not completed the department reinstates the fine. The department has determined, however, that these projects have no value until they are complete. According to state policy, revenue should be recorded when it is earned, measurable, and available to pay current period liabilities. Until the projects are complete, the revenue is not earned and therefore should be deferred.

In fiscal year 2002-03, the department recorded \$2,057,337 in revenue for supplemental environmental projects that were not yet complete. The department also made errors in recording some of the activity as prior year. As a result, fines and forfeit revenue in the state special revenue fund on the fiscal 2002-03 Schedule of Revenues & Transfers-In is overstated by \$2,057,337. Deferred revenue is understated by the same amount. Prior year revenue and expenditures are overstated by \$164,147.

Department personnel stated they record revenue at the time an agreement is negotiated. They record expenditures when the project is completed. Department personnel stated they were not aware the revenues from the SEPs should be deferred until the project is completed.

In June 2004, we discussed this issue with the department. By the end of fiscal year 2003-04, the department had recorded all fiscal year 2002-03 and 2003-04 activity correctly.

## Findings and Recommendations

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### **Recommendation #1**

**We recommend the department record supplemental environmental project revenue and expenditures in accordance with state policy.**

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### **Settlement Assets**

**The department did not record all fixed assets received as part of a settlement.**

State accounting policy requires state agencies to record a fixed asset on the Statewide Accounting, Budgeting, and Human Resource System (SABHRS) Asset Management (AM) module when the item's cost exceeds the established capitalization threshold, which is \$5,000 for equipment and land, and \$25,000 for buildings.

Prior to July 1, 2002, the department received equipment, land, and buildings as part of a bankruptcy negotiation. As of June 30, 2004, we noted the department had not recorded any of these assets on SABHRS. We reviewed an inventory listing from one of the mines included in the settlement and noted \$1.4 million in equipment should have been recorded on SABHRS. There are at least two additional mines with assets that have been awarded to the department. Department personnel were unable to provide us an inventory list for these sites.

Currently the department does not have a policy to communicate these settlements to the Office of Financial Services. As a result, personnel responsible for recording the equipment were not aware these assets existed.

### **Recommendation #2**

**We recommend the department:**

- A. Develop a policy for communicating settlements to the Office of Financial Services.**
- B. Record all equipment and buildings awarded to it through settlements on the accounting records as required by state accounting policy.**

### Reclamation Bonds

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#### **The department recorded reclamation bond activity in the incorrect fund type.**

The department accepts cash, certificates of deposit, letters of credit, surety bonds, and property bonds from permit holders as security for reclamation under the Hard Rock, Open Cut, and Coal mining programs. The cash bonds and certificates of deposit are held in trust by the department. At the completion of a mining project the security is either released to the permit holder if the land has been adequately reclaimed or kept by the department and used to pay reclamation costs.

In 2001 the Governmental Accounting Standards Board (GASB) issued new accounting principles that affected the activity recorded in the department's agency and private-purpose trust funds. As a result of the new guidance, state accounting policy was revised, effective July 1, 2001.

Prior to July 1, 2001, the reclamation securities were appropriately recorded in an agency fund. After this date, the appropriate accounting is in a private-purpose trust fund. The department was not aware that all its reclamation bond activity met the criteria of a private-purpose trust fund; therefore they did not reclassify the agency fund activity.

As a result, activity recorded in the agency fund on the fiscal year 2002-03 Schedule of Changes in Fund Balances & Property Held in Trust should be recorded in a private-purpose trust fund. This resulted in a qualified opinion on the financial schedules (see page A-3).

The department was also contractually required to invest some of the reclamation bonds. The department recorded the investment income as revenue in the agency fund where the invested bonds were recorded. Generally accepted accounting principles and state policy do not permit recording revenues or expenditures in an agency fund.



## Findings and Recommendations

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This activity should also have been recorded in the private-purpose trust fund as revenue.

At the end of fiscal year 2003-04, the department had made correcting entries to record all the fiscal year 2002-03 and 2003-04 reclamation bond activity in the private-purpose trust fund.

**Recommendation #3**

**We recommend the department record the reclamation bond, principal and interest, if applicable, in the private-purpose trust fund in accordance with state accounting policy.**

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### Deferred Revenue

**The department did not record deferred revenue as recommended in the prior audit report.**

During fiscal year 2000-01, the department received \$1.5 million that can be used for reclamation of a mine only after all other resources have been exhausted. The money must be returned to its source if not needed for reclaiming the mine. The department recorded this receipt as revenue. Since the money is not available for spending, it should have been recorded as deferred revenue. We reported this issue in the prior audit report. As of June 30, 2004, the department had yet to record this activity as deferred revenue. As a result, deferred revenue is understated and fund balance is overstated at June 30, 2003, and 2004 by \$1.5 million in the State Special Revenue Fund. The department made a correcting entry in September 2004.

**Recommendation #4**

**We recommend the department properly record deferred revenue received for mine reclamation.**

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### Outstanding Account Balances

**The department did not correct outstanding balances in fund balance, accounts receivable, deferred revenue, and property held in trust.**

## Findings and Recommendations

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### Federal Special Revenue Fund

Under state accounting policy, federal assistance revenue in the Federal Special Revenue Fund should equal expenditures for grants that are funded on the reimbursement basis. Throughout the year the department records revenue as it draws federal funds. At fiscal year-end, the department adjusts the revenue amount up (accrual) or down (deferral) to match expenditures.

At fiscal year end June 30, 2003 and 2004, we noted there were four funds that had not had activity in several years but still had fund balances. Department personnel reviewed these funds and stated they plan to analyze the activity and determine the necessary entries to close out the funds.

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### State Special Revenue Fund

During the audit for the two fiscal years ended June 30, 2000, we noted the department had various errors related to property held in trust. In April 2002, the internal auditor reviewed all property held in trust activity and issued a draft report. The report identified activity in property held in trust, accounts receivable, and deferred revenue that related to a contract that had expired in 1998. The internal auditor's report documented necessary resolution for this activity. During the prior audit, we noted the activity was still on the accounting records and discussed this with management. As of June 30, 2004, we noted correcting entries had still not been made. As a result, in the state special revenue fund, deferred revenue is overstated by \$106,968, property held in trust is overstated by \$150,000, accounts receivable is overstated by \$162,704 and fund balance is understated by \$94,264.

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### General Fund

In the 1990's, the department had activity related to a contract for mitigation of wetlands. During the prior audit, we noted this activity was still recorded on the accounting records. Department personnel researched this activity and determined it should be transferred to the Department of Fish, Wildlife, and Parks. We noted this activity had not yet been transferred as of June 30, 2004. Department personnel stated they still agree the activity should be transferred. As a result of this activity, property held in trust in the general fund at the Department of Environmental Quality is overstated by \$37,500.

## Findings and Recommendations

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### **Recommendation #5**

**We recommend the department make correcting entries for the outstanding balances in the federal special revenue, state special revenue, and general funds.**

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### **Timely Deposits**

**The department did not follow the state law for cash deposits.**

Section 17-6-105(6), MCA, requires all funds received by a state agency to be deposited when the accumulated amount of coin and currency exceeds \$100 or total collections exceed \$500. A deposit must be made at least weekly. The department also has a cashier policy, which requires that two people working together open mail received by the department. The policy further states that each unit of the department submit collections to the financial management bureau (FMB) for deposit when the above-noted dollar amounts are met. All but one unit is located in the same building as FMB.

We reviewed 20 deposits and noted 15 that were not in compliance with state law or department policy. The department noted several reasons for this non-compliance: 1) the department's internal policy applies the dollar limits to each unit instead of the agency level as stated in state law; 2) a unit may deliver the deposit to the FMB the same day it is received, but it is too late to be included in the daily deposit; or 3) understaffing at the unit level caused delays in opening mail or preparing collections for FMB.

### **Recommendation #6**

**We recommend the department:**

- A. Revise its policy to require each unit to submit cash collections to the office of Financial Services on a daily basis.**
- B. Deposit cash collections in accordance with state law.**

### Revenue Estimates

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**The department did not accurately record or revise its revenue estimates in two funds.**

Section 17-7-111, MCA, states, in part, "...to prepare a state budget, the executive branch, the legislature and the citizens of the state need information that is consistent and accurate. Necessary information includes detailed disbursements by fund type for each agency and program for the appropriate time period, recommendations for creating a balanced budget, and recommended disbursements and estimate receipts by fund type and fund category." The budget, including revenue estimates, must be submitted to the Office of Budget and Program Planning. State accounting policy instructs agencies on how to enter estimates and allows estimates to be revised throughout the year if necessary.

We audited the fiscal year 2002-03 Schedule of Revenues & Transfers-In and reviewed the differences between revenue estimates and actual revenues. The following are two examples of the differences we noted.

- ▶ In one instance in the state special revenue fund, the department recorded estimates of \$1,000 and \$3,000 in two different funds. Actual revenues for these two funds totaled \$3,173,605 and \$1,405,330, respectively. Department personnel stated they recorded these estimates on the books with the intention of later revising them to more accurate numbers.
- ▶ In another instance in the state special revenue fund, an estimate was recorded in one revenue class. This was a duplicate of an estimate already recorded in another revenue class.

Department personnel stated they recognize the need to record their best estimates on the accounting system and have implemented procedures to review budget status reports twice a year and make revisions as necessary. We audited the fiscal year 2003-04 Schedule of Revenues & Transfers-In and noted no material errors in revenue estimates.

## Findings and Recommendations

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**Recommendation #7**

**We recommend the department accurately record and monitor its revenue estimates.**

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### Alternative Energy System Loan Program

**The department did not develop measures to determine the success of the loan program as required by state law.**

The 2001 Legislature established the Alternative Energy System Loan Program. This program provides loans to homeowners and small businesses for qualified alternative energy systems such as wind, hydropower, or geothermal. The first loans for the program were made in fiscal year 2002-03.

Section 75-25-103, MCA, requires the department to develop outcome measures to determine the success of the program and identifies the minimal outcomes that must be measured, such as the loan loss ratio, the types of systems that provide the best results, and the amount of energy that was produced. The department has yet to develop the measures required by statute to assess the program.

Department personnel stated the first loan was not awarded until fiscal year 2002-03 and they do not have enough information to measure. Personnel noted they do have procedures in place to gather the information needed, but they have not developed outcome measures to analyze that information.

**Recommendation #8**

**We recommend the department develop outcome measures for the Alternative Energy System Loan Program as required by section 75-25-103, MCA.**

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### Public Water Supply System Fees

**The department did not charge fees that were commensurate with costs for the review of public water supply system plans and specifications.**

## Findings and Recommendations

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During our audit of the department for the two fiscal years ended June 30, 2000, we noted the department did not recover its costs for reviews of public water supply system plans and specifications as required by section 75-6-108(3), MCA. We recommended the department work with the Board of Environmental Review to establish fees that are commensurate with costs for the reviews.

During the prior audit we noted the recommendation was partially implemented. The department represented that personnel began tracking these costs to determine the appropriate fees. The department indicated in October 2002 that, based on the accounting information gathered in fiscal year 2001-02, the department was working on administrative rule revisions to increase the fee.

During the current audit, we noted the department has still not updated its rules. Department personnel stated fiscal year 2002-03 was the first year there was complete data to analyze and determine the appropriate fee amount. They are still working on revising the administrative rules to increase the fees.

### **Recommendation #9**

**We recommend the department establish fees that are commensurate with costs for the review of public water or sewage system plans and specifications as required by section 75-6-108(3), MCA.**

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

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# LEGISLATIVE AUDIT DIVISION

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Deputy Legislative Auditors:  
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James Gillett, Financial-Compliance Audit

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Environmental Quality for each of the two fiscal years ended June 30, 2004. 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.

The department did not record a transfer in fiscal year 2002-03. As a result, Other Financing Sources and Nonbudgeted Revenues & Transfers-In on the fiscal year 2002-03 Schedule of Revenues & Transfers-In and Nonbudgeted Revenues & Transfers-In on the Schedule of Changes in Fund Balance & Property Held in Trust in the General Fund are understated by \$1,000,000. Nonbudgeted Expenditures & Transfers-Out on the Schedule of Changes in Fund Balance & Property Held in Trust in the State Special Revenue Fund and Accounting Entity Transfers in the Remediation Division on the Schedule of Expenditures & Transfers-Out are understated by the same amount.

On the fiscal year 2003-04 schedules, Other Financing Sources and Prior Year Revenues & Transfers-In on the Schedule of Revenues & Transfers-In and Prior Year Revenues & Transfers-In on the Schedule of Changes in Fund Balance & Property Held in Trust in the General Fund are overstated by \$1,000,000. Prior Year Expenditures & Transfers-Out on the Schedule of Changes in Fund Balance & Property Held in Trust in the State Special Revenue Fund and Accounting Entity Transfers and Prior Year Expenditures & Transfers-Out in the Remediation Division on the Schedule of Expenditures & Transfers-Out are overstated by the same amount.

The department incorrectly recorded activity related to reclamation bonds in the agency fund instead of the private-purpose trust fund. The following table illustrates the total dollar misstatement for each of these funds for fiscal year 2002-03.

<b>Fiscal Year 2002-03 Over/(Under) Statement</b>		
	<u>Agency Fund</u>	<u>Private-Purpose Trust Fund</u>
<u>Schedule of Changes in Fund Balances &amp; Property Held in Trust</u>		
<b>For the Fiscal Year Ended June 30, 2003</b>		
Property Held in Trust, July 1, 2002	\$ 15,200,403	
Fund Balance, July 1, 2002		\$ (15,200,403)
NonBudgeted Revenues & Transfers-In		\$ (1,298,700)
Additions to Property Held in Trust	\$ 1,035,495	
Total Additions	\$ 1,035,495	\$ (1,298,700)
NonBudgeted Expenditures & Transfers-Out		\$ (12,647,151)
Reductions in Property Held in Trust	\$ 12,647,151	
Total Reductions	\$ 12,647,151	\$ (12,647,151)
Property Held in Trust, July 1, 2003	\$ 3,588,747	
Fund Balance, July 1, 2003		\$ (3,851,952)
<u>Schedule of Total Revenues &amp; Transfers-In</u>		
<b>For Fiscal Year Ended June 30, 2003</b>		
Grants, Contracts, Donations, and Abandonments		\$ (1,298,700)
Actual Budgeted Revenues & Transfers-In		\$ (1,298,700)
<u>Schedule of Total Expenditures &amp; Transfers-Out</u>		
<b>For Fiscal Year Ended June 30, 2003</b>		
Remediation Division, Benefits and Claims		\$ (12,647,151)
Total Expenditures and Transfers-Out		\$ (12,647,151)
NonBudgeted Expenditures and Transfers-Out		\$ (12,647,151)

In our opinion, except for the effects of the matters discussed in the preceding paragraphs, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances & property held in trust of the Department of Environmental Quality for the two fiscal years ended June 30, 2004, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

*(Signature on File)*

James Gillett, CPA  
Deputy Legislative Auditor

September 2, 2004

DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund
FUND BALANCE: July 1, 2003	\$ (936,341)	\$ 158,949,457	\$ (3,625,445)	\$ 214,639	\$ 1,011,520	\$ 1,586	\$ 0
PROPERTY HELD IN TRUST: July 1, 2003						\$ 3,590,746	
<b>ADDITIONS</b>							
Budgeted Revenues & Transfers-In	34,670	13,268,026	23,070,019		3,683,085		
NonBudgeted Revenues & Transfers-In	387,745	5,547,428	22,112,024	940,084	805		488,409
Prior Year Revenues & Transfers-In Adjustments	1,000,050	(1,703,743)	449,292	261,880	1,704		1,355,456
Direct Entries to Fund Balance	1,805,215	9,241,870	(2,015,932)	(57,760)	270	(1,586)	15,394,182
Additions to Property Held in Trust						481,272	
Total Additions	<u>3,227,680</u>	<u>26,353,581</u>	<u>43,615,403</u>	<u>1,144,204</u>	<u>3,685,864</u>	<u>479,686</u>	<u>17,238,047</u>
<b>REDUCTIONS</b>							
Budgeted Expenditures & Transfers-Out	3,096,668	23,032,465	23,649,831		3,806,916		
NonBudgeted Expenditures & Transfers-Out		7,256,950	22,148,205	1,087,156	320,279		387,621
Prior Year Expenditures & Transfers-Out Adjustments	(32,120)	1,114,088	(102,419)	79,489	(302,119)		12,894,100
Reductions in Property Held in Trust						4,072,018	
Total Reductions	<u>3,064,548</u>	<u>31,403,503</u>	<u>45,695,617</u>	<u>1,166,645</u>	<u>3,825,076</u>	<u>4,072,018</u>	<u>13,281,721</u>
FUND BALANCE: June 30, 2004	\$ (773,209)	\$ 153,899,535	\$ (5,705,659)	\$ 192,198	\$ 872,308	\$ 0	\$ 3,956,326
PROPERTY HELD IN TRUST: June 30, 2004						\$ 0	

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 ENVIRONMENTAL QUALITY  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund
FUND BALANCE: July 1, 2002	\$ (732,760)	\$ 145,150,846	\$ (3,889,546)	\$ 174,392	\$ 509,464	\$ 0	\$ 0
PROPERTY HELD IN TRUST: July 1, 2002						\$ 15,392,597	
<b>ADDITIONS</b>							
Budgeted Revenues & Transfers-In	68,889	34,807,050	20,750,253		3,421,708		
NonBudgeted Revenues & Transfers-In	103,031	5,538,258	23,782,614	989,922	40	1,586	
Prior Year Revenues & Transfers-In Adjustments	(49,184)	2,419,019	(619,653)		19,520		
Direct Entries to Fund Balance	3,628,746	9,182,345	118,400		15,061		
Additions to Property Held in Trust						1,092,249	
Total Additions	<u>3,751,482</u>	<u>51,946,672</u>	<u>44,031,614</u>	<u>989,922</u>	<u>3,456,329</u>	<u>1,093,835</u>	
<b>REDUCTIONS</b>							
Budgeted Expenditures & Transfers-Out	4,008,468	29,471,395	20,613,914		2,907,694		
NonBudgeted Expenditures & Transfers-Out		8,081,065	23,264,161	948,925	327,829		
Prior Year Expenditures & Transfers-Out Adjustments	(53,405)	595,601	(110,562)	750	(281,250)		
Reductions in Property Held in Trust						12,894,100	
Total Reductions	<u>3,955,063</u>	<u>38,148,061</u>	<u>43,767,513</u>	<u>949,675</u>	<u>2,954,273</u>	<u>12,894,100</u>	
FUND BALANCE: June 30, 2003	\$ (936,341)	\$ 158,949,457	\$ (3,625,445)	\$ 214,639	\$ 1,011,520	\$ 1,586	\$ 0
PROPERTY HELD IN TRUST: June 30, 2003						\$ 3,590,746	

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 ENVIRONMENTAL QUALITY  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Internal Service Fund	Private Purpose Trust Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>							
Licenses and Permits	\$ 470	\$ 7,390,629					\$ 7,391,099
Taxes	579	1,445	\$ 2,592		\$ 99		4,715
Charges for Services	34,784	479,712		\$ 1,030,375	2,113,170		3,658,041
Investment Earnings		1,674,694	880	4,033		\$ 8,138	1,687,745
Fines, Forfeits and Settlements	380,069	3,025,844					3,405,913
Sale of Documents, Merchandise and Property		5,250	2,325		706		8,281
Miscellaneous	6,563	1,976,526	117				1,983,206
Grants, Contracts, Donations and Abandonments		474,028				1,835,727	2,309,755
Other Financing Sources	1,000,000	2,083,583		167,556			3,251,139
Federal			45,625,421				45,625,421
Federal Indirect Cost Recoveries					1,571,619		1,571,619
Total Revenues & Transfers-In	<u>1,422,465</u>	<u>17,111,711</u>	<u>45,631,335</u>	<u>1,201,964</u>	<u>3,685,594</u>	<u>1,843,865</u>	<u>70,896,934</u>
Less: Nonbudgeted Revenues & Transfers-In	387,745	5,547,428	22,112,024	940,084	805	488,409	29,476,495
Prior Year Revenues & Transfers-In Adjustments	<u>1,000,050</u>	<u>(1,703,743)</u>	<u>449,292</u>	<u>261,880</u>	<u>1,704</u>	<u>1,355,456</u>	<u>1,364,639</u>
Actual Budgeted Revenues & Transfers-In	34,670	13,268,026	23,070,019	0	3,683,085	0	40,055,800
Estimated Revenues & Transfers-In	85,500	18,627,629	47,111,033		4,400,957		70,225,119
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (50,830)</u>	<u>\$ (5,359,603)</u>	<u>\$ (24,041,014)</u>	<u>\$ 0</u>	<u>\$ (717,872)</u>	<u>\$ 0</u>	<u>\$ (30,169,319)</u>
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>							
Licenses and Permits	\$ (30)	\$ (508,842)					\$ (508,872)
Charges for Services	(50,800)	(477,207)	\$ (80,393)		\$ (527,954)		(1,136,354)
Investment Earnings		(1,617,612)	(169)				(1,617,781)
Fines, Forfeits and Settlements		(1,313,961)					(1,313,961)
Miscellaneous		(521)					(521)
Grants, Contracts, Donations and Abandonments		(1,264,434)					(1,264,434)
Other Financing Sources		(177,026)					(177,026)
Federal			(23,960,452)				(23,960,452)
Federal Indirect Cost Recoveries					(189,918)		(189,918)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (50,830)</u>	<u>\$ (5,359,603)</u>	<u>\$ (24,041,014)</u>	<u>\$ 0</u>	<u>\$ (717,872)</u>	<u>\$ 0</u>	<u>\$ (30,169,319)</u>

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DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Internal Service Fund</u>	<u>Agency Fund</u>	<u>Total</u>
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>							
Licenses and Permits	\$ 200	\$ 6,536,983					\$ 6,537,183
Taxes	545	1,373	\$ 803		\$ 40		2,761
Charges for Services	100,206	1,075,136	483,982	\$ 918,995	2,046,413		4,624,732
Investment Earnings	(80,701)	14,380,346	1,568	13,996		\$ 1,586	14,316,795
Fines and Forfeits	92,149	11,568,653					11,660,802
Sale of Documents, Merchandise and Property		2,509	4,050				6,559
Miscellaneous	10,337	92,160	(55,844)				46,653
Grants, Contracts, Donations and Abandonments		2,030,293					2,030,293
Other Financing Sources		7,076,874		56,931			7,133,805
Federal			43,478,655				43,478,655
Federal Indirect Cost Recoveries					1,394,815		1,394,815
Total Revenues & Transfers-In	<u>122,736</u>	<u>42,764,327</u>	<u>43,913,214</u>	<u>989,922</u>	<u>3,441,268</u>	<u>1,586</u>	<u>91,233,053</u>
Less: Nonbudgeted Revenues & Transfers-In	103,031	5,538,258	23,782,614	989,922	40	1,586	30,415,451
Prior Year Revenues & Transfers-In Adjustments	<u>(49,184)</u>	<u>2,419,019</u>	<u>(619,653)</u>		<u>19,520</u>		<u>1,769,702</u>
Actual Budgeted Revenues & Transfers-In	68,889	34,807,050	20,750,253	0	3,421,708	0	59,047,900
Estimated Revenues & Transfers-In	82,217	21,632,996	32,140,466		3,418,684		57,274,363
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (13,328)</u>	<u>\$ 13,174,054</u>	<u>\$ (11,390,213)</u>	<u>\$ 0</u>	<u>\$ 3,024</u>	<u>\$ 0</u>	<u>\$ 1,773,537</u>
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>							
Licenses and Permits	\$ (300)	\$ (940,856)					\$ (941,156)
Taxes		(835,000)					(835,000)
Charges for Services	18,445	(415,542)	\$ 80,020		\$ 22,110		(294,967)
Investment Earnings	(31,473)	9,668,364	(279,132)				9,357,759
Fines and Forfeits		5,319,866					5,319,866
Sale of Documents, Merchandise and Property		(492)	(1,000)				(1,492)
Miscellaneous		(21,888)	(795,047)				(816,935)
Grants, Contracts, Donations and Abandonments		(367,070)					(367,070)
Other Financing Sources		887,622					887,622
Federal		(120,950)	(10,395,054)				(10,516,004)
Federal Indirect Cost Recoveries					(19,086)		(19,086)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (13,328)</u>	<u>\$ 13,174,054</u>	<u>\$ (11,390,213)</u>	<u>\$ 0</u>	<u>\$ 3,024</u>	<u>\$ 0</u>	<u>\$ 1,773,537</u>

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DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	CENTRAL MANAGEMENT PROGRAM	ENFORCEMENT DIVISION	PERMITTING & COMPLIANCE DIVISION	PETROLEUM TANK RELEASE COMPENSATION BOARD	PLANNING PREVENTION & ASSISTANCE DIVISION	REMEDATION DIVISION	TOTAL
Personal Services							
Salaries	\$ 2,324,121	\$ 513,366	\$ 6,315,652	\$ 148,265	\$ 2,894,073	\$ 2,354,529	\$ 14,550,006
Employee Benefits	621,399	146,624	1,801,947	43,604	822,303	673,635	4,109,512
Personal Services-Other	39,067						39,067
Total	<u>2,984,587</u>	<u>659,990</u>	<u>8,117,599</u>	<u>191,869</u>	<u>3,716,376</u>	<u>3,028,164</u>	<u>18,698,585</u>
Operating Expenses							
Other Services	1,696,423	70,072	8,931,342	178,730	4,673,173	12,390,361	27,940,101
Supplies & Materials	200,721	25,795	375,729	1,755	154,673	153,317	911,990
Communications	81,982	15,153	233,250	3,812	93,039	76,597	503,833
Travel	5,641	7,332	257,608	5,938	178,142	88,120	542,781
Rent	119,587	32,178	419,881	4,608	227,045	266,037	1,069,336
Utilities		11	1,483		4,318	493	6,305
Repair & Maintenance	10,342	2,007	45,628	415	31,064	31,182	120,638
Other Expenses	267,261	173,707	2,008,982	48,032	964,975	761,637	4,224,594
Total	<u>2,381,957</u>	<u>326,255</u>	<u>12,273,903</u>	<u>243,290</u>	<u>6,326,429</u>	<u>13,767,744</u>	<u>35,319,578</u>
Equipment & Intangible Assets							
Equipment	(28,211)		12,621		118,440		102,850
Total	<u>(28,211)</u>		<u>12,621</u>		<u>118,440</u>		<u>102,850</u>
Grants							
From State Sources			1,457,556				1,457,556
Total			<u>1,457,556</u>				<u>1,457,556</u>
Benefits & Claims							
From State Sources				4,849,011		(4,475)	4,844,536
From Other Sources			13,281,721				13,281,721
Total			<u>13,281,721</u>	<u>4,849,011</u>		<u>(4,475)</u>	<u>18,126,257</u>
Transfers							
Accounting Entity Transfers			167,556		22,230,040	1,200,000	23,597,596
Total			<u>167,556</u>		<u>22,230,040</u>	<u>1,200,000</u>	<u>23,597,596</u>
Debt Service							
Bonds			163,710		914,020		1,077,730
Loans				56,958			56,958
Total			<u>163,710</u>	<u>56,958</u>	<u>914,020</u>		<u>1,134,688</u>
Total Expenditures & Transfers-Out	<u>\$ 5,338,333</u>	<u>\$ 986,245</u>	<u>\$ 35,474,666</u>	<u>\$ 5,341,128</u>	<u>\$ 33,305,305</u>	<u>\$ 17,991,433</u>	<u>\$ 98,437,110</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 259,767	\$ 407,193	\$ 790,988		\$ 1,606,600		\$ 3,064,548
State Special Revenue Fund	647,093	167,895	13,988,296	5,341,128	815,534	10,443,557	31,403,503
Federal Special Revenue Fund	606,397	411,157	7,248,951		29,881,236	7,547,876	45,695,617
Debt Service Fund			164,710		1,001,935		1,166,645
Internal Service Fund	3,825,076						3,825,076
Private Purpose Trust Fund			13,281,721				13,281,721
Total Expenditures & Transfers-Out	<u>5,338,333</u>	<u>986,245</u>	<u>35,474,666</u>	<u>5,341,128</u>	<u>33,305,305</u>	<u>17,991,433</u>	<u>98,437,110</u>
Less: Nonbudgeted Expenditures & Transfers-Out	320,279	19,162	722,433	13,641	23,118,912	7,005,784	31,200,211
Prior Year Expenditures & Transfers-Out Adjustments	(302,660)	278	12,701,083		104,692	1,147,628	13,651,021
Actual Budgeted Expenditures & Transfers-Out	5,320,714	966,805	22,051,150	5,327,487	10,081,701	9,838,021	53,585,878
Budget Authority	7,246,113	1,180,456	56,439,665	6,586,822	17,387,834	16,331,930	105,172,820
Unspent Budget Authority	<u>\$ 1,925,399</u>	<u>\$ 213,651</u>	<u>\$ 34,388,515</u>	<u>\$ 1,259,335</u>	<u>\$ 7,306,133</u>	<u>\$ 6,493,909</u>	<u>\$ 51,586,942</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 12,600	\$ 9,652	\$ 10,222		\$ 44,749		\$ 77,223
State Special Revenue Fund	706,454	60,448	31,761,693	1,259,335	4,525,933	2,343,918	40,657,781
Federal Special Revenue Fund	919,359	143,551	2,616,600		2,735,451	4,149,991	10,564,952
Internal Service Fund	286,986						286,986
Unspent Budget Authority	<u>\$ 1,925,399</u>	<u>\$ 213,651</u>	<u>\$ 34,388,515</u>	<u>\$ 1,259,335</u>	<u>\$ 7,306,133</u>	<u>\$ 6,493,909</u>	<u>\$ 51,586,942</u>

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DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	CENTRAL MANAGEMENT PROGRAM	ENFORCEMENT DIVISION	PERMITTING & COMPLIANCE DIVISION	PLANNING PREVENTION & ASSISTANCE DIVISION	REMEDIAION DIVISION	TOTAL
Personal Services						
Salaries	\$ 2,036,933	\$ 491,792	\$ 5,723,787	\$ 3,255,742	\$ 2,824,689	\$ 14,332,943
Employee Benefits	511,955	126,953	1,483,408	829,726	734,157	3,686,199
Personal Services-Other	7,124					7,124
Total	<u>2,556,012</u>	<u>618,745</u>	<u>7,207,195</u>	<u>4,085,468</u>	<u>3,558,846</u>	<u>18,026,266</u>
Operating Expenses						
Other Services	752,107	63,964	14,533,285	5,439,722	13,585,729	34,374,807
Supplies & Materials	111,215	15,098	220,053	432,553	247,623	1,026,542
Communications	38,705	13,624	166,484	110,252	86,603	415,668
Travel	24,982	11,219	214,305	164,154	64,483	479,143
Rent	75,789	28,567	373,429	228,908	311,584	1,018,277
Utilities			1,069	3,026	(277)	3,818
Repair & Maintenance	12,648	2,920	48,343	27,031	13,512	104,454
Other Expenses	157,504	818,689	1,758,774	1,021,234	847,475	4,603,676
Total	<u>1,172,950</u>	<u>954,081</u>	<u>17,315,742</u>	<u>7,426,880</u>	<u>15,156,732</u>	<u>42,026,385</u>
Equipment & Intangible Assets						
Equipment	48,153		28,855	56,884		133,892
Total	<u>48,153</u>		<u>28,855</u>	<u>56,884</u>		<u>133,892</u>
Grants						
From State Sources			1,210,475			1,210,475
Total			<u>1,210,475</u>			<u>1,210,475</u>
Benefits & Claims						
From State Sources					3,833,322	3,833,322
Total					<u>3,833,322</u>	<u>3,833,322</u>
Transfers						
Accounting Entity Transfers			56,931	23,263,954		23,320,885
Total			<u>56,931</u>	<u>23,263,954</u>		<u>23,320,885</u>
Debt Service						
Bonds			103,845	918,477		1,022,322
Loans					201,038	201,038
Total			<u>103,845</u>	<u>918,477</u>	<u>201,038</u>	<u>1,223,360</u>
Total Expenditures & Transfers-Out	<u>\$ 3,777,115</u>	<u>\$ 1,572,826</u>	<u>\$ 25,923,043</u>	<u>\$ 35,751,663</u>	<u>\$ 22,749,938</u>	<u>\$ 89,774,585</u>
<b>EXPENDITURES &amp; TRANSFERS-OUT BY FUND</b>						
General Fund	\$ 417,152	\$ 437,060	\$ 1,120,760	\$ 1,980,091		\$ 3,955,063
State Special Revenue Fund	185,082	809,774	20,505,653	1,127,042	\$ 15,520,510	38,148,061
Federal Special Revenue Fund	220,608	325,992	4,236,853	31,754,632	7,229,428	43,767,513
Debt Service Fund			59,777	889,898		949,675
Internal Service Fund	2,954,273					2,954,273
Total Expenditures & Transfers-Out	<u>3,777,115</u>	<u>1,572,826</u>	<u>25,923,043</u>	<u>35,751,663</u>	<u>22,749,938</u>	<u>89,774,585</u>
Less: Nonbudgeted Expenditures & Transfers-Out	327,829		116,914	24,243,961	7,933,275	32,621,979
Prior Year Expenditures & Transfers-Out Adjustments	(293,908)	675,372	(194,266)	(109,551)	73,486	151,133
Actual Budgeted Expenditures & Transfers-Out	3,743,194	897,454	26,000,395	11,617,253	14,743,177	57,001,473
Budget Authority	4,500,979	1,041,194	44,461,926	18,773,788	21,051,993	89,829,880
Unspent Budget Authority	<u>\$ 757,785</u>	<u>\$ 143,740</u>	<u>\$ 18,461,531</u>	<u>\$ 7,156,535</u>	<u>\$ 6,308,816</u>	<u>\$ 32,828,407</u>
<b>UNSPENT BUDGET AUTHORITY BY FUND</b>						
General Fund	\$ 89,839	\$ 105,852	\$ 103,026	\$ 135,310		\$ 434,027
State Special Revenue Fund	46,948	16,348	15,751,193	3,801,867	\$ 4,017,166	23,633,522
Federal Special Revenue Fund	139,803	21,540	2,607,312	3,219,358	2,291,650	8,279,663
Internal Service Fund	481,195					481,195
Unspent Budget Authority	<u>\$ 757,785</u>	<u>\$ 143,740</u>	<u>\$ 18,461,531</u>	<u>\$ 7,156,535</u>	<u>\$ 6,308,816</u>	<u>\$ 32,828,407</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.



# Montana Department of Environmental Quality

## Notes to the Financial Schedules

### For the Two Fiscal Years Ended June 30, 2004

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#### 1. **Summary of Significant Accounting Policies**

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 Debt Service). 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 (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 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.

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#### **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.

## Notes to the Financial Schedules

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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** – accounts for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific purposes.

Department State Special Revenue Funds include Petroleum Tank Release Cleanup, Air Quality Operating Fees, Montana Pollution Discharge Elimination System (MPDES) Permit Program, Montana Pole Remedial Action, Subdivision Plat Review, Reclamation and Development, Orphan Share Fund, Junk Vehicle Disposal, trust funds initially funded with Office of Surface Mining grants, and various reclamation bond forfeiture and settlement accounts.

**Federal Special Revenue Fund** – to account for proceeds of federal revenue sources that are legally restricted to expenditures for specific purposes.

Department Federal Special Revenue Funds include federal assistance programs such as the Water Pollution Control and Drinking Water State Revolving Funds, Performance Partnership Grants, Abandoned Mine Lands Reclamation Grant, as well as other federal grants and agreements.

**Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses this fund for the state building and energy programs.

### 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 includes indirect charges assessed against all units of the department by the Central Management Program for providing department-wide support functions and services.

### **Fiduciary Fund Category**

**Agency Fund** – to account for resources held by the state in a custodial capacity. During fiscal year 2002-03, the department agency fund was used primarily to account for cash and certificates of deposit held as security for reclamation under the Hard Rock, Open Cut, and Coal mining programs, and the Junk Vehicle program.

**Private-Purpose Trust Fund** – to account for activity of all trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The department established a private-purpose trust fund in fiscal year 2002-03 to invest a cash bond security for reclamation under the Hard Rock Mining Program. In fiscal year 2003-04 the department moved all agency fund activity into the private-purpose trust fund.

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### **2. General Fund Balance**

The negative fund 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 has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2004, and 2003.

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### **3. Direct Entries to Fund Balances**

Direct entries to fund balances in the General and Special Revenue Funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. The direct entry to fund balance in the Private-Purpose Trust Fund in fiscal year 2003-04 reflects the movement of bond activity previously recorded in the Agency Fund.

# **Department Response**

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Montana Department of  
**ENVIRONMENTAL QUALITY**

Judy Martz, Governor

P.O. Box 200901 • Helena, MT 59620-0901 • (406) 444-2544 • [www.deq.state.mt.us](http://www.deq.state.mt.us)

October 14, 2004

**RECEIVED**

**OCT 14 2004**

**LEGISLATIVE AUDIT DIV.**

Mr. Scott A. Seacat  
Legislative Auditor  
Office of the Legislative Auditor  
State Capitol, Room 160  
Helena, MT 59620-1705

Dear Mr. Seacat:

By this letter, I am transmitting the Department of Environmental Quality's formal response to your Financial and Compliance Audit for the two years ending June 30, 2004.

I would like to personally thank your office and the audit staff assigned to this endeavor for their dedication, professionalism, and cooperative approach throughout the course of this audit. Their findings and subsequent recommendations have provided a valuable service and insight to department management relative to our fiscal-compliance responsibilities.

I will be available for the November meeting of the Legislative Audit Committee, as will appropriate department staff.

Sincerely,

Jan P. Sensibaugh  
Director

### **Recommendation #1**

We recommend the department record supplemental environmental project revenue and expenditures in accordance with state policy.

*The department **concurs** with this recommendation.*

*In June of 2001, the department met and consulted with the Department of Administration (D of A), Administrative Financial Services Division, and the Governor's Office of Budget and Program Planning (OBPP) to agree upon the proper accounting treatment for recording supplemental environmental projects. Subsequently, the auditors questioned the determination agreed to in that meeting. In further discussions with the Legislative Audit Division, the department agreed with the accounting treatment they recommended and subsequently changed our process and corrected prior balances.*

### **Recommendation #2**

We recommend the department:

- A. Develop a policy for communicating settlements to the Office of Financial Services.
- B. Record all equipment and buildings awarded to it through settlements on the accounting records as required by state accounting policy.

*The department **concurs** with this recommendation.*

- A. *The department has established a work group to develop and implement policy, procedures, and the internal controls necessary to:  
1) Provide reasonable assurance that similar events are properly recorded in the future, and; 2) Communicate settlements between programs and the Office of Financial Services.*
- B. *This work group will also be accountable for investigation of the specific bankruptcy settlements noted in the finding to identify and correct asset record errors.*

### **Recommendation #3**

We recommend the department record the reclamation bond, principal and interest, if applicable, in the private-purpose trust fund in accordance with state accounting policy.

*The department **concurs** with this recommendation.*

*Beginning in April of 2003, the department consulted with D of A's Administrative Financial Services Division to determine which type of fund should be used to account for its reclamation bonds. D of A requested clarification of the accounting pronouncement from the Government Accounting Standards Board (GASB) because the accounting determination was ambiguous. Our inquiries showed the nature of the bonds to fit the "grey area" between both types of funds. The department made the determination that the bonds best fit the description in the agency fund. However, after discussion with the Legislative Audit Division, the department reconsidered its opinion and moved the bonds to a private-purpose trust fund. Future reclamation bond activity will be recorded in private-purpose trust funds.*

#### **Recommendation #4**

We recommend the department properly record deferred revenue received for mine reclamation.

*The department **concurs** with this recommendation.*

*The prior audit report identified two \$750,000 payments that were recorded in fiscal 2001 as revenue when they should have been recorded as deferred revenue. Two identical payments for \$750,000 were received in fiscal 2003. These also had been recorded as revenue. These fiscal 2003 revenues were mistaken for the ones identified in the audit and were then recorded properly as deferred revenue. The two fiscal 2001 payments identified in the prior audit report were confused with the fiscal 2003 payments and were not corrected until September 2004. Even though this type of identical transaction was an anomaly, the department now has established procedures requiring professional accountants to review all "non-typical" transactions for accounting determination.*

#### **Recommendation #5**

We recommend the department make correcting entries for the outstanding balances in the federal special revenue, state special revenue, and general funds.

*The department **concurs** with this recommendation.*

#### **Federal and State Special Revenue Funds**

*Correcting the fund balances in the prior year findings took lower priority than other work in the Office of Financial Services due to a shortage of staff time, and the necessary time dedicated to training and testing the human resources and financial upgrades to SABHRS. The department has*



*identified the need for an additional professional level accountant to research and reconcile accounting problems and is currently recruiting for that position.*

### **General Fund**

*The department has been in contact with the Department of Fish, Wildlife and Parks to determine logistics for transferring the \$37,500 in wetlands mitigation funds to the Montana Wetlands Legacy Program. The two departments will draft an agreement to accomplish this transfer. Unless there are unforeseen delays, this should be accomplished in the next few weeks.*

### **Recommendation #6**

We recommend the department:

- A. Revise its policy to require each unit to submit cash collections to the Office of Financial Services on a daily basis.
- B. Deposit cash collections in accordance with state law.

*The department **concur**s with this recommendation.*

- A. *All work units have been advised, both verbally and in writing, of the proper cash procedures requiring daily submittals. The department's cash policy is in the process of being formally revised to reflect recommended changes.*
- B. *All work units are required to deliver daily cash collections to the Office of Financial Services prior to 3:00 p.m. so that accumulated collections can be delivered to the treasurer in accordance with state law.*

### **Recommendation #7**

We recommend the department accurately record and monitor its revenue estimates.

*The department **concur**s with this recommendation.*

*The department has implemented procedures to ensure more accurate revenue estimates. Budget staff will continue to record revenue estimates on the accounting system using the best information available at the time of the estimate. Further, the department's budget status report guidelines have been changed so that staff will review revenue estimates twice a*

*year during the budget status review process. Based upon these reviews, estimates will be adjusted to more accurately reflect actual revenues.*

### **Recommendation #8**

We recommend the department develop outcome measures for the Alternative Energy System Loan Program as required by section 75-25-103, MCA.

*The department **concur**s with this recommendation.*

*The department has developed a draft policy that details outcome measures of the Alternative Energy Loan Program, and is in the process of finalizing that policy. The policy includes the program outcomes identified in statute, and also lists additional measures that the department believes will be useful in gauging program effectiveness. The policy directs the department's Air, Energy & Pollution Prevention Bureau to track these measures and to report on them in an annual report to the director. The bureau is currently drafting the initial report, and plans to submit this report to the director each October.*

### **Recommendation #9**

We recommend the department establish fees that are commensurate with costs for the review of public water or sewage system plans and specifications as required by 75-6-108(3), MCA.

*The department **concur**s with this recommendation.*

*The department presented fee proposals to the Public Water Supply (PWS) Focus Group at its August meeting. The department formed the focus group with interested representatives from the public water supply community to provide ideas and feedback on program activities and potential improvements. Based upon the group's comments, the program is preparing draft rule amendments for fee increases. The December 6, 2004 meeting agenda for the Board of Environmental Review includes initiation of rulemaking for this fee increase. Following the normal board rule adoption process, we anticipate that rules will be final in June 2005.*

*The department historically has funded PWS plan and specification review through a combination of federal funds and fees. The federal funds were used because this activity is a requirement for department primacy in this program delegated to the State by the Environmental Protection Agency.*

*This issue of fees not being commensurate with costs was first identified in the department's fiscal 2000 Financial Compliance Audit. Following that*

*audit, the department attempted to put in place a tracking mechanism to gather the necessary revenue and expenditure data to determine appropriate fee levels commensurate with expenses. This tracking mechanism was not successfully implemented and utilized until fiscal 2002, thus fiscal 2003 represented the first full-year data set. In fiscal 2004 the department began working with the PWS Focus Group to review fee levels with respect to costs, based on the fiscal 2003 data. Once a second full year of data was available from fiscal 2004, the department formulated fee proposals and presented this information to the Focus Group. As stated above, the department now has placed initiation of rulemaking for this fee increase on the agenda for the next Board of Environmental Review meeting.*

*The department will maintain this tracking mechanism and will review fees and costs annually. Fee adjustments will be made as needed to ensure fees remain commensurate with costs.*