

Legislative Audit Division

State of Montana



Report to the Legislature

October 2005

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2005

Department of Commerce

This report contains seven recommendations to the Department of Commerce. The recommendations relate to:

- ▶ Incorrectly recorded financial activity
- ▶ Compensation not reported to the federal government
- ▶ Non-compliance with federal regulations

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Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

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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Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

October 2005

The Legislative Audit Committee
Of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Commerce's financial activity, compliance with state law and policy, and federal regulations for fiscal years 2003-04 and 2004-05. The report contains seven recommendations related to the department's compliance with state law, state accounting policy, and federal regulations.

The department's written response to the audit recommendations is included in the back of the audit report. We thank the director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Scott A Seecat

Scott A. Seecat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2005

Department of Commerce

Members of the audit staff involved in this audit were Rick Eneas, Jennifer Erdahl, John Fine, Geri Hoffman, Laura L. Norris, Melissa Soldano, and Jeff Tamblyn.

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Appointed and Administrative Officials

Department of Commerce

Tony Preite, Director

Andy Poole, Deputy Director and Business Resources Division
Administrator

Marty Tuttle, Chief Legal Counsel

Barb Charlton, Management Services Division Administrator

Dave Cole, Community Development Division Administrator

Betsy Baumgart, Montana Promotion Division Administrator

Bruce Brensdal, Housing Division Administrator

Carroll South, Board of Investments Executive Director

Michelle Barstad, Montana Facility Finance Authority Executive Director

Dave Desch, Research and Commercialization Technology Executive
Director

Jeffrey Tiberi, Montana Heritage Preservation and Development
Commission Executive Director

Montana Heritage Preservation & Development Commission

		<u>Term Expires</u>
Rosana Skelton, Acting Chair	Helena	5/23/2007
Anne Cossit	Park City	5/23/2007
Senator Bob Hawks	Bozeman	1/5/2007
Bill Howell	West Yellowstone	5/23/2006
Vicki Hucke	Helena	5/23/2008
Patrick Keim	Helena	5/23/2007
Judy McNally	Billings	5/23/2007
Mary Oliver	Ennis	5/23/2006
Representative Diane Rice	Harrison	1/5/2007
Leslie Schmidt	Bozeman	5/23/2008
Maureen Wicks	Ledger	5/23/2008

Dr. Mark Baumler, Proxy Appointment for Director of Historical Society

Doug Monger, Proxy Appointment for Director of Department of Fish,
Wildlife & Parks

Tony Preite, Director of Department of Commerce

Department of Commerce

This audit report is the result of our financial-compliance audit of the Department of Commerce (department) for the two fiscal years ended June 30, 2005.

The report contains seven recommendations to the department. The previous audit report contained four recommendations. The department implemented all four recommendations.

We issued an unqualified opinion on the financial schedules contained in this report. This means the reader may rely on the presented financial information and the supporting data on the accounting system.

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:

- A. Correctly record federal revenue and expenditures.
- B. Record activity in the correct fund according to state law..... 8

Agency Response: Concur. See page B-3.

Recommendation #2

We recommend the department follow state accounting policy when reversing accruals..... 8

Agency Response: Concur. See page B-3.

Recommendation #3

We recommend the department ensure the assets and liabilities recorded on SABHRS are valid. 9

Agency Response: Concur. See page B-4.

Report Summary

<u>Recommendation #4</u>	We recommend the department and the commission ensure the gift store inventory is recorded on the accounting records as required by state law..... 10
	<u>Agency Response:</u> Concur. See page B-4.
<u>Recommendation #5</u>	We recommend the department: A. Require the commission to report all employee compensation, including the value of free housing. B. Report the value of free housing as taxable income for the affected employees to the federal and state governments..... 11
	<u>Agency Response:</u> Concur. See page B-4.
<u>Recommendation #6</u>	We recommend the department accurately report current year distributions on the Community Development Block Grant Performance and Evaluation Report..... 12
	<u>Agency Response:</u> Concur. See page B-4.
<u>Recommendation #7</u>	We recommend the department develop and implement procedures to ensure it complies with federal requirements prohibiting contracting with suspended and debarred entities. 13
	<u>Agency Response:</u> Concur. See page B-5.

Introduction and Background

Introduction

We performed a financial-compliance audit of the Department of Commerce (department) for the two fiscal years ended June 30, 2005. The accompanying financial schedules include activity that is audited separately by us. These audits are the Board of Housing (audit reports 05-07, 04-07), the Board of Investments (audit reports 05-04, 04-03), and the Montana Facility Finance Authority (audit report 04-12). These reports are available on request.

The objectives of this audit were to:

1. Determine whether the department complied with applicable state and federal laws and regulations.
2. Make recommendations for improvement of management and internal controls.
3. Determine whether the department's financial schedules for the two fiscal years ended June 30, 2005 present fairly the results of operations.
4. Determine the status of prior audit recommendations.

This audit report contains seven recommendations intended to improve the department's compliance with state law, state policy and federal regulations. In accordance with section 5-13-307, MCA, we have disclosed the cost, if significant, of implementing these recommendations.

In accordance with section 17-8-101, MCA, we reviewed the Internal Service Funds fees, charges for services and fund equity balances. Based upon our review, the department is in compliance with this law.

Background

The Department of Commerce is responsible for encouraging and promoting economic and community development. The department consists of eight divisions and several entities attached to the department for administrative purposes. The Board of Housing, Montana Facility Finance Authority, Board of Research and Commercialization Technology, Board of Investments, Coal Board, Hard Rock Mining Impact Board and Montana Heritage Preservation

Introduction and Background

and Development Commission are administratively attached to the department. The following is a description of the various divisions and entities comprising the department.

Director's Office/Management Services Division - consists of two programs. The Director's Office administers the department and its divisions by providing executive, administrative, legal, and policy guidance. The Management Services Division provides internal support to all department divisions such as budgeting, accounting, purchasing, contracting, personnel administration, payroll, and training. The division also provides analysis, development, maintenance, and supervision of department data processing systems and hardware. The division is budgeted for 16.50 FTE.

Montana Promotion Division - is responsible for promoting a positive image of the state through advertising, publicity and international and domestic group travel, as well as printing and distribution of publications and marketing to film production companies. The division is budgeted for 27 FTE.

Business Resources Division - includes programs to enhance Montana's economic and business climate, assist businesses and communities in achieving economic prosperity, and build the economic base of Montana through business creation, expansion, and retention efforts. The division is budgeted for 28.5 FTE.

Community Development Division - works with federal, state, and local governments and the private sector in areas of community development. The division provides financial and technical assistance through two primary programs. These include the Community Development Block Grant Program (CDBG) and Treasure State Endowment Program (TSEP). The Coal Board and the Hard Rock Mining Impact Board and their respective operations are also administered in this division. The division is budgeted for 13 FTE.

Introduction and Background

Montana Facility Finance Authority - issues tax-exempt bonds for eligible facilities at interest rates significantly below those that would be available at taxable bond rates. Eligible facilities include, but are not limited to, acute care hospitals, nursing homes, assisted living facilities, retirement facilities, outpatient centers, homes for persons with developmental or mental disabilities, chemical dependency centers, and pre-release centers. The authority is budgeted for 2 FTE.

Board of Investments - has the sole authority to invest state funds in accordance with the Montana Constitution and statutory requirements. The board manages seven investment portfolios: 1) the All Other Funds portfolio; 2) Montana Domestic Equity Pool; 3) Short-Term Investment Pool; 4) Trust Funds Bond Pool; 5) Retirement Funds Bond Pool; 6) Montana International Equity Pool; and 7) Montana Private Equity Pool. The board also administers several programs in the Enterprise Fund, which issue bonds to assist local governments, cities, and school districts, or to provide funds to improve the state's economy. The Board is budgeted for 34 FTE.

Board of Research and Commercialization Technology - was created to provide a predictable and stable source of funding for research and commercialization projects; expand and strengthen research efforts for the state's basic industries to increase their economic impact on the state's economy; and expand research efforts into areas beyond the scope of the state's basic industries. The board is budgeted for 2 FTE.

Housing Division - administers the federal Section 8 Housing Programs, which provide rent subsidies to eligible low-income families and individuals. The Montana Home Investment Partnership Program (HOME) provides funds to strengthen public/private partnerships to provide more affordable housing. The Board of Housing helps provide decent, safe, sanitary, and affordable housing to lower income individuals and families. Board of Housing moneys are made available through issuance of revenue and general obligation bonds. The division is budgeted for 45 FTE.

Introduction and Background

Montana Heritage Preservation & Development Commission - manages certain state owned historic properties located at Virginia City, Nevada City, and Reeder's Alley. The commission is budgeted for 24.25 FTE.

Montana Council on Developmental Disabilities - an advisory group appointed by the Governor to provide increased independence, integration and productivity for persons with developmental disabilities. The council was administratively attached to the department through January 2004. In January 2004, the council became a non-profit corporation separate from the state.

Prior Audit Recommendations

We performed the prior audit of the department for the two fiscal years ended June 30, 2003. The report contained four recommendations. The department implemented all four recommendations.

Findings and Recommendations

Accounting Issues

We reviewed various programs and activities and noted the department made several accounting errors related to the following four activities. These errors primarily resulted from a program or accounting change.

Revenue, Expenditure, and Funds Classifications

The department made errors when recording financial activity related to federal revenues, expenditures and indirect cost recoveries.

Section 8 Voucher Program - The department receives a federal grant for its Section 8 voucher program. Funds are spent for administration costs, subgrants to housing authorities to pay the costs of determining eligibility of applicants, and housing assistance payments. Effective fiscal year 2003-04, the department started recording the activity as Benefits and Claims based on discussions with our office during the prior audit. During the current audit, we reviewed this activity and state policy and determined the portion subgranted to housing authorities should be coded as Grants. As a result, in fiscal year 2003-04 on the Schedule of Expenditures & Transfers-Out, Benefits & Claims from Federal Sources is overstated by \$1,511,803 and Grants from Federal Sources is understated by the same amount in the Housing Division. The department correctly recorded the activity in fiscal year 2004-05.

Montana Council on Developmental Disabilities (MCDD) - MCDD advises the state and other entities on programs for persons with developmental disabilities and provides assistance in the administration of these federal programs. MCDD was administratively attached to the department during the beginning of our audit period and was a non-profit organization separate from the state during the remaining part of the audit period. According to state policy, as part of the state, the expenditures should be coded to the appropriate expenditure object depending on what the activity is. As a non-profit organization, the department is a pass-through entity and all expenditures should be recorded as Grants. The department coded all the activity to benefits and claims. Department personnel stated they thought benefits and claims was appropriate coding since

Findings and Recommendations

the money was going to an organization that provides services to people with developmental disabilities. As a result, on the fiscal year 2003-04 Schedule of Expenditures & Transfer-Out, Benefits & Claims from Federal Sources is overstated by \$210,495 and Grants from Federal Sources is understated by the same amount in the Director and Management Services Division.

In fiscal year 2004-05, the department attempted to correct this activity by recording the activity as contracted services. As a result, on the fiscal year 2004-05 Schedule of Expenditures & Transfer-Out, Other Services is overstated by \$425,419 and Grants from Federal Sources is understated by the same amount in the Director and Management Services Division.

Temporary Assistance to Needy Families (TANF) Revolving Loan – The Department of Public Health and Human Services loans funds to needy families to assist them with the closing costs charged when buying a house. The Board of Housing records the loan receivable and receives the principal and interest payments on the loans. During the audit period, the Department of Commerce did not record the value of new loans made as federal revenue. They recorded the activity as Grants, Contracts, Donations, and Abandonments.

According to state policy, the Grants, Contracts, Donations, and Abandonment's revenue class should be used for revenue from these types of activities, unless it is from a federal source, in which case it should be recorded to the Federal Revenue class. As a result, on the fiscal year 2003-04 and 2004-05 Schedules of Revenues & Transfer-In in the Enterprise Fund, Grants, Contracts, Donations, and Abandonments is overstated by \$258,225 and \$159,128, respectively. Federal Revenue in this fund is understated by the same amount each year.

Indirect Cost Recoveries - The department operates an internal service fund to charge each division its portion of both departmental and federal indirect costs. Prior to fiscal year 2003-04, the department coded the indirect cost revenue in the internal service

Findings and Recommendations

fund to accounts that distinguished between federal indirect cost recoveries and those from non-federal sources. In fiscal year 2003-04, the department wanted to simplify the accounting from eleven accounts to one, by recording all the indirect cost revenue to one account in the Charges for Services revenue class. This change discontinued the use of the distinguishing accounts and caused the accounting records to not properly identify the federal portion. As a result, in fiscal year 2003-04, on the Schedule of Revenues & Transfers-In, Federal Indirect Cost Recoveries are understated by \$199,602, and Charges for Services are overstated by the same amount in the Internal Service Fund.

During fiscal year 2004-05, we discussed this activity with the department and they made a correcting entry. However, they did not include the federal indirect cost recoveries received from the Section 8 programs. As a result, on the fiscal year 2004-05 Schedule of Revenues & Transfers-In, Federal Indirect Cost Recoveries is understated by \$99,454 and Charges for Services is overstated by the same amount in the Internal Service Fund.

Board of Housing federal grant - During fiscal year 2004-05, the Board of Housing received federal grant funds and recorded them in an enterprise fund. Section 17-2-102, MCA, describes enterprise funds as accounting for operations that are operated in a manner similar to a private business where costs of operations are recovered through user charges. The federal grant funds received do not meet the definition of an enterprise fund and should be recorded in a federal special revenue fund.

As a result, on the fiscal year 2004-05 Schedule of Revenues & Transfers-In, Federal Revenues are overstated in the Enterprise Fund by \$117,538 and understated in the Federal Special Revenue Fund by the same amount. On the fiscal year 2004-05 Schedule of Expenditures & Transfers-Out in the Housing Division, expenditures from the Enterprise Fund and Federal Special Revenue Fund are overstated and understated, respectively, by \$117,538.

Findings and Recommendations

Recommendation #1

We recommend the department:

- A. Correctly record federal revenue and expenditures.**
- B. Record activity in the correct fund according to state law.**

Prior Year Expenditures

The department incorrectly recorded transactions related to prior expenditure accruals.

During fiscal year 2004-05, the department wrote off several expenditure accruals that were originally recorded in fiscal year 2002-03. The department reversed the accruals using the prior year expenditures account. State accounting policy requires accruals that are older than two years to be offset to fund balance rather than expenditures. Department personnel stated they reviewed state policy and thought they were appropriately recording the entries by using prior year expenditures. As a result, on the fiscal year 2004-05 Schedule of Expenditures & Transfers-Out, Grants from State Sources and Prior Year Expenditures & Transfers-Out are overstated by \$(626,406) in the Community Development Division. On the Schedule of Changes in Fund Balance, Direct Entries to Fund Balance is understated by \$(626,406) and Prior Year Expenditures are overstated by the same amount.

Recommendation #2

We recommend the department follow state accounting policy when reversing accruals.

Unsupported Liability Account Balances

The Home Investment Partnership (HOME) program carried two invalid liabilities for at least two fiscal years on its accounting records.

The department's HOME program carried a balance of \$11,434 in Property Held in Trust as of June 30, 2003, 2004, and 2005. This balance was created because the HOME program received program income from a participant. The department planned to reduce the

Findings and Recommendations

next reimbursement from the federal government by the amount of the program income received. However, this balance was overlooked and the liability has been on the records throughout fiscal years 2003-04 and 2004-05.

The HOME program also had balance of \$12,914 in Due to the Federal Government as of June 30, 2003, 2004, and 2005. Management Services personnel appropriately recorded the liability, following state policy during the 2002-03 fiscal year end process. Department personnel should have reversed the liability in fiscal year 2003-04. However, this balance was also overlooked and remained on the accounting records through fiscal year 2003-04 and 2004-05.

According to state law the department is required to record all transactions on its accounting system before the accounts are closed at the end of the fiscal year to present the receipt, use and disposition of all money and property for which it is responsible in accordance with Generally Accepted Accounting Principles. The department should have procedures in place to periodically review its asset and liability accounts on the State Accounting Budgeting and Human Resource System (SABHRS) to verify that the recorded assets and liabilities are valid.

Recommendation #3

We recommend the department ensure the assets and liabilities recorded on SABHRS are valid.

Montana Heritage Commission

In 1997, the State of Montana purchased the historic properties at Virginia and Nevada Cities. Subsequent to this purchase, Reeder's Alley, in Helena, was also donated to the Montana Heritage Commission (commission). The commission was created in 1997 to promote, preserve and manage these state owned properties. The following two issues discuss ways commission operations at Virginia City could be improved.

Findings and Recommendations

Gift Shop Inventory

The inventory at the Virginia City Gift Store is not recorded on the state's accounting records by the end of the fiscal year.

The commission operates a gift shop in Virginia City. It sells a variety of tourist items such as shirts, magnets, books, and postcards. The commission takes an inventory of the items in the gift store at the close of the season every September. An inventory or estimate is not taken at the state's fiscal year end; therefore the value is not recorded as an asset on the accounting records. Based on the September 2004 inventory, we estimate the June 30 inventory is approximately \$10,000.

Commission employees stated the month of June is during the busy season and staff is not available to take an inventory prior to fiscal year end. Department personnel stated they did not receive an inventory value from the commission and the activity is recorded on the accounting records as Goods Purchased for Resale.

State law requires the commission to input all necessary transactions to the accounting system before the accounts are closed at the end of the fiscal year to appropriately reflect the commission's activity.

Recommendation #4

We recommend the department and the commission ensure the gift store inventory is recorded on the accounting records as required by state law.

Rental Housing

The commission provided three employees a rent-free residence and did not report this compensation to the federal or state governments.

In June of 2004, the commission hired a full time employee and provided him a residence in one of the buildings the commission owns. Additionally, in 2005 the commission hired an intern and a short-term worker. During their employment, they also shared a house belonging to the commission. These housings were provided

Findings and Recommendations

free of charge and previously rented for approximately \$300 to \$500 a month.

Commission management stated they believed the arrangement added additional security to the commission properties and therefore did not qualify as additional compensation to the employees. Based on this, they did not inform Management Services of this activity. Since department personnel were not aware of the housing arrangements, they did not report the additional compensation to the federal or state governments in calendar year 2004.

According to the Internal Revenue Service Code, fringe benefits, such as free housing, should be included in the income of employees unless the compensation qualifies for exclusion. We reviewed the circumstances surrounding the free housing and noted they did not meet the definitions of any of the exclusions. Commission management could not provide supporting documentation showing the additional security was a requirement of the employees' jobs.

The commission should provide information to the department about employees living in commission housing to ensure the department appropriately reports total compensation for each of the commission's employees.

Recommendation #5

We recommend the department:

- A. Require the commission to report all employee compensation, including the value of free housing.**
- B. Report the value of free housing as taxable income for the affected employees to the federal and state governments.**

Findings and Recommendations

Community Development Block Grant Reporting

The department did not accurately complete a federal Performance and Evaluation Report.

The Department receives Community Development Block Grant (CDBG) funds from the department of Housing and Urban Development (HUD). The department grants these funds to cities and counties for community development activities such as providing decent housing, providing a suitable living environment, and expanding economic opportunities, for persons of low- and moderate-income.

The federal government requires the department to submit a Performance and Evaluation Report every year to account for CDBG funds spent. The report is required to include the amounts distributed to each city or county.

We reviewed the reports for the years ending March 30, 2004 and March 30, 2005. We noted several instances where the distributed amount was incorrect. Both reports included distributions that either should have been reported on the previous report or included on the subsequent report.

Recommendation #6

We recommend the department accurately report current year distributions on the Community Development Block Grant Performance and Evaluation Report.

Suspension and Debarment

The department does not have controls in place to ensure subgrantees are not debarred and suspended.

The HOME program grants money to local governments and to Community Housing Development Organizations to expand the supply of affordable housing, particularly for low and very low-income individuals. The HOME program is funded through a federal grant from the Department of Housing and Urban Development and as such, is subject to federal requirements. Federal regulations require entities subgranting federal awards to ensure the contracted

Findings and Recommendations

parties are not debarred or suspended from participating in federal programs. The department does not have controls in place to ensure the local governments or Community Housing Development Organizations which they contract with are not debarred or suspended.

Department personnel stated they primarily grant funds to local governments and did not believe there was a risk these entities would be debarred or suspended. Department personnel also noted the Community Housing Development Organizations and the local governments have procedures in place over this requirement to ensure the recipients to whom they ultimately grant the funds are not debarred or suspended and the department ensures this occurs through their monitoring. However, this monitoring does not mitigate the risk the Community Housing Development Organization or local government is not debarred or suspended.

Recommendation #7

We recommend the department develop and implement procedures to ensure it complies with federal requirements prohibiting contracting with suspended and debarred entities.

**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 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 Commerce for each of the fiscal years ended June 30, 2004, and 2005. The information contained in these financial schedules is the responsibility of the department 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/property held in trust of the Department of Commerce for each of the fiscal years ended June 30, 2004, and 2005, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

August 15, 2005

DEPARTMENT OF COMMERCE
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Agency Fund</u>	<u>Investment Trust Fund</u>
FUND BALANCE: July 1, 2004	\$ <u>(1,091,426)</u>	\$ <u>1,786,888</u>	\$ <u>(1,224,842)</u>	\$ <u>141,757,307</u>	\$ <u>1,083,108</u>	\$ <u>(900)</u>	\$ <u>601,911,349</u>
PROPERTY HELD IN TRUST: July 1, 2004						\$ <u>900</u>	
ADDITIONS							
Budgeted Revenues & Transfers-In		5,508,349	17,036,652	40,605,101	3,871,112		
NonBudgeted Revenues & Transfers-In	1,491	993		47,695,939	75		1,097,046,591
Prior Year Revenues & Transfers-In Adjustments		25,256	750,813	(3,914)	72,315		
Direct Entries to Fund Balance	<u>6,813,719</u>	<u>21,097,610</u>	<u>(206)</u>	<u>365,287</u>	<u>(44,367)</u>		
Total Additions	<u>6,815,210</u>	<u>26,632,208</u>	<u>17,787,259</u>	<u>88,662,413</u>	<u>3,899,135</u>		<u>1,097,046,591</u>
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	4,812,331	32,533,592	17,737,571	81,246,060	4,497,557		
NonBudgeted Expenditures & Transfers-Out	3,656,665	113,573	5,586	21,719	(89,423)		1,118,610,806
Prior Year Expenditures & Transfers-Out Adjustments	<u>(25,870)</u>	<u>(727,686)</u>	<u>233,928</u>	<u>(214)</u>	<u>(1,968)</u>		
Total Reductions	<u>8,443,126</u>	<u>31,919,479</u>	<u>17,977,085</u>	<u>81,267,565</u>	<u>4,406,166</u>		<u>1,118,610,806</u>
FUND BALANCE: June 30, 2005	\$ <u><u>(2,719,342)</u></u>	\$ <u><u>(3,500,383)</u></u>	\$ <u><u>(1,414,668)</u></u>	\$ <u><u>149,152,155</u></u>	\$ <u><u>576,077</u></u>	\$ <u><u>(900)</u></u>	\$ <u><u>580,347,134</u></u>
PROPERTY HELD IN TRUST: June 30, 2005						\$ <u><u>900</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 COMMERCE
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	Enterprise Fund	Internal Service Fund	Agency Fund	Investment Trust Fund
FUND BALANCE: July 1, 2003	\$ <u>(1,292,057)</u>	\$ <u>(3,863,099)</u>	\$ <u>3,907,281</u>	\$ <u>134,684,192</u>	\$ <u>1,084,755</u>	\$ <u>0</u>	\$ <u>664,570,962</u>
PROPERTY HELD IN TRUST: July 1, 2003							
ADDITIONS							
Budgeted Revenues & Transfers-In		5,092,974	16,780,986	33,798,927	3,880,389		
NonBudgeted Revenues & Transfers-In	1,501	(13,605)	70	47,212,161	232		1,105,778,171
Prior Year Revenues & Transfers-In Adjustments		23,318	23,002	(879,050)	32,004		
Direct Entries to Fund Balance	6,511,259	18,660,027	(3,445,669)	5,524,692	(43,123)	(900)	
Additions to Property Held in Trust						900	
Total Additions	<u>6,512,760</u>	<u>23,762,714</u>	<u>13,358,389</u>	<u>85,656,730</u>	<u>3,869,502</u>	<u>0</u>	<u>1,105,778,171</u>
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	2,665,022	18,054,343	17,960,740	79,172,825	3,799,601		
NonBudgeted Expenditures & Transfers-Out	3,650,000	106,303	501,913	329,381	484,269		1,168,437,784
Prior Year Expenditures & Transfers-Out Adjustments	(2,893)	(47,919)	27,859	(918,591)	(412,721)		
Total Reductions	<u>6,312,129</u>	<u>18,112,727</u>	<u>18,490,512</u>	<u>78,583,615</u>	<u>3,871,149</u>	<u>0</u>	<u>1,168,437,784</u>
FUND BALANCE: June 30, 2004	\$ <u>(1,091,426)</u>	\$ <u>1,786,888</u>	\$ <u>(1,224,842)</u>	\$ <u>141,757,307</u>	\$ <u>1,083,108</u>	\$ <u>(900)</u>	\$ <u>601,911,349</u>
PROPERTY HELD IN TRUST: June 30, 2004						<u>\$ 900</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 COMMERCE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal service Fund	Investment Trust Fund	TOTAL
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Licenses and Permits		\$ 425					\$ 425
Taxes	\$ 1,491		\$ 363	\$ 1,058			2,912
Charges for Services		165,317		515,307	\$ 3,832,546		4,513,170
Investment Earnings		281,230	21,702	51,047,929		\$ 12,327,711	63,678,572
Sale of Documents, Merchandise and Property		29,891					29,891
Rentals, Leases and Royalties		190,444					190,444
Contributions and Premiums						1,084,718,880	1,084,718,880
Miscellaneous		66,961					66,961
Grants, Contracts, Donations and Abandonments		825,234		159,128			984,362
Other Financing Sources		3,975,096					3,975,096
Federal			17,765,400	36,566,599			54,331,999
Federal Indirect Cost Recoveries				7,105	110,956		118,061
Total Revenues & Transfers-In	<u>1,491</u>	<u>5,534,598</u>	<u>17,787,465</u>	<u>88,297,126</u>	<u>3,943,502</u>	<u>1,097,046,591</u>	<u>1,212,610,773</u>
Less: Nonbudgeted Revenues & Transfers-In	1,491	993		47,695,939	75	1,097,046,591	1,144,745,089
Prior Year Revenues & Transfers-In Adjustments		25,256	750,813	(3,914)	72,315		844,470
Actual Budgeted Revenues & Transfers-In	<u>0</u>	<u>5,508,349</u>	<u>17,036,652</u>	<u>40,605,101</u>	<u>3,871,112</u>	<u>0</u>	<u>67,021,214</u>
Estimated Revenues & Transfers-In	<u>30,000</u>	<u>6,624,540</u>	<u>38,175,346</u>	<u>44,421,962</u>	<u>5,245,700</u>		<u>94,497,548</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (30,000)</u>	<u>\$ (1,116,191)</u>	<u>\$ (21,138,694)</u>	<u>\$ (3,816,861)</u>	<u>\$ (1,374,588)</u>	<u>\$ 0</u>	<u>\$ (27,476,334)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Charges for Services	\$ (30,000)	\$ (4,703)		\$ 11,073	\$ (1,125,544)		(1,149,174)
Investment Earnings		(42,770)	\$ (13,298)	2,279,031			2,222,963
Sale of Documents, Merchandise and Property		28,871					28,871
Rentals, Leases and Royalties		189,994					189,994
Miscellaneous		(1,009,203)		(4,000)			(1,013,203)
Grants, Contracts, Donations and Abandonments		(501,976)					(501,976)
Other Financing Sources		223,596					223,596
Federal			(21,125,396)	(6,110,070)			(27,235,466)
Federal Indirect Cost Recoveries				7,105	(249,044)		(241,939)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (30,000)</u>	<u>\$ (1,116,191)</u>	<u>\$ (21,138,694)</u>	<u>\$ (3,816,861)</u>	<u>\$ (1,374,588)</u>	<u>\$ 0</u>	<u>\$ (27,476,334)</u>

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

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Investment Trust Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Taxes	\$ 1,369		\$ 211	\$ 1,078			\$ 2,658
Charges for Services	132	\$ 151,367	70	534,751	\$ 3,912,625		4,598,945
Investment Earnings		210,400	10,551	44,705,008		\$ 6,441,515	51,367,474
Sale of Documents, Merchandise and Property		30,706					30,706
Rentals, Leases and Royalties		159,237					159,237
Contributions and Premiums						1,099,336,656	1,099,336,656
Miscellaneous		16,468					16,468
Grants, Contracts, Donations and Abandonments		695,192		265,625			960,817
Other Financing Sources		3,839,317					3,839,317
Federal			16,793,226	34,625,576			51,418,802
Total Revenues & Transfers-In	<u>1,501</u>	<u>5,102,687</u>	<u>16,804,058</u>	<u>80,132,038</u>	<u>3,912,625</u>	<u>1,105,778,171</u>	<u>1,211,731,080</u>
Less: Nonbudgeted Revenues & Transfers-In	1,501	(13,605)	70	47,212,161	232	1,105,778,171	1,152,978,530
Prior Year Revenues & Transfers-In Adjustments		23,318	23,002	(879,050)	32,004		(800,726)
Actual Budgeted Revenues & Transfers-In	<u>0</u>	<u>5,092,974</u>	<u>16,780,986</u>	<u>33,798,927</u>	<u>3,880,389</u>	<u>0</u>	<u>59,553,276</u>
Estimated Revenues & Transfers-In	30,000	2,270,400	53,043,249	42,056,451	4,114,200		101,514,300
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (30,000)</u>	<u>\$ 2,822,574</u>	<u>\$ (36,262,263)</u>	<u>\$ (8,257,524)</u>	<u>\$ (233,811)</u>	<u>\$ 0</u>	<u>\$ (41,961,024)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Charges for Services	\$ (30,000)	\$ 969		\$ 39,235	\$ 1,189		11,393
Investment Earnings		(68,600)	\$ (26,949)	(3,483,301)			(3,578,850)
Sale of Documents, Merchandise and Property		27,706					27,706
Rentals, Leases and Royalties		159,693					159,693
Miscellaneous		(933,703)		(4,000)			(937,703)
Grants, Contracts, Donations and Abandonments		(100,808)		3,400			(97,408)
Other Financing Sources		3,737,317					3,737,317
Federal			(36,235,314)	(4,812,858)			(41,048,172)
Federal Indirect Cost Recoveries					(235,000)		(235,000)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (30,000)</u>	<u>\$ 2,822,574</u>	<u>\$ (36,262,263)</u>	<u>\$ (8,257,524)</u>	<u>\$ (233,811)</u>	<u>\$ 0</u>	<u>\$ (41,961,024)</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 COMMERCE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	BOARD OF INVESTMENTS	BUSINESS RESOURCES DIVISION	COMMUNITY DEVELOPMENT DIVISION	DIRECTOR/MANAGEMENT SERVICES	FACILITY FINANCE AUTHORITY	HOUSING DIVISION	MONTANA HERITAGE COMMISSION	MONTANA PROMOTION DIVISION	RESEARCH & COMMERCIALIZATION	TOTAL
Personal Services										
Salaries	\$ 1,635,994	\$ 1,082,969	\$ 500,961	\$ 744,813	\$ 111,956	\$ 1,552,839	\$ 652,928	\$ 975,330	\$ 72,197	\$ 7,329,987
Other Compensation	9,565	154	1,500		4,760	9,950			1,850	27,779
Employee Benefits	404,078	322,650	150,091	197,775	30,771	496,966	202,859	308,178	22,723	2,136,091
Personal Services-Other	(61,896)			(31,370)	1,762	(26,211)				(117,715)
Total	1,987,741	1,405,773	652,552	911,218	149,249	2,033,544	855,787	1,283,508	96,770	9,376,142
Operating Expenses										
Other Services	1,015,047	1,076,016	85,647	468,074	34,579	3,107,278	187,493	3,030,265	4,450	9,008,849
Supplies & Materials	60,008	93,190	39,537	48,530	2,794	141,959	105,884	200,215	3,777	695,894
Communications	49,592	49,529	13,329	15,841	3,269	98,165	50,794	2,807,829	2,141	3,090,489
Travel	35,682	87,575	29,216	5,960	18,984	134,773	27,764	133,241	3,777	476,972
Rent	183,295	145,075	68,888	85,232	16,242	193,714	41,824	195,139	7,034	936,443
Utilities		1,663				2,405	47,141			51,209
Repair & Maintenance	24,225	8,711	2,994	1,063	498	106,705	18,565	15,252	337	178,350
Other Expenses	362,224	284,244	99,528	9,602	26,104	696,065	119,055	444,523	12,060	2,053,405
Goods Purchased For Resale							11,500			11,500
Total	1,730,073	1,746,003	339,139	634,302	102,470	4,481,064	610,020	6,826,464	33,576	16,503,111
Equipment & Intangible Assets										
Intangible Assets				6,990		14,400				21,390
Total				6,990		14,400				21,390
Capital Outlay										
Buildings							54,983			54,983
Other Improvements							35,245			35,245
Total							90,228			90,228
Local Assistance										
From State Sources								3,228,691		3,228,691
Total								3,228,691		3,228,691
Grants										
From State Sources		2,590,000	13,964,709		12,958			971,017	3,434,036	20,972,720
From Federal Sources		3,224,901	5,765,856			8,143,639				17,134,396
Total		5,814,901	19,730,565		12,958	8,143,639		971,017	3,434,036	38,107,116
Benefits & Claims										
From Federal Sources						33,190,631				33,190,631
STIP Distrib to Local Govts	1,118,610,806									1,118,610,806
Total	1,118,610,806					33,190,631				1,151,801,437
Transfers										
Accounting Entity Transfers								100,000	3,650,000	3,750,000
Total								100,000	3,650,000	3,750,000
Debt Service										
Bonds	2,190,827					37,555,285				39,746,112
Total	2,190,827					37,555,285				39,746,112
Total Expenditures & Transfers-Out	\$ 1,124,519,447	\$ 8,966,677	\$ 20,722,256	\$ 1,552,510	\$ 264,677	\$ 85,418,563	\$ 1,556,035	\$ 12,409,680	\$ 7,214,382	\$ 1,262,624,227
EXPENDITURES & TRANSFERS-OUT BY FUND										
General Fund		\$ 4,583,153	\$ 209,973						\$ 3,650,000	\$ 8,443,126
State Special Revenue Fund		383,618	14,529,109				\$ 1,032,690	\$ 12,409,680	3,564,382	31,919,479
Federal Special Revenue Fund		3,999,906	5,983,174	\$ 425,419		\$ 7,045,241	523,345			17,977,085
Enterprise Fund	\$ 2,629,566				\$ 264,677	\$ 78,373,322				81,267,565
Internal Service Fund	3,279,075			1,127,091						4,406,166
Investment Trust Fund	1,118,610,806									1,118,610,806
Total Expenditures & Transfers-Out	1,124,519,447	8,966,677	20,722,256	1,552,510	264,677	85,418,563	1,556,035	12,409,680	7,214,382	1,262,624,227
Less: Nonbudgeted Expenditures & Transfers-Out	1,118,570,515	7,942	3,664	(25,842)	2,595	(2,706)	4,973	107,240	3,650,546	1,122,318,927
Prior Year Expenditures & Transfers-Out Adjustments	275	(5,481)	(633,251)	(2,143)	(10,427)	223,741	10,876	(32,882)	(72,517)	(521,809)
Actual Budgeted Expenditures & Transfers-Out	5,948,657	8,964,216	21,351,843	1,580,495	272,509	85,197,528	1,540,186	12,335,322	3,636,353	140,827,109
Budget Authority	6,612,419	9,513,703	24,930,101	1,610,708	301,394	101,752,227	2,687,358	13,435,697	3,650,000	164,493,607
Unspent Budget Authority	\$ 663,762	\$ 549,487	\$ 3,578,258	\$ 30,213	\$ 28,885	\$ 16,554,699	\$ 1,147,172	\$ 1,100,375	\$ 13,647	\$ 23,666,498
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund		\$ 141,580	\$ 114							\$ 141,694
State Special Revenue Fund		33,288	3,385,852				\$ 269,943	\$ 1,100,375	\$ 13,647	4,803,105
Federal Special Revenue Fund		374,619	192,292	\$ 6,809		\$ 1,250	877,229			1,452,199
Enterprise Fund	\$ 651,226				\$ 28,885	\$ 16,553,449				17,233,560
Internal Service Fund	12,536			23,404						35,940
Unspent Budget Authority	\$ 663,762	\$ 549,487	\$ 3,578,258	\$ 30,213	\$ 28,885	\$ 16,554,699	\$ 1,147,172	\$ 1,100,375	\$ 13,647	\$ 23,666,498

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

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	BOARD OF INVESTMENTS	BUSINESS RESOURCES DIVISION	COMMUNITY DEVELOPMENT DIVISION	DIRECTOR/MANAGEMENT SERVICES	FACILITY FINANCE AUTHORITY	HOUSING DIVISION	MONTANA HERITAGE COMMISSION	MONTANA PROMOTION DIVISION	RESEARCH AND COMMERCIALIZATION	TOTAL
Personal Services										
Salaries	\$ 1,720,556	\$ 1,126,555	\$ 486,328	\$ 727,743	\$ 108,829	\$ 1,451,140	\$ 568,122	\$ 914,121	\$ 70,833	\$ 7,174,227
Other Compensation	7,300	307	2,500	138	5,000	11,050			2,200	28,495
Employee Benefits	423,763	309,748	136,947	172,373	28,826	444,735	187,590	274,831	21,175	1,999,988
Personal Services-Other	17,417		10,903	44,029	10,903	17,046				89,395
Total	<u>2,169,036</u>	<u>1,436,610</u>	<u>625,775</u>	<u>944,283</u>	<u>153,558</u>	<u>1,923,971</u>	<u>755,712</u>	<u>1,188,952</u>	<u>94,208</u>	<u>9,292,105</u>
Operating Expenses										
Other Services	305,584	1,133,999	190,573	78,610	30,632	2,928,041	270,400	1,899,068	4,753	6,841,660
Supplies & Materials	66,814	106,535	22,620	55,167	4,139	69,065	94,100	99,593	2,970	521,003
Communications	34,594	65,707	17,398	22,987	5,310	87,534	41,000	2,637,083	2,392	2,914,005
Travel	41,449	96,608	26,336	16,576	20,345	129,298	22,173	131,633	4,055	488,473
Rent	181,824	138,919	65,050	97,058	16,187	184,819	8,201	203,261	6,795	902,114
Utilities		1,850		2,252		38,566				42,668
Repair & Maintenance	26,492	9,487	3,532	2,492	745	96,300	71,890	11,090	289	222,317
Other Expenses	324,899	756,381	84,588	31,604	23,776	810,802	119,760	432,881	12,118	2,596,809
Goods Purchased For Resale						10,870				10,870
Total	<u>981,656</u>	<u>2,309,486</u>	<u>410,097</u>	<u>304,494</u>	<u>101,134</u>	<u>4,308,111</u>	<u>676,960</u>	<u>5,414,609</u>	<u>33,372</u>	<u>14,539,919</u>
Equipment & Intangible Assets										
Equipment		10,926						84,615		95,541
Intangible Assets						18,000				18,000
Total		<u>10,926</u>				<u>18,000</u>		<u>84,615</u>		<u>113,541</u>
Capital Outlay										
Land & Interest In Land							2,204			2,204
Buildings							76,527			76,527
Other Improvements							9,812			9,812
Total							<u>88,543</u>			<u>88,543</u>
Local Assistance										
From State Sources								3,094,602		3,094,602
Total								<u>3,094,602</u>		<u>3,094,602</u>
Grants										
From State Sources		425,000	3,162,705		7,024			1,027,008	1,784,671	6,406,408
From Federal Sources		3,803,675	6,227,835			5,686,775				15,718,285
Total		<u>4,228,675</u>	<u>9,390,540</u>		<u>7,024</u>	<u>5,686,775</u>		<u>1,027,008</u>	<u>1,784,671</u>	<u>22,124,693</u>
Benefits & Claims										
From Federal Sources				210,495		33,710,616				33,921,111
STIP Distrib to Local Govts	1,168,437,784									1,168,437,784
Total	<u>1,168,437,784</u>			<u>210,495</u>		<u>33,710,616</u>				<u>1,202,358,895</u>
Transfers										
Accounting Entity Transfers								100,000	3,650,000	3,750,000
Total								<u>100,000</u>	<u>3,650,000</u>	<u>3,750,000</u>
Debt Service										
Bonds	1,851,561					36,594,057				38,445,618
Total	<u>1,851,561</u>					<u>36,594,057</u>				<u>38,445,618</u>
Total Expenditures & Transfers-Out	<u>\$ 1,173,440,037</u>	<u>\$ 7,985,697</u>	<u>\$ 10,426,412</u>	<u>\$ 1,459,272</u>	<u>\$ 261,716</u>	<u>\$ 82,241,530</u>	<u>\$ 1,521,215</u>	<u>\$ 10,909,786</u>	<u>\$ 5,562,251</u>	<u>\$ 1,293,807,916</u>
EXPENDITURES & TRANSFERS-OUT BY FUND										
General Fund		\$ 2,460,763	\$ 201,366						\$ 3,650,000	\$ 6,312,129
State Special Revenue Fund		475,494	3,767,690				\$ 1,047,506	\$ 10,909,786	1,912,251	18,112,727
Federal Special Revenue Fund		5,049,440	6,457,356	\$ 393,592		\$ 6,116,415	473,709			18,490,512
Enterprise Fund	\$ 2,196,784				\$ 261,716	76,125,115				78,583,615
Internal Service Fund	2,805,469			1,065,680						3,871,149
Investment Trust Fund	1,168,437,784									1,168,437,784
Total Expenditures & Transfers-Out	<u>1,173,440,037</u>	<u>7,985,697</u>	<u>10,426,412</u>	<u>1,459,272</u>	<u>261,716</u>	<u>82,241,530</u>	<u>1,521,215</u>	<u>10,909,786</u>	<u>5,562,251</u>	<u>1,293,807,916</u>
Less: Nonbudgeted Expenditures & Transfers-Out	1,168,772,579	501,913		174,938	22,503	281,413		106,303	3,650,000	1,173,509,649
Prior Year Expenditures & Transfers-Out Adjustments	(956,207)	1,967	(71,110)	(128,024)	(23,988)	(219,785)	3,358	39,526		(1,354,263)
Actual Budgeted Expenditures & Transfers-Out	<u>5,623,665</u>	<u>7,481,817</u>	<u>10,497,522</u>	<u>1,412,358</u>	<u>263,201</u>	<u>82,179,902</u>	<u>1,517,857</u>	<u>10,763,957</u>	<u>1,912,251</u>	<u>121,652,530</u>
Budget Authority	6,137,392	7,921,479	30,855,526	1,544,104	277,494	97,953,181	2,375,897	12,323,828	3,650,000	163,038,901
Unspent Budget Authority	<u>\$ 513,727</u>	<u>\$ 439,662</u>	<u>\$ 20,358,004</u>	<u>\$ 131,746</u>	<u>\$ 14,293</u>	<u>\$ 15,773,279</u>	<u>\$ 858,040</u>	<u>\$ 1,559,871</u>	<u>\$ 1,737,749</u>	<u>\$ 41,386,371</u>
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund		\$ 1,418	\$ 1,324							\$ 2,742
State Special Revenue Fund		53,074	20,304,767			\$ 676,639	\$ 325,386	\$ 1,559,871	\$ 1,737,749	23,980,847
Federal Special Revenue Fund		385,170	51,913	\$ 27,354		15,096,640	532,654			1,673,730
Enterprise Fund	\$ 407,813				\$ 14,293					15,518,746
Internal Service Fund	105,914			104,392						210,306
Unspent Budget Authority	<u>\$ 513,727</u>	<u>\$ 439,662</u>	<u>\$ 20,358,004</u>	<u>\$ 131,746</u>	<u>\$ 14,293</u>	<u>\$ 15,773,279</u>	<u>\$ 858,040</u>	<u>\$ 1,559,871</u>	<u>\$ 1,737,749</u>	<u>\$ 41,386,371</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 Commerce

Notes to the Financial Schedules

For the two Fiscal Years Ended June 30, 2005

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 and Federal Special Revenue Funds, Permanent). 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) and Fiduciary (Investment Trust) 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.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared

Notes to the Financial Schedules

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 private purpose trusts or major capital projects) that are legally restricted to expenditures for specific purposes. Department Special Revenue Funds include Hard Rock Mining, Montana Heritage Commission, Treasure State Endowment, and Accommodations Tax.

Federal Special Revenue Fund - to account for proceeds of federal revenue sources that are legally restricted to expenditures for specific purposes. The department's Federal Special Revenue Funds include assistance programs such as Community Development Block Grants, Home Investment Partnership Program (HOME), Workforce Investment Act (WIA) Labor Training, and Small Business Administration.

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. Department Internal Service Funds include the Investment Division and Commerce Centralized Services.

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

Notes to the Financial Schedules

incurred or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Department Enterprise Funds include Facility Finance Authority, Board of Housing, Board of Investments Industrial Revenue Bond, and Section 8 Housing Program.

Fiduciary Fund Category

Investment Trust Fund - to account for the external portion of investment pools. The department's Investment Trust Fund includes Short Term Investment Pool (STIP) investing activity for local governments.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. Each agency has authority to pay obligations from the statewide General Fund within its appropriation limits. Each agency expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets the agency has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 2004 and June 30, 2005.

3. Direct Entries to Fund Balance

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

4. Agency Fund

The Department of Revenue is the administering agency over the Bad Debt Collections Agency Fund. In fiscal year 2004, an entry to Property Held in Trust was coded incorrectly by the Department of Revenue. This error resulted in the agency fund reporting a fund balance for both fiscal years 2003-04 and 2004-05 on the Schedules of Changes in Fund Balance and Property Held in Trust. During August of 2005, a correcting entry was made by the Department of Revenue.

Notes to the Financial Schedules

5. Negative Fund Balance in Federal Special Revenue Fund

The negative fund balances in the Federal Special Revenue Fund on the fiscal year 2003-04 and 2004-05 Schedules of Fund Balance & Property Held in Trust is the result of accruals made for the Community Development Block Grant. State policy allows federal fund balances to be negative by the amount of these types of accruals.

Agency Response

MONTANA
Department of Commerce

DIRECTOR'S OFFICE

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October 5, 2005

Mr. Scott A. Seacat
Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, Montana 59620-1705

RECEIVED
OCT 07 2005
LEGISLATIVE AUDIT DIV.

Dear Mr. Seacat:

We have reviewed the recommendations pertaining to the Department of Commerce's Financial-Compliance Audit for the two fiscal years ending June 30, 2005. Our response is as follows:

RECOMMENDATION #1

We recommend the department:

- A. Correctly record federal revenue and expenditures.**
- B. Record activity in the correct fund according to state law.**

Response:

- A. The department concurs. The department agrees the applicable expenditures of the Section 8 Voucher Program and the Montana Council on Developmental Disabilities Program should have been recorded as grants as opposed to benefits and claims. Procedures are in place to record these expenditures as grants.
- B. The department concurs. Board of Housing is working with Management Services and the Department of Administration to establish a federal revenue account for recording TANF loans. Once the revenue account is created, TANF loans will be recorded as federal revenue accordingly. In addition, the Board of Housing is in the process of establishing a federal special revenue fund for recording grant money. Once the fund is created, federal grant money associated with the Board will be recorded in the fund. Procedures have been initiated to distinguish and record the internal indirect costs recoveries appropriately to federal/non-federal accounts.

RECOMMENDATION #2

We recommend the department follow state accounting policy when reversing accruals.

Response:

The department concurs. Procedures are in place to assure the write off of accruals from prior years beyond one year will be written to fund balance directly in accordance with state policy.

RECOMMENDATION #3

We recommend the department ensure the assets and liabilities recorded on SABHRS are valid.

Response:

The department concurs. The Management Services Fiscal staff has developed procedures to ensure the trial balances of all departmental funds are reviewed periodically to ensure all liabilities and assets recorded on SABHRS are valid.

RECOMMENDATION #4

We recommend the department and the commission ensure the gift store inventory is recorded on the accounting records as required by state law.

Response:

The department concurs. The Montana Heritage Commission will provide a gift store inventory to the Management Services Division at the end of each fiscal year to properly record the assets of the Commission.

RECOMMENDATION #5

We recommend the department:

- A. Require the commission to report all employee compensation, including the value of free housing.**
- B. Report the value of free housing as taxable income for the affected employees to the federal and state governments.**

Response:

The department concurs.

A. The Montana Heritage Commission agrees the value of free housing should be included in the wages paid employees. The Commission is in the process of determining the appropriate value of the rent and will report all employee compensation, including the value of free housing to the DOC Management Services Division.

B. The DOC Management Services Division will report for the Montana Heritage Commission the value of free housing as taxable income for affected employees to the federal and state governments.

RECOMMENDATION #6

We recommend the department accurately report current year distribution on the Community Development Block Grant Performance and Evaluation Report.

Response:

The department concurs. The Montana CDBG Program is responsible for maintaining five different reporting systems, primarily to meet the requirements of the US Department of Housing and Urban Development (HUD). The complexity and inherent duplication involved in the multiple reporting systems invites the problems identified in the audit. The CDBG program is creating an electronic system linked to SABHRS to

automatically collect the PER data as opposed to the manual system currently used. The CDBG program hopes to have the electronic system in place by June 30, 2006.

RECOMMENDATION #7

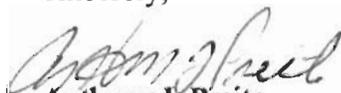
We recommend the department develop and implement procedures to ensure it complies with federal requirements prohibiting contracting with suspended and debarred entities.

Response:

The department concurs. The HOME Program currently requires all of its grantees to conduct debarment checks prior to entering construction, architecture, engineering or consulting contracts in order to fulfill this requirement. This same procedure will now be implemented to conduct debarment checks on cities, towns, counties and Community Housing Development Organizations, prior to the Department entering contracts with those entities.

My staff and I will be available to discuss the audit and recommendations with the Legislative Audit Committee at its convenience.

Sincerely,



Anthony J. Preite
Director