



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Department of  
Livestock*

*For the Two Fiscal Years Ended  
June 30, 2007*

OCTOBER 2007

LEGISLATIVE AUDIT  
DIVISION

07-22

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# LEGISLATIVE AUDIT DIVISION

Scott A. Seecat, Legislative Auditor  
Tori Hunthausen,  
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:  
James Gillett  
Angie Grove

October 2007

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Livestock (department) for the two fiscal years ended June 30, 2007. The report contains five recommendations concerning compliance with state and federal regulations and the proper recording of activity on the state's accounting system. Issues discussed in this report include unsupported federal costs, and non-compliance with state laws and federal regulations. The department's response is located at the end of the report.

We thank the Executive Officer and department staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

*/s/ Scott A. Seecat*

Scott A. Seecat  
Legislative Auditor

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## APPOINTED AND ADMINISTRATIVE OFFICIALS

### Board of Livestock

		Term Expires
		<u>March 1</u>
William Hedstrom, Chairman	Kalispell	2011
Stan Boone	Ingomar	2013
Janice French	Hobson	2011
George Hammond	Hardin	2009
Linda Nielsen	Nashua	2011
Rebecca Weed	Belgrade	2013
Meg Smith	Divide	2009

### Department of Livestock

Christian Mackay, Executive Officer  
 Dr. Marty Zaluski, DVM, State Veterinarian, Animal Health Division  
 Evaleen Starkel, Alternative Livestock Program  
 Centralized Services Division  
     George Harris, Administrator  
     Monte Nick, Bureau Chief, Milk Control Bureau  
     Sam Murfitt, Executive Secretary, Board of Horse Racing

Bill Layton, DVM, DACVP, Administrator, Diagnostic Laboratory Division

John Grainger, Administrator, Brands Enforcement Division

Meat, Milk and Egg Inspection Division  
     Dan Turcotte, Bureau Chief, Milk and Egg Inspection Bureau  
     Carol Olmstead, Bureau Chief, Meat and Poultry Inspection Bureau

For additional information concerning the Department of Livestock programs, contact:

George Harris, Administrator, Centralized Services Division  
 Department of Livestock  
 PO Box 202001  
 Helena MT 59620-2001  
 (406) 444-4994  
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# REPORT SUMMARY

## Department of Livestock

This audit report documents the results of our financial-compliance audit of the Department of Livestock (department) for the two fiscal years ended June 30, 2007.

This report contains five recommendations where the department could improve accounting and enhance compliance with federal regulations and state laws. The department’s written response to the audit recommendations begins on page B-3.

We issued an unqualified opinion on the department’s financial schedules contained in the report. This means the reader may rely on the financial information and supporting data on the state’s accounting records.

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 ensure quarterly federal reports are supported by the state’s accounting records.....4

Department Response: Concur..... B-3

### Recommendation #2

We recommend the department have adequate support to document compensation charges to federal programs in accordance with federal regulations. ....5

Department Response: Concur..... B-3

### Recommendation #3

We recommend the department receive adequate training in order to comply with state accounting policy.....5

Department Response: Partially Concur..... B-3

### Recommendation #4

We recommend the department:

A. Monitor employees to ensure deposits for local inspection fees comply with state law. ...7

Department Response: Concur..... B-4

B. Continue to enhance compliance with state law related to excess annual leave.....7

Department Response: Concur..... B-4

C. Collect transportation permit fees and issue entry permits in compliance with state law. ....7

Department Response: Partially Concur..... B-4

Recommendation #5

We recommend the department:

- A. Conduct an analysis of its federal special funds each year to ensure the correct amount is recorded as fund balance in each fund.....8

Department Response: Concur..... B-4

- B. Record the liability for amounts due to the federal government for the Meat and Poultry Inspection Program.....8

Department Response: Concur..... B-4

# Chapter I — Introduction

## **Introduction**

We performed a financial-compliance audit of the Montana Department of Livestock (department) for the two fiscal years ended June 30, 2007. The objectives of the audit were to:

1. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules, and if appropriate, make recommendations for improvement in the internal and management controls of the department.
2. Determine whether the department complied with applicable laws and regulations.
3. Determine whether the department's financial schedules fairly present the results of operations for the two fiscal years ended June 30, 2007.
4. Determine the implementation status of prior audit recommendations.

This report contains five recommendations to the department. The recommendations address areas where the department can improve its compliance with state and federal laws and regulations and record department activity appropriately on the state's accounting records. Other areas of concern not having a significant effect on the successful operations of the department are not included in this report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations made in this report.

## **Background**

The Department of Livestock, established by section 2-15-3101, MCA, provides for the control and eradication of animal diseases, the prevention of transmission of animal diseases to humans, and the protection of livestock from theft and predatory animals. The department also regulates the state milk and horse racing industries.

The department is administered by a seven-member Board of Livestock (board). The members of the board are appointed by the governor and confirmed by the senate to serve six-year terms. The board appoints an executive officer who is responsible for the operations of the department and ensuring board policies, directives, and rules are carried out. The department is organized into five divisions.

Centralized Services Division (19.78 FTE) - provides budgeting, accounting, payroll, legal, purchasing, and data processing services to the department. This division also includes the Milk Control Bureau, the Milk Control Board, the Predator Control Program, and

the Board of Horse Racing. The Milk Control Board is responsible for the regulation of milk producer pricing. The Predator Control Program contracts with the U.S. Department of Agriculture to control predators that injure or kill domestic livestock. The Board of Horse Racing, which monitors and regulates the horse racing industry in Montana, is administratively attached to the department.

Brands Enforcement Division (57.21 FTE) - includes the Inspection and Control Program which is responsible for brand inspections, recording of livestock brands, dealer licensing, and livestock theft investigations. This program has employees in 13 market centers and 18 districts throughout the state. There are 557 deputy state livestock inspectors. These inspectors retain their inspection fees and their permits and inspection reports are processed by the division. The Livestock Crimestoppers Commission is administratively attached to the department. This commission provides a reward program for information used in the detection of livestock related crimes.

Animal Health Division (18 FTE) - includes the Disease Control Program. This program is responsible for the control and eradication of animal diseases and the prevention of transmission of animal diseases to humans.

Diagnostic Laboratory (20.50 FTE) - provides laboratory support for the Disease Control Program, Milk and Egg Program, veterinarians, and livestock producers. The Diagnostic Laboratory operates on the Bozeman campus of Montana State University.

Meat, Milk, and Egg Inspection Division (24.50 FTE) - includes the Milk and Egg Program and the Meat and Poultry Inspection Program. The Milk and Egg Program has 5.0 FTE and ensures that eggs and milk products sold or manufactured in the state are fit for human consumption. The Meat and Poultry Inspection Program has 19.50 FTE and provides for a state-certified supply of wholesome meat products for retail consumption.

## **Prior Audit Recommendations**

The financial-compliance audit of the department for the two fiscal years ended June 30, 2005, contained four recommendations. During our current audit, we determined the department implemented one recommendation, partially implemented one recommendation, and did not implement two recommendations. The recommendation partially implemented deals with the department not properly recording activity related to federal revenue deferrals and revenue receivables, and is discussed on page 8. The recommendations not implemented deal with timely deposits of inspection fees and compliance with federal regulations related to charging personal service costs appropriately to federal programs, and are discussed on pages 6 and 4, respectively.

## Chapter II — Findings and Recommendations

### Non-Compliance with Federal Regulations

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**The department did not comply with the federal financial reporting requirements for its meat and poultry inspection program grant for state fiscal year 2005-06.**

---

The department has a cooperative agreement for its Meat and Poultry Inspection Program (program) with the U.S. Department of Agriculture, Food Safety and Inspection Service (FSIS). The agreement requires the department to submit quarterly reports showing the financial status of funds for the quarter. According to federal regulations, the department must expend and account for grant funds in accordance with state laws and procedures. Fiscal control and accounting procedures of the state must be sufficient to permit preparation of required reports.

The expenditures reported on the quarterly report for the FSIS grant for the quarter ending June 30, 2006 are not supported by the Statewide Accounting, Budgeting, and Human Resources System (SABHRS). The table below shows the differences between the report and the accounting records.

<b><u>Quarter Ended</u></b>	<b><u>June 30, 2006</u></b>
Cumulative General Fund Expenditures Reported on Quarterly Report	\$399,071
General Fund Expenditures Recorded on SABHRS	332,378
<b>Difference</b>	<b>\$66,693</b>
Cumulative Federal Fund Expenditures Reported on Quarterly Report	\$399,071
Federal Fund Expenditures Recorded on SABHRS	439,592
<b>Difference</b>	<b>\$40,521</b>

**Source: Compiled by the Legislative Audit Division.**

Department personnel said they use a spreadsheet to summarize the support for the quarterly federal reports. The spreadsheet includes SABHRS transactions for the quarter and adjustments to the accounting system numbers that would be necessary to report the activity for the quarter correctly. When we traced from the spreadsheets to SABHRS, we found that some of the adjustments had not been made on SABHRS. Therefore, the reports were not supported by the state's accounting records.

**RECOMMENDATION #1**

*We recommend the department ensure quarterly federal reports are supported by the state's accounting records.*

---

**Unsupported Federal Costs**

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**The department did not have adequate support for certain personal service costs charged to federal programs.**

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In our prior audit, we recommended the department charge personal services costs to federal programs based on actual time spent, and maintain documentation of hours worked on federal programs. In fiscal years 2005-06 and 2006-07, we noted that department's time records properly account for charges to federal programs for individuals working on a single federal program. For individuals working on multiple federal programs the department uses a budgeted percentage allocation of time to charge federal programs, rather than actual time worked on the program.

Federal regulations require a distribution of salaries or wages be supported by documentation to show charges to federal programs for employees working on multiple federal programs. The documentation must reflect an after-the-fact distribution of the actual activity of each employee, account for the total activity for which each employee is compensated, be prepared at least monthly and coincide with one or more pay periods, and be signed by the employee. The regulations provide that a budget percentage split among federal programs may be used for interim accounting purposes, but the regulations provide for reconciliations and adjustments for budget to actual certified activity on a quarterly basis.

We identified four department employees who worked on multiple projects whose time is charged on a percent allocation. While the process to determine the budget allocation is reasonable, the department does not periodically review the charges and determine if adjustments are needed as a result of the actual time spent on federal programs. Because of this there are unsupported personal services charges to federal programs, and we question personal service costs of \$66,447 and \$116,282 charged to federal programs in fiscal years 2005-06 and 2006-07, respectively.

The department personnel stated they have been unable to get the four individuals to assign effort for multiple projects on time records, and have not instituted any procedures to correct the issue noted last audit. Accounting personnel are recording payroll expenditures to match budget allocations without proper time records to show the hours worked.

---

**RECOMMENDATION #2**

*We recommend the department have adequate support to document compensation charges to federal programs in accordance with federal regulations.*

---

## **Accounting Errors**

---

**The department made accounting errors while processing transactions for deferred revenues and corrections of errors from prior years.**

---

We noted the following instances where accounting entries were made that did not follow state accounting policy.

### **Improper Revenue Deferral**

Revenues are recognized when the revenue is realizable, measurable, earned, and available. If these requirements are not met, the amounts received are reported as deferred revenue until the receipts meet these criteria. In fiscal year 2005-06, the department deferred revenue so that recorded revenues equaled expenditures instead of deferring revenue using the criteria in state policy. As a result, revenue in the state special revenue fund is understated by \$1,110 for Licenses and Permits, \$81,588 for Taxes, and \$73,028 for Charges for Services. In fiscal year 2006-07 the state special revenue fund revenue is overstated by the same amounts. Department personnel thought these deferrals were allowable and followed state accounting policy.

### **Correcting Prior Year Error**

State accounting policy allows corrections of errors from the previous year by reversing the original transaction in the current year, using designated prior year accounts. In fiscal year 2005-06, the department processed a transaction to correct an error processed in fiscal year 2004-05. Instead of reversing the original entry, the department used different accounts, which caused misstatements in prior year revenues and expenditures. As a result, Accounting Entity Transfers are overstated by \$145,000 in the Diagnostic Laboratory Program and understated in the Brands Enforcement Division in fiscal year 2005-06. Department personnel thought this was the appropriate way to correct the error made in the previous year.

---

**RECOMMENDATION #3**

*We recommend the department receive adequate training in order to comply with state accounting policy.*

---

## **Non-Compliance with State Law**

**The department is not complying with state laws regarding bank deposits, excess employee leave balances, and livestock entry permits.**

We found instances where the department did not comply with Montana state laws. Instances of the non-compliance are shown below.

### **Untimely Deposits**

Section 17-6-105(6), MCA, requires state agencies to deposit funds either with the state treasurer or in a depository approved by the state treasurer each day when the collections exceed \$500, or at least weekly. Our prior audit report contained a recommendation related to untimely deposits from the local inspections. After review of deposit documentation for this audit period, we found the department is still not depositing funds for the local inspections in a timely manner as outlined in state law.

We reviewed support for four local inspection deposits, and three of the four contained late deposits. The delays ranged from one week to 1.5 months. The department's Brands Enforcement Division has increased risk of theft, loss, or misappropriation of state assets if deposits are not made in a timely manner. The Brands Enforcement Division only receives the inspection reports, and these do not have enough detail to indicate whether the deposits were timely. Department accounting staff have started to track late deposits and plan to submit this information to the Brands Enforcement Division.

### **Excess Leave Balances**

Section 2-18-617, MCA, allows an employee to accumulate annual leave up to two times the maximum number of days earned annually. Additionally, it allows an employee to carry another year's worth of leave which must be used in the following year or forfeited.

Department personnel indicated an analysis was not completed timely during some years, and they failed to adjust the employees' balances or adjusted the balances in error. We noted the following two instances where the department did not determine whether excess leave was used by the end of a calendar year and failed to forfeit the excess balances, and one instance where the department removed too much leave.

- ♦ one employee was allowed to use 69.31 hours (valued at \$3,705) of annual leave which should have been forfeited in January 2007.
- ♦ one employee, currently employed by the department, has 107.12 hours in excess leave.
- ♦ one employee, currently employed by the department, had 97.7 hours forfeited when only 49.19 hours should have been forfeited in January of 2007. The department is planning on reinstating 48.51 hours.

Department staff noted that they will complete an additional analysis of all other employees to ensure leave balances comply with state law.

### **Entry Permit Fees**

Section 81-3-214, MCA, requires a livestock owner to obtain a transportation permit prior to the entry of the livestock into Montana. The law requires the department to establish permit fees and approve rules for the issuance and control of transportation permits. The department is not issuing an entry permit and is not charging a fee for the livestock entering Montana. Department personnel said they were charging the fee and issuing a permit in the past, but stopped when the department started requiring a health certificate for animals entering the state.

The department has administrative rules that address the fee, but the rule language does not designate whether the fee will be assessed per animal or per load. Therefore, the department could not accurately estimate the amount of revenue lost to the department. Department personnel indicated they would draft rules to facilitate compliance with this law.

---

#### **RECOMMENDATION #4**

*We recommend the department:*

- A. *Monitor employees to ensure deposits for local inspection fees comply with state law.*
  - B. *Continue to enhance compliance with state law related to excess annual leave.*
  - C. *Collect transportation permit fees and issue entry permits in compliance with state law.*
-

## Federal Fund Balances

---

**The department has inappropriate ending fund balances in three of its federal funds.**

---

Meat and Poultry Inspection, Bison Trap, and Homeland Security Federal Special Revenue Funds have a positive ending fund balance at June 30, 2006, and June 30, 2007. State accounting policy states that federal special revenue fund accounts will normally have a zero fund balance at June 30. The policy requires agencies to perform a careful examination to determine what the fund balance consists of and how to properly eliminate it. The department recorded activity in these federal special revenue funds on both an advance basis and reimbursement basis. Therefore, the correct adjusting entry will have to be determined on a grant-by-grant basis. The department is aware of the problem, and is in the process of researching the reasons for the fund balances.

In the Meat and Poultry Inspection Fund, the department discovered that a portion of the fund balance is owed to the U.S. Department of Agriculture's Food Safety and Inspection Service. The department estimates \$60,000 is owed to the federal government. The federal agency reviewed the program to determine the actual amount due, but has not billed the amount owed. Since the department believes it has a liability, it should have recorded the liability using the \$60,000 estimate. Department personnel stated they did not record the liability because the exact dollar amount was not known.

---

### **RECOMMENDATION #5**

*We recommend the department:*

- A. *Conduct an analysis of its federal funds each year to ensure the correct amount is recorded as fund balance in each fund.*
  - B. *Record the liability for amounts due to the federal government for the Meat and Poultry Inspection Program.*
-

# Independent Auditor's Report & Department Financial Schedules



Scott A. Seacat, Legislative Auditor  
Tori Hunthausen,  
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:  
James Gillett  
Angie Grove

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Schedule of Changes in Fund Balances & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out of the Department of Livestock for each of the fiscal years ended June 30, 2007, and 2006. 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 and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Department of Livestock for each of the fiscal years ended June 30, 2007, and 2006, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

*/s/ James Gillett*

James Gillett, CPA  
Deputy Legislative Auditor

September 18, 2007



DEPARTMENT OF LIVESTOCK  
 SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Agency Fund
FUND BALANCE: July 1, 2006	\$ 846	\$ 1,389,567	\$ 164,010	\$ 0
PROPERTY HELD IN TRUST: July 1, 2006				\$ 319,457
<b>ADDITIONS</b>				
Budgeted Revenues & Transfers-In	7,191	7,290,244	1,607,354	
Nonbudgeted Revenues & Transfers-In	2,028	418,579	617	
Prior Year Revenues & Transfers-In Adjustments		(11,620)	(602)	
Direct Entries to Fund Balance	660,859	6,704	(7,443)	
Additions to Property Held in Trust				2,741,021
Total Additions	<u>670,078</u>	<u>7,703,907</u>	<u>1,599,926</u>	<u>2,741,021</u>
<b>REDUCTIONS</b>				
Budgeted Expenditures & Transfers-Out	713,518	6,651,804	1,610,473	
Nonbudgeted Expenditures & Transfers-Out	(373)	370,037	(535)	
Prior Year Expenditures & Transfers-Out Adjustments	22	26,770	4,056	
Reductions in Property Held in Trust				3,049,005
Total Reductions	<u>713,167</u>	<u>7,048,611</u>	<u>1,613,994</u>	<u>3,049,005</u>
FUND BALANCE: June 30, 2007	\$ (42,243)	\$ 2,044,863	\$ 149,942	\$ 0
PROPERTY HELD IN TRUST: June 30, 2007				<u>\$ 11,473</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 LIVESTOCK  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Agency Fund
FUND BALANCE: July 1, 2005	\$ (13,650)	\$ 1,033,176	\$ 219,824	\$ 0
PROPERTY HELD IN TRUST: July 1, 2005				\$ 235,425
<b>ADDITIONS</b>				
Budgeted Revenues & Transfers-In	9,759	6,584,978	2,112,128	
Nonbudgeted Revenues & Transfers-In	1,529	491,814		
Prior Year Revenues & Transfers-In Adjustments	(10)	125,998	40,710	
Direct Entries to Fund Balance	606,808	(28,938)	13,362	
Additions to Property Held in Trust				2,941,977
Total Additions	<u>618,086</u>	<u>7,173,852</u>	<u>2,166,200</u>	<u>2,941,977</u>
<b>REDUCTIONS</b>				
Budgeted Expenditures & Transfers-Out	603,433	6,253,156	2,079,466	
Nonbudgeted Expenditures & Transfers-Out	(138)	450,613	(199)	
Prior Year Expenditures & Transfers-Out Adjustments	295	113,692	142,747	
Reductions in Property Held in Trust				2,857,945
Total Reductions	<u>603,590</u>	<u>6,817,461</u>	<u>2,222,014</u>	<u>2,857,945</u>
FUND BALANCE: June 30, 2006	\$ 846	\$ 1,389,567	\$ 164,010	\$ 0
PROPERTY HELD IN TRUST: June 30, 2006				<u>\$ 319,457</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 LIVESTOCK  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Total</u>
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>				
Licenses and Permits	\$ 4,016	\$ 643,846	\$	\$ 647,862
Taxes	2,028	4,244,186	617	4,246,831
Charges for Services		2,041,957		2,041,957
Investment Earnings		216,833		216,833
Fines, Forfeits and Settlements	3,175	1,818		4,993
Sale of Documents, Merchandise and Property		18,946		18,946
Grants, Contracts, Donations and Abandonments		17,129		17,129
Other Financing Sources		395,957		395,957
Federal		14,366	1,606,752	1,621,118
Federal Indirect Cost Recoveries		102,165		102,165
Total Revenues & Transfers-In	<u>9,219</u>	<u>7,697,203</u>	<u>1,607,369</u>	<u>9,313,791</u>
Less: Nonbudgeted Revenues & Transfers-In	2,028	418,579	617	421,224
Prior Year Revenues & Transfers-In Adjustments		(11,620)	(602)	(12,222)
Actual Budgeted Revenues & Transfers-In	<u>7,191</u>	<u>7,290,244</u>	<u>1,607,354</u>	<u>8,904,789</u>
Estimated Revenues & Transfers-In	6,178	7,529,180	1,957,500	9,492,858
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 1,013</u>	<u>\$ (238,936)</u>	<u>\$ (350,146)</u>	<u>\$ (588,069)</u>

**BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS**

Licenses and Permits	\$ (721)	\$ (87,410)	\$	\$ (88,131)
Taxes	(1,283)	(5,686)		(6,969)
Charges for Services		(265,343)		(265,343)
Investment Earnings		161,732		161,732
Fines, Forfeits and Settlements	3,017	(10,182)		(7,165)
Sale of Documents, Merchandise and Property		1,922		1,922
Other Financing Sources		(34,000)		(34,000)
Federal		(2,134)	(350,146)	(352,280)
Federal Indirect Cost Recoveries		2,165		2,165
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 1,013</u>	<u>\$ (238,936)</u>	<u>\$ (350,146)</u>	<u>\$ (588,069)</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 LIVESTOCK  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>				
Licenses and Permits	\$ 3,924	\$ 621,773	\$	\$ 625,697
Taxes	1,529	3,746,918	515	3,748,962
Charges for Services		1,762,308		1,762,308
Investment Earnings		154,503		154,503
Fines, Forfeits and Settlements	5,825	4,426		10,251
Sale of Documents, Merchandise and Property		4,239		4,239
Grants, Contracts, Donations and Abandonments		37,946		37,946
Other Financing Sources		598,053		598,053
Federal		10,127	2,150,707	2,160,834
Federal Indirect Cost Recoveries		262,497	1,616	264,113
Total Revenues & Transfers-In	<u>11,278</u>	<u>7,202,790</u>	<u>2,152,838</u>	<u>9,366,906</u>
Less: Nonbudgeted Revenues & Transfers-In	1,529	491,814		493,343
Prior Year Revenues & Transfers-In Adjustments	(10)	125,998	40,710	166,698
Actual Budgeted Revenues & Transfers-In	<u>9,759</u>	<u>6,584,978</u>	<u>2,112,128</u>	<u>8,706,865</u>
Estimated Revenues & Transfers-In	6,143	7,343,531	2,003,216	9,352,890
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 3,616</u>	<u>\$ (758,553)</u>	<u>\$ 108,912</u>	<u>\$ (646,025)</u>

**BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS**

Licenses and Permits	\$ (776)	\$ (109,295)	\$	\$ (110,071)
Taxes	(1,276)	(246,035)		(247,311)
Charges for Services		(474,864)		(474,864)
Investment Earnings		106,392		106,392
Fines, Forfeits and Settlements	5,668	(4,574)		1,094
Sale of Documents, Merchandise and Property		(2,801)		(2,801)
Other Financing Sources		(34,000)		(34,000)
Federal		(5,873)	109,111	103,239
Federal Indirect Cost Recoveries		12,497	(199)	12,298
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 3,616</u>	<u>\$ (758,553)</u>	<u>\$ 108,912</u>	<u>\$ (646,025)</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 LIVESTOCK  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Animal Health Division	Brands Enforcement Division	Centralized Services Program	Diagnostic Laboratory Program	Meat/Poultry Inspection	Milk & Egg Program	Total
<b>PROGRAM (ORG) EXPENDITURES &amp; TRANSFERS-OUT</b>							
Personal Services							
Salaries	\$ 464,102	\$ 1,812,877	\$ 666,579	\$ 770,387	\$ 586,218	\$ 213,822	\$ 4,513,985
Hourly Wages			9,300	933			933
Other Compensation			212,446	265,193	216,912	63,704	1,564,844
Employee Benefits	148,819	657,770	886,325	1,036,513	803,130	277,526	6,089,062
Total	612,921	2,470,647					
Operating Expenses							
Other Services	508,051	39,535	512,037	65,812	24,034	373	1,147,842
Supplies & Materials	60,961	95,149	32,361	336,713	4,701	17,609	547,494
Communications	45,568	60,411	38,540	16,532	15,966	11,057	188,074
Travel	42,723	26,528	59,577	5,998	53,527	11,116	199,469
Rent	65,386	129	119,172	4,254	75,251		264,192
Utilities	604	12,640		38,278			51,522
Repair & Maintenance	19,754	25,696	2,194	58,686	1,690	2,749	110,769
Other Expenses	102,756	44,800	17,427	80,528	40,861	6,185	292,557
Total	843,803	304,888	781,308	606,801	216,030	49,089	2,801,919
Equipment & Intangible Assets							
Equipment	23,025	53,014		14,500		19,409	109,948
Total	23,025	53,014		14,500		19,409	109,948
Transfers							
Accounting Entity Transfers		33,258	341,585				374,843
Total		33,258	341,585				374,843
<b>Total Expenditures &amp; Transfers-Out</b>	<b>\$ 1,479,749</b>	<b>\$ 2,861,807</b>	<b>\$ 2,011,218</b>	<b>\$ 1,657,814</b>	<b>\$ 1,019,160</b>	<b>\$ 346,024</b>	<b>\$ 9,375,772</b>
<b>EXPENDITURES &amp; TRANSFERS-OUT BY FUND</b>							
General Fund	\$ 375,477	\$ 2,861,807	\$ 2,011,218	\$ 96,401	\$ 616,766	\$ 313,438	\$ 713,167
State Special Revenue Fund	1,104,272			1,478,165	8,506	7,048,611	7,048,611
Federal Special Revenue Fund	1,479,749			83,248	393,888	32,586	1,613,994
Total Expenditures & Transfers-Out	(484)	2,861,807	2,011,218	1,657,814	1,019,160	346,024	9,375,772
Less: Nonbudgeted Expenditures & Transfers-Out		30,638	340,767	(885)	(746)	(161)	369,129
Prior Year Expenditures & Transfers-Out Adjustments	7	(160)	(333)	25,034	(1,228)	7,526	30,846
Actual Budgeted Expenditures & Transfers-Out	1,480,226	2,831,329	1,670,784	1,633,665	1,021,134	338,659	8,975,797
Budget Authority	2,242,180	2,831,530	1,765,676	1,633,917	1,285,704	357,875	10,116,882
Unspent Budget Authority	761,954	201	94,892	252	264,570	19,216	1,141,085
<b>UNSPENT BUDGET AUTHORITY BY FUND</b>							
General Fund	\$ 78,419	\$ 201	\$ 90,014	\$	\$ 73,996	\$ 867	\$ 73,996
State Special Revenue Fund	683,535		4,878	252	190,574	18,349	169,501
Federal Special Revenue Fund	761,954	201	94,892	252	264,570	19,216	897,588
Unspent Budget Authority							

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 LIVESTOCK  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Animal Health Division	Brands Enforcement Division	Centralized Services Program	Diagnostic Laboratory Program	Meat/Poultry Inspection	Milk & Egg Program	Total
<b>PROGRAM (ORG) EXPENDITURES &amp; TRANSFERS-OUT</b>							
Personal Services							
Salaries	\$ 522,394	\$ 1,761,276	\$ 623,846	\$ 733,887	\$ 557,369	\$ 193,113	\$ 4,391,885
Other Compensation	160,275	612,210	7,500	243,395	198,688	59,389	7,500
Employee Benefits	682,669	2,373,486	827,307	977,282	756,057	252,502	1,469,918
<b>Total</b>							<b>5,869,303</b>
Operating Expenses							
Other Services	661,432	42,817	551,670	39,584	22,659	378	1,318,540
Supplies & Materials	144,219	97,366	43,589	270,412	20,430	17,265	593,281
Communications	37,940	54,862	27,086	16,868	14,487	10,339	161,572
Travel	47,215	26,170	53,926	8,755	54,759	8,116	198,941
Rent	18,581	159	118,120	510	75,210	95	212,675
Utilities	1,479	12,611	40,974	40,974			55,064
Repair & Maintenance	11,325	38,411	4,180	31,813	2,583	2,007	90,319
Other Expenses	197,393	38,887	12,060	72,532	111,958	5,642	438,472
<b>Total</b>	<b>1,119,584</b>	<b>311,273</b>	<b>810,631</b>	<b>481,448</b>	<b>302,086</b>	<b>43,842</b>	<b>3,068,864</b>
Equipment & Intangible Assets							
Equipment	72,224	35,288					107,512
<b>Total</b>	<b>72,224</b>	<b>35,288</b>					<b>107,512</b>
Transfers							
Accounting Entity Transfers		48,721	403,665	145,000			597,386
<b>Total</b>		<b>48,721</b>	<b>403,665</b>	<b>145,000</b>			<b>597,386</b>
<b>Total Expenditures &amp; Transfers-Out</b>	<b>\$ 1,874,477</b>	<b>\$ 2,768,768</b>	<b>\$ 2,041,603</b>	<b>\$ 1,603,730</b>	<b>\$ 1,058,143</b>	<b>\$ 296,344</b>	<b>\$ 9,643,065</b>
<b>EXPENDITURES &amp; TRANSFERS-OUT BY FUND</b>							
General Fund	\$ 254,861	\$ 2,768,768	\$ 2,010,908	\$ 93,652	\$ 509,938	\$	\$ 603,590
State Special Revenue Fund	1,619,616		30,695	1,510,078	6,475	266,371	6,817,461
Federal Special Revenue Fund	1,874,477		2,041,603		541,730	29,973	2,222,014
<b>Total Expenditures &amp; Transfers-Out</b>	<b>1,874,477</b>	<b>2,768,768</b>	<b>2,041,603</b>	<b>1,603,730</b>	<b>1,058,143</b>	<b>296,344</b>	<b>9,643,065</b>
Less: Nonbudgeted Expenditures & Transfers-Out	(179)	47,764	403,363	(327)	(275)	(59)	450,277
Prior Year Expenditures & Transfers-Out Adjustment	84,563	2,330	19,322	150,039	392	88	256,734
Actual Budgeted Expenditures & Transfers-Out	1,790,093	2,718,684	1,618,918	1,454,018	1,058,026	296,315	8,936,054
Budget Authority	2,554,730	2,721,469	1,859,660	1,479,100	1,156,575	309,311	10,080,845
Unspent Budget Authority	764,637	2,785	240,742	25,082	98,549	12,996	1,144,791
<b>UNSPENT BUDGET AUTHORITY BY FUND</b>							
General Fund	\$	\$	\$	\$	\$	\$	\$
State Special Revenue Fund	112,255	2,785	201,669	1	71,378	2,057	344,010
Federal Special Revenue Fund	652,382		39,083	25,081	173	10,939	729,402
<b>Unspent Budget Authority</b>	<b>764,637</b>	<b>2,785</b>	<b>240,742</b>	<b>25,082</b>	<b>98,549</b>	<b>12,996</b>	<b>1,144,791</b>

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 Livestock  
Notes to the Financial Schedules  
For the Two Fiscal Years Ended June 30, 2007**

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

### **Basis of Accounting**

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, and Federal Special Revenue). In applying the modified accrual basis, the department records:

- ◆ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ◆ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Fiduciary fund category, the Agency Fund.

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 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 the 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 that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include the Diagnostic Laboratory, the Brand Inspection and Control, and the Per Capita Fee, which funds the department operations.

- ◆ Federal Special Revenue Fund – to account for activities funded from federal revenue sources that are restricted to expenditures for specific purposes. Department Federal Special Revenue Funds include Meat and Poultry Inspection, Bison Trap, National Animal Identification System (NAIS), Swine Feeding, Shellegg, Avian Influenza, Foreign Animal Disease, Scrapie, National Animal Health Laboratory Network, and Homeland Security.

### **Fiduciary Fund Category**

- ◆ Agency Fund – to account for resources held by the state in a custodial capacity. The department agency funds include Beef Check-Off, Horse Racing Exotic Wagering, and the Producers Milk Pool.

## **2. General Fund Balance**

The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department's total assets placed in the fund exceed outstanding liabilities, resulting in a positive ending General Fund balance for the fiscal year ended June 30, 2006. This balance reflects the results of the activity of the department and not the fund balance of the statewide General Fund.

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 a negative ending General Fund balance for the fiscal year ended June 30, 2007.

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

Direct entries to fund balances in the General, State Special Revenue, and Federal Special Revenue Funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. Direct entries to fund balances in the State Special and Federal Special Revenue Funds also include corrections of errors from a previous period that occurred at least two fiscal years prior.

## **4. Subsequent Event**

The 59th Legislature enacted House Bill 53, which changed the Board of Horse Racing's fund to a state special revenue fund. The department moved this activity to the state special revenue fund in state fiscal year 2007-08, as stipulated by the bill.

The total amount of additions and deletions to property held in trust in the agency fund in fiscal year 2005-06 were \$359,218 and \$391,697 respectively; for fiscal year 2006-07 additions were \$666,037 and deletions were \$402,410.

DEPARTMENT OF  
LIVESTOCK

DEPARTMENT RESPONSE



# DEPARTMENT OF LIVESTOCK

B-3



BRIAN SCHWEITZER, GOVERNOR

PO BOX 202001

## STATE OF MONTANA

BOARD OF LIVESTOCK (406) 444-7323  
BRANDS ENFORCEMENT DIVISION (406) 444-2045  
ANIMAL HEALTH DIVISION (406) 444-2043  
CENTRALIZED SERVICES DIVISION (406) 444-9040  
MEAT & POULTRY INSPECTION BUREAU (406) 444-5202  
MILK & EGG BUREAU (406) 444-9761

HELENA, MONTANA 59620-2001

October 23, 2007

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

**RECEIVED**

OCT 24 2007

**LEGISLATIVE AUDIT DIV.**

Dear Mr. Seacat:

On behalf of the Board of Livestock, I submit the following responses to your audit recommendations for the audit period FY06-07.

Recommendation #1

We recommend the department ensure quarterly federal reports are supported by the state's accounting records.

Department Response:

Concur:

The department will attach query reports from state accounting records that tie to federal reports.

Recommendation #2

We recommend the department have adequate support to document compensation charges to federal programs in accordance with federal regulations.

Department Response:

Concur:

The department is now direct charging hourly personal service costs to federal grants rather than percentage allocations.

Recommendation #3

We recommend that the department receive adequate training in order to comply with state accounting policy.

Department Response:

Partially Concur:

The department has qualified accounting staff. Identified errors are corrected. Staff regularly receives accounting training including Department of Administration (D of A)

SABHRS and updates. They also receive detailed instruction from the Government Accounting and Auditing Education Network instruction sponsored by the (D of A). The department will continue to provide training to its fiscal staff.

Recommendation #4

We recommend the department:

- A. Monitor employees to ensure deposits for local inspection fees comply with state law.
- B. Continue to enhance compliance with state law related to excess annual leave.
- C. Collect transportation permit fees and issue entry permits in compliance with state law.

Department Response:

- A. Concur: The department will continue to monitor procedures and state law to ensure that timely deposits of inspection fees. Employees have had a reaffirmation of policy and are corrected when not in compliance.
- B. Concur: An internal procedure has been put in place that to prevent excess leave errors.
- C Partially concur:  
The department may propose statutory change to eliminate the entry permit fee law which is not as critical as animal disease control requirements that were subsequent to the entry permit.

Recommendation #5

We recommend the department:

- A. Conduct an analysis of its federal funds each year to ensure correct amount is recorded as fund balance in each fund.
- B. Record the liability for amounts due to the federal government for Meat and Poultry Inspection Program.

Department Response:

- A. Concur
- B. Concur

Thank you for the opportunity to respond to your audit report. We appreciate the efforts of your staff in identifying and clarifying issues. The department will make every effort to implement the recommendations you have made.

Sincerely,



Christian Mackay, Executive Officer  
To the Board of Livestock