



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Agriculture

*For the Two Fiscal Years Ended
June 30, 2009*

NOVEMBER 2009

LEGISLATIVE AUDIT
DIVISION

09-21

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

November 2009

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the financial-compliance audit of the Department of Agriculture for the two fiscal years ended June 30, 2009. This report includes one recommendation concerning indirect cost rate proposals. The department's written response is included in this report.

We thank the director and his staff for the assistance and cooperation provided during the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

Department of Agriculture Ron de Yong, Director
Vacant, Administrator, Central Services Division
Libbi Lovshin, Administrator, Central Services Division,
Effective October 26, 2009
Gregory H. Ames, Administrator, Agricultural Sciences Division
Joel A. Clairmont, Administrator, Agricultural Development Division

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Board of Hail Insurance
Mint Committee
Montana Alfalfa Seed Committee
Noxious Weed Summit Advisory Council
Organic Commodity Advisory Council
Potato Advisory Committee
Pulse Crop Advisory Committee
Weed Seed Free Forage Advisory Council
Wheat and Barley Committee
Cherry Advisory Committee
Noxious Weed Management Advisory Council

For additional information concerning the Department of Agriculture,
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REPORT SUMMARY

Department of Agriculture

This report contains the results of our financial-compliance audit of the Department of Agriculture (department) for the two fiscal years ended June 30, 2009. The previous audit report of the department did not contain any recommendations.

This report includes one recommendation to the department related to its indirect cost proposals.

We issued an unqualified opinion on the department’s financial schedules for each of the two fiscal years ended June 30, 2009, and 2008, which means the reader may rely on the presented financial information and the supporting detailed information on the Statewide Accounting, Budgeting, and Human Resource System.

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

Recommendation #1.....3

We recommend the department include carry forward amounts in its indirect cost rate proposals as required by federal regulation.

Department Response: ConcurB-3

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Department of Agriculture (department) for the two fiscal years ended June 30, 2009. The objectives of the audit were to:

1. Obtain an understanding of the department's internal controls to the extent necessary to support our audit of the financial schedules and, if necessary, make recommendations for improvement.
2. Determine whether the department complied with selected laws and regulations.
3. Determine whether the financial schedules are fairly presented for the two fiscal years ending June 30, 2009, in conformity with state accounting policy.

This report contains one recommendation to the department. Other areas of concern deemed not to have 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 §5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendation made in this report.

Background

The Constitution of the State of Montana mandates the legislature provide for a Department of Agriculture and enact laws and provide appropriations to protect, enhance, and develop all agriculture. The department's statutory functions and responsibilities include:

1. Encourage and promote the interests of Montana agriculture.
2. Collect and publish agricultural statistics.
3. Assist, encourage, and promote the organization of farmers' institutes, agricultural societies, fairs, and other exhibitions of agriculture.
4. Adopt standards for grade and other classifications of farm products.
5. Assist in the development of economical and efficient marketing distribution systems.
6. Gather and distribute marketing information concerning supply, demand, price, and movement of farm products.
7. Regulate and protect Montana agricultural activities through the administration of statutes related to agriculture.

The department is organized under the following divisions:

Central Services Division (15 FTE) - includes the director's office and provides support to all of the programs in the department by performing accounting, fiscal management, payroll, purchasing, property control, data processing, and legal support functions.

Agricultural Sciences Division (67.17 FTE) - administers agricultural programs relating to the production, manufacturing, and marketing of commodities exported from or distributed in the state. The division administers the Montana Pesticides Act, Crop Insect Detection Act, Vertebrate Pest Management Act, Agricultural Chemical Groundwater Protection Act, Noxious Weed Management Trust Fund Act, Commercial Feed and Fertilizer laws, Organic Certification program, and the department's Chemical Analytical Laboratory. Division personnel provide technical and consultant services to consumers and agricultural producers.

Agricultural Development Division (47.37 FTE) - administers programs that promote Montana agriculture through market development and business assistance. The program provides administrative support to the Alfalfa Seed Committee, the Montana Wheat and Barley Committee, the Agricultural Development Council, and the Board of Hail Insurance. The division includes the State Grain Laboratory, which performs tests to establish contract settlement prices between buyers and sellers of grain crops.

Chapter II – Findings and Recommendations

Indirect Costs Rates

The department did not include amounts over-collected in previous years in its indirect cost rate proposals.

The department submitted indirect cost rate proposals that did not include carry forwards as required by federal regulations. Appendix E to 2 CFR Part 225 states, “the difference between the estimated costs and the actual, allowable costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.”

The most recent indirect cost rate proposals submitted during fiscal year 2008-09, did not include approximately \$217,000 in excess collections from previous periods. As a result, the department is not in compliance with federal regulations and has questioned costs of \$217,000. The calculated rate approved was 23.40 percent. If the department had included the carry forward amounts the calculated rate would have been less.

Department management stated they were not aware they were responsible to include the carry forwards in their proposals, as prior to fiscal year 2003, the cognizant agent provided for the carry forward adjustment to the rate proposals. The department did seek assistance in computing the indirect cost rate from the cognizant agency.

The department has subsequently recalculated all proposals from fiscal year 2002 to present. The department will include the carry forward amounts, with guidance from the cognizant agency, in its next proposal.

RECOMMENDATION #1

We recommend the department include carry forward amounts in its indirect cost rate proposals as required by federal regulation.

Independent Auditor's Report and Department Financial Schedules

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



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 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 Agriculture for each of the fiscal years ended June 30, 2009, and 2008. 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 prepared on the basis of Montana state accounting policy, which is 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 and property held in trust of the Department of Agriculture for each of the fiscal years ended June 30, 2009, and 2008, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

September 30, 2009

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Agency Fund	Permanent Fund
FUND BALANCE: July 1, 2008	\$ (320,065)	\$ 9,788,483	\$ (436,423)	\$ 9,091,863	\$ 0	\$ 10,008,676
PROPERTY HELD IN TRUST: July 1, 2008					\$ 1,188,601	
ADDITIONS						
Budgeted Revenues & Transfers-In	14,650	10,187,572	2,712,159	7,035,757		
Nonbudgeted Revenues & Transfers-In	477	281,126	0	14,886		379,501
Prior Year Revenues & Transfers-In Adjustments		156,243	1,404			
Direct Entries to Fund Balance	2,128,277	451,255				
Additions to Property Held in Trust					28,500	
Total Additions	<u>2,143,404</u>	<u>11,076,196</u>	<u>2,713,563</u>	<u>7,050,643</u>	<u>28,500</u>	<u>379,501</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	2,116,783	11,120,364	2,654,378	1,321,729		
Nonbudgeted Expenditures & Transfers-Out	(29,932)	367,973		2,859,474		314,236
Prior Year Expenditures & Transfers-Out Adjustments	(5,183)	(4,328)	(5,622)	(1,320)		
Reductions in Property Held in Trust					18,000	
Total Reductions	<u>2,081,668</u>	<u>11,484,009</u>	<u>2,648,756</u>	<u>4,179,883</u>	<u>18,000</u>	<u>314,236</u>
FUND BALANCE: June 30, 2009	\$ <u>(258,329)</u>	\$ <u>9,380,670</u>	\$ <u>(371,616)</u>	\$ <u>11,962,623</u>	\$ <u>0</u>	\$ <u>10,073,941</u>
PROPERTY HELD IN TRUST: June 30, 2009					\$ <u>1,199,101</u>	

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

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Agency Fund	Permanent Fund
FUND BALANCE: July 1, 2007	\$ (270,079)	\$ 9,629,875	\$ 92,994	\$ 12,129,848	\$ 0	\$ 4,907,795
PROPERTY HELD IN TRUST: July 1, 2007					\$ 490,601	
ADDITIONS						
Budgeted Revenues & Transfers-In	31,972	10,042,043	2,482,357	8,135,051		
Nonbudgeted Revenues & Transfers-In	475	246,464	0	2,918		5,663,659
Prior Year Revenues & Transfers-In Adjustments	(20,229)	15,968	(55,138)	232		(5,201)
Direct Entries to Fund Balance	2,086,761	403,966				13,430
Additions to Property Held in Trust					727,000	
Total Additions	<u>2,098,979</u>	<u>10,708,441</u>	<u>2,427,219</u>	<u>8,138,201</u>	<u>727,000</u>	<u>5,671,888</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	2,154,252	10,190,751	3,012,725	10,367,597		
Nonbudgeted Expenditures & Transfers-Out	(41,567)	373,266		805,318		571,007
Prior Year Expenditures & Transfers-Out Adjustments	36,280	(14,184)	(56,089)	3,271		
Reductions in Property Held in Trust					29,000	
Total Reductions	<u>2,148,965</u>	<u>10,549,833</u>	<u>2,956,636</u>	<u>11,176,186</u>	<u>29,000</u>	<u>571,007</u>
FUND BALANCE: June 30, 2008	\$ <u>(320,065)</u>	\$ <u>9,788,483</u>	\$ <u>(436,423)</u>	\$ <u>9,091,863</u>	\$ <u>0</u>	\$ <u>10,008,676</u>
PROPERTY HELD IN TRUST: June 30, 2008					\$ <u>1,188,601</u>	

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

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits		\$ 2,940,067				\$ 2,940,067
Taxes	\$ 477	3,038,679	\$ 1,404	\$ 163		3,040,723
Charges for Services		999,131		6,848,958		7,848,089
Investment Earnings		378,772	0	188,693	\$ 289,794	857,259
Fines and Forfeits		843,001		12,821		855,822
Sale of Documents, Merchandise and Property		15,021				15,021
Grants, Contracts, and Donations		129,499				129,499
Transfers-in		2,275,526	289,417		89,707	2,654,650
Capital Asset Sale Proceeds		1,665				1,665
Federal Indirect Cost Recoveries			185,003			185,003
Miscellaneous	14,650	3,580		8		18,238
Federal			2,237,739			2,237,739
Total Revenues & Transfers-In	15,127	10,624,941	2,713,563	7,050,643	379,501	20,783,775
Less: Nonbudgeted Revenues & Transfers-In	477	281,126	0	14,886	379,501	675,990
Prior Year Revenues & Transfers-In Adjustments		156,243	1,404			157,647
Actual Budgeted Revenues & Transfers-In	14,650	10,187,572	2,712,159	7,035,757	0	19,950,138
Estimated Revenues & Transfers-In	14,819	11,817,812	5,696,500	5,425,960		22,955,091
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (169)	\$ (1,630,240)	\$ (2,984,341)	\$ 1,609,797	\$ 0	\$ (3,004,953)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits		\$ (53,389)				\$ (53,389)
Taxes	\$ (319)	(40,161)		\$ (100)		(40,580)
Charges for Services		(97,704)		1,786,408		1,688,704
Investment Earnings		(62,009)	\$ (500)	(186,330)		(248,839)
Fines and Forfeits		(1,167,949)		9,821		(1,158,128)
Sale of Documents, Merchandise and Property		21				21
Grants, Contracts, and Donations		(69)				(69)
Transfers-in		(209,322)	(40,583)			(249,905)
Capital Asset Sale Proceeds		265				265
Federal Indirect Cost Recoveries			65,003			65,003
Miscellaneous	150	77		(2)		225
Federal			(3,008,261)			(3,008,261)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (169)	\$ (1,630,240)	\$ (2,984,341)	\$ 1,609,797	\$ 0	\$ (3,004,953)

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

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits		\$ 2,903,704				\$ 2,903,704
Taxes	\$ 475	3,437,367		\$ 99		3,437,941
Charges for Services		1,014,242		7,720,349		8,734,591
Investment Earnings		524,056	\$ 0	405,239	\$ 576,857	1,506,152
Fines and Forfeits		59,532		12,427		71,959
Sale of Documents, Merchandise and Property		22,702				22,702
Grants, Contracts, and Donations		164,500				164,500
Transfers-in		2,164,959	321,004		5,081,601	7,567,564
Capital Asset Sale Proceeds		6,253				6,253
Federal Indirect Cost Recoveries			205,051			205,051
Miscellaneous	11,743	7,160		87		18,990
Federal			1,901,164			1,901,164
Total Revenues & Transfers-In	12,218	10,304,475	2,427,219	8,138,201	5,658,458	26,540,571
Less: Nonbudgeted Revenues & Transfers-In	475	246,464	0	2,918	5,663,659	5,913,516
Prior Year Revenues & Transfers-In Adjustments	(20,229)	15,968	(55,138)	232	(5,201)	(64,368)
Actual Budgeted Revenues & Transfers-In	31,972	10,042,043	2,482,357	8,135,051	0	20,691,423
Estimated Revenues & Transfers-In	32,319	10,020,813	2,472,525	8,177,974		20,703,631
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (347)	\$ 21,230	\$ 9,832	\$ (42,923)	\$ 0	\$ (12,208)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits		\$ 3,860				\$ 3,861
Taxes	\$ (319)	2,152		\$ (100)		1,733
Charges for Services		758		(43,101)		(42,343)
Investment Earnings		5,130	\$ (49)	120		5,201
Fines and Forfeits		407		195		602
Sale of Documents, Merchandise and Property		301				301
Grants, Contracts, and Donations		(55)				(55)
Transfers-in		2,459	504			2,963
Capital Asset Sale Proceeds		6,253				6,253
Federal Indirect Cost Recoveries			51			51
Miscellaneous	(28)	(35)		(37)		(100)
Federal			9,326			9,326
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (347)	\$ 21,230	\$ 9,832	\$ (42,923)	\$ 0	\$ (12,208)

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

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	AGRICULTURAL DEVELOPMENT DIVISION	AGRICULTURAL SCIENCES DIVISION	CENTRAL SERVICES DIVISION	TOTAL
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT				
Personal Services				
Salaries	\$ 1,278,092	\$ 2,647,586	\$ 700,460	\$ 4,626,138
Hourly Wages	79,502	85,037		164,539
Other Compensation	11,650	3,500		15,150
Employee Benefits	419,064	881,524	213,515	1,514,103
Personal Services-Other	7,627			7,627
Total	<u>1,795,935</u>	<u>3,617,647</u>	<u>913,975</u>	<u>6,327,557</u>
Operating Expenses				
Other Services	429,384	484,713	52,514	966,611
Supplies & Materials	69,648	250,411	12,416	332,475
Communications	69,710	81,371	11,069	162,150
Travel	253,779	166,502	10,079	430,360
Rent	63,642	146,901	46,999	257,542
Utilities	9,063	4,088	42	13,193
Repair & Maintenance	9,265	113,964	7,842	131,071
Other Expenses	3,632,791	84,616	16,728	3,734,135
Total	<u>4,537,282</u>	<u>1,332,566</u>	<u>157,689</u>	<u>6,027,537</u>
Equipment & Intangible Assets				
Equipment		454,779		454,779
Total		<u>454,779</u>		<u>454,779</u>
Grants				
From State Sources	3,046,773	2,030,091		5,076,864
From Federal Sources	37,500	930,208		967,708
From Other Sources	(67,880)			(67,880)
Total	<u>3,016,393</u>	<u>2,960,299</u>		<u>5,976,692</u>
Benefits & Claims				
From State Sources	586,340			586,340
From Other Sources		611,770		611,770
Total	<u>586,340</u>	<u>611,770</u>		<u>1,198,110</u>
Transfers-out				
Fund transfers	99,561	418,943		518,504
Intra-Entity Expense		189,906		189,906
Total	<u>99,561</u>	<u>608,849</u>		<u>708,410</u>
Debt Service				
Capital Leases		1,901		1,901
Total		<u>1,901</u>		<u>1,901</u>
Other Post Employment Benefits				
Other Post Employment Benefits	13,566			13,566
Total	<u>13,566</u>			<u>13,566</u>
Total Expenditures & Transfers-Out	<u>\$ 10,049,077</u>	<u>\$ 9,587,811</u>	<u>\$ 1,071,664</u>	<u>\$ 20,708,552</u>
EXPENDITURES & TRANSFERS-OUT BY FUND				
General Fund	\$ 1,662,990	\$ 277,063	\$ 141,615	\$ 2,081,668
State Special Revenue Fund	3,843,583	6,899,742	740,684	11,484,009
Federal Special Revenue Fund	455,405	2,096,199	97,152	2,648,756
Enterprise Fund	4,087,099	571	92,213	4,179,883
Permanent Fund		314,236		314,236
Total Expenditures & Transfers-Out	<u>10,049,077</u>	<u>9,587,811</u>	<u>1,071,664</u>	<u>20,708,552</u>
Less: Nonbudgeted Expenditures & Transfers-Out	2,900,923	610,866	(39)	3,511,750
Prior Year Expenditures & Transfers-Out Adjustments	(11,396)	(5,559)	502	(16,453)
Actual Budgeted Expenditures & Transfers-Out	<u>7,159,550</u>	<u>8,982,504</u>	<u>1,071,201</u>	<u>17,213,255</u>
Budget Authority	14,816,180	11,096,940	1,175,378	27,088,498
Unspent Budget Authority	<u>\$ 7,656,630</u>	<u>\$ 2,114,436</u>	<u>\$ 104,177</u>	<u>\$ 9,875,243</u>
UNSPENT BUDGET AUTHORITY BY FUND				
General Fund	\$ 39,633	\$ 77,529	\$ 78,100	\$ 195,262
State Special Revenue Fund	1,142,016	1,607,613	13,077	2,762,706
Federal Special Revenue Fund	553,420	427,290		980,710
Enterprise Fund	5,921,561	2,004	13,000	5,936,565
Unspent Budget Authority	<u>\$ 7,656,630</u>	<u>\$ 2,114,436</u>	<u>\$ 104,177</u>	<u>\$ 9,875,243</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.

A-10

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	AGRICULTURAL DEVELOPMENT DIVISION	AGRICULTURAL SCIENCES DIVISION	CENTRAL SERVICES DIVISION	Total
Personal Services				
Salaries	\$ 1,164,455	\$ 2,304,226	\$ 705,512	\$ 4,174,193
Hourly Wages	76,397	83,619		160,016
Other Compensation	9,925	3,550		13,475
Employee Benefits	390,849	781,047	211,840	1,383,736
Personal Services-Other	3,527			3,527
Total	<u>1,645,153</u>	<u>3,172,442</u>	<u>917,352</u>	<u>5,734,947</u>
Operating Expenses				
Other Services	499,199	422,494	107,514	1,029,207
Supplies & Materials	96,215	305,732	50,770	452,717
Communications	78,912	105,307	14,973	199,192
Travel	257,014	154,143	23,064	434,221
Rent	85,923	132,412	40,726	259,061
Utilities	8,603			8,603
Repair & Maintenance	21,410	117,037	33,535	171,982
Other Expenses	1,683,867	102,001	23,257	1,809,125
Total	<u>2,731,143</u>	<u>1,339,126</u>	<u>293,839</u>	<u>4,364,108</u>
Equipment & Intangible Assets				
Equipment		207,275	14,150	221,425
Total		<u>207,275</u>	<u>14,150</u>	<u>221,425</u>
Grants				
From State Sources	2,963,135	1,993,590		4,956,725
From Federal Sources		1,517,649		1,517,649
From Other Sources	(170,505)			(170,505)
Total	<u>2,792,630</u>	<u>3,511,239</u>		<u>6,303,869</u>
Benefits & Claims				
From State Sources	9,689,925			9,689,925
OPEB Expenses	12,167			12,167
From Other Sources		54,000		54,000
Total	<u>9,702,092</u>	<u>54,000</u>		<u>9,756,092</u>
Transfers-out				
Fund transfers	121,298	667,607		788,905
Intra-Entity Expense		230,999		230,999
Total	<u>121,298</u>	<u>898,606</u>		<u>1,019,904</u>
Debt Service				
Capital Leases		2,282		2,282
Total		<u>2,282</u>		<u>2,282</u>
Total Expenditures & Transfers-Out	\$ <u>16,992,316</u>	\$ <u>9,184,970</u>	\$ <u>1,225,341</u>	\$ <u>27,402,627</u>
EXPENDITURES & TRANSFERS-OUT BY FUND				
General Fund	\$ 1,668,183	\$ 297,107	\$ 183,675	\$ 2,148,965
State Special Revenue Fund	3,903,309	5,871,759	774,765	10,549,833
Federal Special Revenue Fund	333,933	2,443,787	178,916	2,956,636
Enterprise Fund	11,086,891	1,310	87,985	11,176,186
Permanent Fund		571,007		571,007
Total Expenditures & Transfers-Out	<u>16,992,316</u>	<u>9,184,970</u>	<u>1,225,341</u>	<u>27,402,627</u>
Less: Nonbudgeted Expenditures & Transfers-Out	807,233	900,790	36,591	1,708,023
Prior Year Expenditures & Transfers-Out Adjustments	(29,756)	(966)		(30,722)
Actual Budgeted Expenditures & Transfers-Out	<u>16,214,839</u>	<u>8,285,146</u>	<u>1,225,341</u>	<u>25,725,326</u>
Budget Authority	18,296,608	9,151,853	1,436,075	28,884,536
Unspent Budget Authority	\$ <u>2,081,769</u>	\$ <u>866,707</u>	\$ <u>210,734</u>	\$ <u>3,159,210</u>
UNSPENT BUDGET AUTHORITY BY FUND				
General Fund	\$ 41,739	\$ 50,472	\$ 78,483	\$ 170,694
State Special Revenue Fund	916,445	787,212	36,591	1,740,248
Federal Special Revenue Fund	780,516	27,758	94,910	903,184
Enterprise Fund	343,069	1,265	750	345,084
Unspent Budget Authority	\$ <u>2,081,769</u>	\$ <u>866,707</u>	\$ <u>210,734</u>	\$ <u>3,159,210</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 Agriculture

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2009

1. Summary of Significant Accounting Policies

Basis of Accounting

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

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

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

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format 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.

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 state program purposes. Department State Special Revenue Funds include activities related to registration and inspection of fertilizers and feed grain inspections; wheat, barley, and alfalfa seed market research and promotion; Growth Through Agriculture investments and noxious weed management projects.

Federal Special Revenue Fund – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include Agricultural Sciences, Agricultural Development, and Central Services.

Permanent Fund – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's programs. The department uses this fund to account for the Noxious Weed Management Trust activity.

Proprietary Fund Category

Enterprise Fund – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the legislature intends that the department finance or recover costs primarily through user charges; (b) where the legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate. Department Enterprise Funds include the Hail Insurance, Alfalfa Leaf-Cutting Bee, and Beginning Farm Loan Programs.

Fiduciary Fund Category

Agency Fund – to account for resources held by the state in a custodial capacity. Agency Funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end. The Agency Fund accounts for commercial pesticide applicator certificates of deposit.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2008 and June 30, 2009.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General and Special Revenue Funds include entries generated by SABHRS (Statewide Accounting, Budgeting, and Human Resource System) to reflect the flow of resources within individual funds shared by separate agencies.

4. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act (ARRA) was enacted by the United States Congress to preserve and create jobs and promote economic recovery.

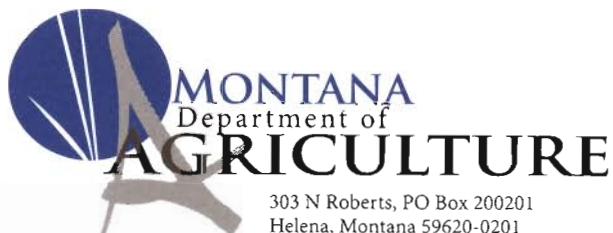
The Department of Agriculture expects to receive federal funding from ARRA totaling approximately \$377,000. Of this amount, none was appropriated in House Bill 645 of the 2009 Legislative Session. The entire \$377,000 was awarded through a competitive grant. As of June 30, 2009, none of the \$377,000 was received.

5. One Time Transfer

In fiscal year 2007-08, the department received a one time transfer of \$5,000,000 from the General Fund to the Noxious Weed Management Trust Fund. This transfer was appropriated by the 2007 Legislative Session in HB269.

DEPARTMENT OF
AGRICULTURE

DEPARTMENT RESPONSE



Brian Schweitzer
Governor

303 N Roberts, PO Box 200201
Helena, Montana 59620-0201

Ron de Yong
Director

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October 22, 2009

Tori Hunthausen
Legislative Auditor
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

RECEIVED

OCT 23 2009

LEGISLATIVE AUDIT DIV.

Dear Ms. Hunthausen:

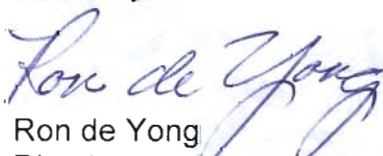
Thank you for the opportunity to review and comment on the financial-compliance audit of the Montana Department of Agriculture for the two fiscal years ended June 30, 2009.

The professionalism displayed by your audit staff while conducting the audit was greatly appreciated. The following is the response to the audit recommendations.

Recommendation #1

We concur. The department will include the carry forward amount, with guidance from the cognizant agency, in its next indirect cost rate proposal.

Sincerely,


Ron de Yong
Director