



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Livestock

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

NOVEMBER 2009

LEGISLATIVE AUDIT
DIVISION

09-22

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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 financial-compliance audit report on the Department of Livestock (department) for the two fiscal years ended June 30, 2009. The report contains two recommendations concerning internal controls and noncompliance with state laws. 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/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

				Term Expires <u>March 1</u>
Board of Livestock	Jan French, Chair	Hobson	Cattle	2015
	Linda Nielsen, Vice Chair	Nashua	Cattle	2011
	Stan Boone	Ingomar	Cattle	2013
	Brett DeBruycker	Dutton	Cattle	2015
	Ed Waldner	Chester	Swine	2011
	Jeffrey Lewis	Corvallis	Dairy	2011
	John H. Lehfeldt	Lavina	Sheep	2013

Department of Livestock

Christian Mackay, Executive Officer

Dr. Marty Zaluski, DVM, State Veterinarian, Animal Health Division

Margie Kelley, Alternative Livestock Program

Centralized Services Division

George Harris, Administrator

Monte Nick, Bureau Chief, Milk Control Bureau

Ryan Sherman, Executive Secretary, Board of Horse Racing

George Edwards, Coordinator, Livestock Loss Reduction

Mitigation Board

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

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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, 2009.

This report contains two recommendations where the department could improve internal controls and enhance compliance with 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..... 7

We recommend the department document, implement, test, and monitor its internal controls in accordance with state accounting policy.

Department Response: Concur B-3

Recommendation #2..... 8

We recommend the department:

- A. Monitor employees to ensure deposits for market inspection fees comply with state law.
- B. Comply with state law related to forfeiture of excess annual leave.

Department Response: Concur B-3

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Department of Livestock (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 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, 2009.
4. Determine the implementation status of prior audit recommendations.

Auditing standards require us to communicate, in writing, control deficiencies we identified as a result of audit objective #1 above and considered to be significant or material. A control deficiency exists when the design or operation of a control does not allow management or employees to prevent or detect misstatements on a timely basis. A significant deficiency is one or more control deficiencies that affect management's ability to accurately process transactions. A material weakness is one or more significant deficiencies that adversely affect management's ability to fairly present its financial schedules.

Table 1 below outlines the status of significant deficiencies and material weaknesses we identified during this audit.

Table 1 <u>Summary of Control Deficiencies</u>			
Subject	Significant Deficiency	Material Weakness	Page
Internal Controls	Yes	Yes	5

This report contains two recommendations to the department. The recommendations address areas where the department can improve its compliance with state laws and recording 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 §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 §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 (57.10 FTE) - includes the Inspection and Control Program which is responsible for brand inspections, recording 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, 2007, contained five recommendations. During our current audit, we determined the department implemented three recommendations, did not implement one recommendation, and partially implemented one recommendation. The recommendation not implemented deals with correct federal fund balances at June 30. The partially implemented recommendation deals with noncompliance of state laws related to untimely deposits and excess leave balances. These issues are discussed on pages 6 and 7, respectively.

Chapter II – Findings and Recommendations

Internal Controls

The department has not complied with state policy requirements for establishing, documenting, and maintaining internal controls.

State accounting policy outlines management's responsibility for establishing and maintaining agency internal controls to safeguard and account for the resources entrusted to them to carry out government programs. State policy requires agencies to implement internal control procedures to ensure all transactions necessary for compliance with generally accepted accounting principles are recorded on the state's accounting system. To assist agencies in the implementation process, the Department of Administration issued an Internal Control Guidebook. The guide includes an internal control evaluation and monitoring plan, which recommends agencies monitor and test their controls and evaluate and report the results of that testing.

During the audit we noted the majority of the Department of Livestock's (department) documentation over internal controls either did not exist or was insufficient. The internal controls identified by the department were not monitored or tested as suggested by state policy. The following errors may have been prevented if the department had fully established, documented, implemented, monitored, and tested internal controls over its processes.

Improper Revenue Recognition – 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 those requirements. The department receives revenues for new brands and transfers where only a portion is realized in the current year, and the remaining amount is deferred to future years. Revenue recognition and deferrals are calculated using the brands ten-year rerecord schedule. In our review of revenue we identified instances where revenues were improperly recorded in the state special revenue fund. They are as follows:

- ♦ In fiscal year 2007-08 the department did not defer revenues for the months March through June which resulted in an overstatement of \$38,588.
- ♦ In fiscal year 2008-09 the department miscalculated the deferral amount and failed to recognize previous years' deferred revenue which was available in the current year resulting in an understatement of \$84,894.

Uncleared Collections Account – The department utilizes clearing accounts to temporarily account for funds until final disposition can be determined. State

accounting policy requires clearing accounts to reflect a zero balance at fiscal year-end. The department's uncleared collections account had balances of \$83,779 and (\$83,779) at June 30, 2008 and 2009, respectively.

Improper Coding of Expenditures – State accounting policy requires expenditure account categories be used to identify the nature of amounts disbursed where activity is accounted for as expenditures or transfers-out. State agencies should ensure that the expenditure account used falls within the appropriate expenditure account category. In fiscal year 2008-09 the department improperly coded an expenditure resulting in an understatement for Other Services and an overstatement for Repair & Maintenance by \$258,329 in the Centralized Services Division.

Inaccurate Revenue Estimates – Section 17-7-111(1), MCA, emphasizes the need for consistent and accurate information from executive branch agencies in preparing state budgets. Necessary information includes estimated receipts by fund type and fund category. When recording revenue estimates in the state's accounting system, the department made various data entry errors which resulted in revenue estimates recorded on the state's accounting records and reported on the Schedule of Revenues & Transfers-In for fiscal year 2008-09 being overstated by \$19,690,985.

Federal Fund Balances – State accounting policy specifies that federal special revenue fund accounts normally have a zero fund balance at June 30. The policy requires agencies to perform a careful examination to determine what the potential fund balance consists of and how to properly eliminate it. At fiscal year-end 2007-08, the department improperly eliminated the fund balance in one federal special revenue fund and at fiscal year-end 2008-09, did not properly eliminate fund balances in eight funds resulting in a net negative balance of \$412,405. Federal fund balances was an issue in the two previous audit reports.

Summary

Department personnel attributed the recording and reporting errors discussed above to turnover in key accounting positions; miscommunications between the department and other state agencies involved in the fiscal year-end process; lack of secondary review; and oversight. The errors and contributing factors illustrate the importance of maintaining effective internal controls over key processes. Correcting the errors identified above will not prevent errors from occurring in the future. The department needs to comply with state accounting policy by implementing, testing, and monitoring controls over its key processes. These controls should include procedures and guidance needed to ensure department employees know and understand their duties and responsibilities.

RECOMMENDATION #1

We recommend the department document, implement, test, and monitor its internal controls in accordance with state accounting policy.

Noncompliance With State Law

The department did not comply with state laws regarding bank deposits and excess leave balances.

We noted the following instances where the department did not comply with state laws.

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 \$200, or at least weekly. The two previous audit reports contained a similar 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 in a timely manner as outlined in state law.

We reviewed support for ten market inspection deposits; all ten contained late deposits. The delays ranged from one week to one month and totaled \$78,883. 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. Department accounting staff acknowledged late deposits is an ongoing issue and plan to pursue approval of a modified deposit schedule.

Excess Leave Balances

Section 2-18-617(1)(a), 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 they completed an analysis to identify excess leave balances, but failed to forfeit the employees' balances or forfeited the balances in error. The previous audit report contained a similar recommendation related to excess leave balances.

In our review of excess leave balances for the department we identified 15 employees whose excess leave balances were not forfeited in accordance with state law. In total, for fiscal years 2007-08 and 2008-09, we identified 655 hours valued at \$18,696 in excess leave balances. Department staff noted an analysis will be conducted monthly to ensure excess leave balances are forfeited as required by state law.

RECOMMENDATION #2

We recommend the department:

- A. *Monitor employees to ensure deposits for market inspection fees comply with state law.*
 - B. *Comply with state law related to forfeiture of excess annual leave.*
-

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 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, 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 presented on the basis of Montana state accounting policy, which is 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, 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 25, 2009

DEPARTMENT OF LIVESTOCK
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	Agency Fund
FUND BALANCE: July 1, 2008	\$ (106,868)	\$ 2,779,482	\$ 202	\$ 0
PROPERTY HELD IN TRUST: July 1, 2008				\$ 14,635
ADDITIONS				
Budgeted Revenues & Transfers-In	4,764	7,535,896	1,897,264	
Nonbudgeted Revenues & Transfers-In	5,138	71,433		
Prior Year Revenues & Transfers-In Adjustments	41	242,966	269,744	
Direct Entries to Fund Balance	1,625,126	(54,492)	(24,717)	
Additions to Property Held in Trust				3,087,923
Total Additions	<u>1,635,069</u>	<u>7,795,803</u>	<u>2,142,291</u>	<u>3,087,923</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	1,903,175	7,597,687	1,760,801	
Nonbudgeted Expenditures & Transfers-Out	(1,110)	(8,674)	(1,009)	
Prior Year Expenditures & Transfers-Out Adjustments	44,660	158,827	(17,117)	
Reductions in Property Held in Trust				3,089,384
Total Reductions	<u>1,946,725</u>	<u>7,747,842</u>	<u>1,742,674</u>	<u>3,089,384</u>
FUND BALANCE: June 30, 2009	\$ (418,524)	\$ 2,827,445	\$ 399,818	\$ 0
PROPERTY HELD IN TRUST: June 30, 2009				\$ 13,174

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, 2008

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Agency Fund
FUND BALANCE: July 1, 2007	\$ (42,243)	\$ 2,044,863	\$ 149,942	\$ 0
PROPERTY HELD IN TRUST: July 1, 2007				\$ 11,473
ADDITIONS				
Budgeted Revenues & Transfers-In	6,867	7,861,824	1,443,355	
Nonbudgeted Revenues & Transfers-In	1,840	61,705		
Prior Year Revenues & Transfers-In Adjustments		1,864	2,617	
Direct Entries to Fund Balance	1,330,950	(70)	(1,401)	
Additions to Property Held in Trust				3,016,751
Total Additions	<u>1,339,657</u>	<u>7,925,323</u>	<u>1,444,571</u>	<u>3,016,751</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	1,406,836	7,217,236	1,596,190	
Nonbudgeted Expenditures & Transfers-Out	(265)	(3,411)	(379)	
Prior Year Expenditures & Transfers-Out Adjustments	(2,289)	(23,121)	(1,500)	
Reductions in Property Held in Trust				3,013,589
Total Reductions	<u>1,404,282</u>	<u>7,190,704</u>	<u>1,594,311</u>	<u>3,013,589</u>
FUND BALANCE: June 30, 2008	\$ (106,868)	\$ 2,779,482	\$ 202	\$ 0
PROPERTY HELD IN TRUST: June 30, 2008				\$ 14,635

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, 2009

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Licenses and Permits	\$ 3,755	\$ 620,763		\$ 624,518
Taxes	2,836	4,269,840		4,272,676
Charges for Services		2,480,236		2,480,236
Investment Earnings		45,494		45,494
Fines and Forfeits	1,050	6,744		7,794
Sale of Documents, Merchandise and Property		24,553		24,553
Grants, Contracts, and Donations		(45,440)		(45,440)
Transfers-in		165,000		165,000
Capital Asset Sale Proceeds	2,302	12,952		15,254
Federal Indirect Cost Recoveries		181,368		181,368
Miscellaneous		100,372		100,372
Federal		(11,587)	\$ 2,167,008	2,155,421
Total Revenues & Transfers-In	9,943	7,850,295	2,167,008	10,027,246
Less: Nonbudgeted Revenues & Transfers-In	5,138	71,433		76,571
Prior Year Revenues & Transfers-In Adjustments	41	242,966	269,744	512,751
Actual Budgeted Revenues & Transfers-In	4,764	7,535,896	1,897,264	9,437,924
Estimated Revenues & Transfers-In	12,356	30,504,392	4,961,000	35,477,748
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (7,592)	\$ (22,968,496)	\$ (3,063,736)	\$ (26,039,824)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Licenses and Permits	\$ (5,760)	\$ (3,043,011)		\$ (3,048,771)
Taxes	(2,566)	(5,384,062)		(5,386,628)
Charges for Services		(8,989,624)		(8,989,624)
Investment Earnings		(1,317,856)		(1,317,856)
Fines and Forfeits	734	(2,198,328)	\$ (570,000)	(2,767,594)
Sale of Documents, Merchandise and Property		(1,373,814)		(1,373,814)
Transfers-in		(88,000)		(88,000)
Capital Asset Sale Proceeds		(38,000)		(38,000)
Federal Indirect Cost Recoveries		(353,359)		(353,359)
Miscellaneous		(150,000)		(150,000)
Federal		(32,442)	(2,493,736)	(2,526,178)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (7,592)	\$ (22,968,496)	\$ (3,063,736)	\$ (26,039,824)

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, 2008

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Licenses and Permits	\$ 4,342	\$ 859,845		\$ 864,187
Taxes	1,840	4,403,797		4,405,637
Charges for Services		2,397,059		2,397,059
Investment Earnings		128,584		128,584
Fines and Forfeits	2,525	2,252		4,777
Sale of Documents, Merchandise and Property		19,188		19,188
Grants, Contracts, and Donations		50,000		50,000
Capital Asset Sale Proceeds		10,810		10,810
Federal Indirect Cost Recoveries		41,713		41,713
Federal		12,145	\$ 1,445,972	1,458,117
Total Revenues & Transfers-In	8,707	7,925,393	1,445,972	9,380,072
Less: Nonbudgeted Revenues & Transfers-In	1,840	61,705		63,545
Prior Year Revenues & Transfers-In Adjustments		1,864	2,617	4,481
Actual Budgeted Revenues & Transfers-In	6,867	7,861,824	1,443,355	9,312,046
Estimated Revenues & Transfers-In	6,178	10,352,215	1,700,000	12,058,393
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 689	\$ (2,490,391)	\$ (256,645)	\$ (2,746,347)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Licenses and Permits	\$ (395)	\$ 130,599		\$ 130,204
Taxes	(1,283)	(75,077)		(76,360)
Charges for Services		(2,457,254)		(2,457,254)
Investment Earnings		(18,511)		(18,511)
Fines and Forfeits	2,367	(748)		1,619
Sale of Documents, Merchandise and Property		(7,486)		(7,486)
Transfers-in		(22,000)		(22,000)
Capital Asset Sale Proceeds		(12,000)		(12,000)
Federal Indirect Cost Recoveries		(23,560)		(23,560)
Federal		(4,354)	\$ (256,645)	(260,999)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 689	\$ (2,490,391)	\$ (256,645)	\$ (2,746,347)

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, 2009

	ANIMAL HEALTH DIVISION	BRANDS ENFORCEMENT DIVISION	CENTRALIZED SERVICES DIVISION	DIAGNOSTIC LABORATORY DIVISION	MEAT/POULTRY INSPECTION	MILK & EGG PROGRAM	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT							
Personal Services							
Salaries	\$ 606,688	\$ 1,930,062	\$ 794,149	\$ 845,393	\$ 659,185	\$ 185,322	\$ 5,020,799
Other Compensation			5,750				5,750
Employee Benefits	208,768	747,254	268,420	291,885	260,821	63,155	1,840,303
Total	<u>815,456</u>	<u>2,677,316</u>	<u>1,068,319</u>	<u>1,137,278</u>	<u>920,006</u>	<u>248,477</u>	<u>6,866,852</u>
Operating Expenses							
Other Services	848,019	37,574	810,893	61,821	23,381	7,136	1,788,824
Supplies & Materials	173,283	119,697	75,745	394,845	15,831	11,851	791,252
Communications	59,270	54,423	35,049	12,489	10,741	4,962	176,934
Travel	30,508	51,179	63,320	4,091	61,848	14,594	225,540
Rent	11,724	467	142,801	24,762	113,066		292,820
Utilities	652	11,700		37,493			49,845
Repair & Maintenance	46,459	52,204	12,011	13,545	1,632	4,907	130,758
Other Expenses	92,584	59,989	245,935	83,901	89,848	12,973	585,230
Total	<u>1,262,499</u>	<u>387,232</u>	<u>1,385,754</u>	<u>632,947</u>	<u>316,347</u>	<u>56,423</u>	<u>4,041,203</u>
Equipment & Intangible Assets							
Equipment	120,819	96,988		36,900			254,707
Total	<u>120,819</u>	<u>96,988</u>		<u>36,900</u>			<u>254,707</u>
Benefits & Claims							
From State Sources			109,479				109,479
Total			<u>109,479</u>				<u>109,479</u>
Transfers-out							
Fund transfers			165,000				165,000
Total			<u>165,000</u>				<u>165,000</u>
Total Expenditures & Transfers-Out	<u>\$ 2,198,774</u>	<u>\$ 3,161,537</u>	<u>\$ 2,728,552</u>	<u>\$ 1,807,125</u>	<u>\$ 1,236,353</u>	<u>\$ 304,900</u>	<u>\$ 11,437,241</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 544,087	\$ 24,602	\$ 240,271	\$ 513,726	\$ 624,039		\$ 1,946,725
State Special Revenue Fund	601,636	3,136,935	2,488,281	1,242,537	7,758	\$ 270,695	7,747,842
Federal Special Revenue Fund	1,053,051			50,862	604,556	34,205	1,742,674
Total Expenditures & Transfers-Out	<u>2,198,774</u>	<u>3,161,537</u>	<u>2,728,552</u>	<u>1,807,125</u>	<u>1,236,353</u>	<u>304,900</u>	<u>11,437,241</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(914)	(4,948)	(1,544)	(1,672)	(1,410)	(304)	(10,792)
Prior Year Expenditures & Transfers-Out Adjustments	16,081	19,629	158,340	212	(7,856)	(36)	186,370
Actual Budgeted Expenditures & Transfers-Out	<u>2,183,607</u>	<u>3,146,856</u>	<u>2,571,756</u>	<u>1,808,585</u>	<u>1,245,619</u>	<u>305,240</u>	<u>11,261,663</u>
Budget Authority	4,598,097	3,203,574	4,828,900	1,813,790	1,358,981	354,743	16,158,085
Unspent Budget Authority	<u>\$ 2,414,490</u>	<u>\$ 56,718</u>	<u>\$ 2,257,144</u>	<u>\$ 5,205</u>	<u>\$ 113,362</u>	<u>\$ 49,503</u>	<u>\$ 4,896,422</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 1,862,267	\$ 136	\$ 4,990		\$ 22,889		\$ 1,890,282
State Special Revenue Fund	62,408	56,582	2,252,154	18		\$ 38,835	2,409,997
Federal Special Revenue Fund	489,815			5,187	90,473	10,668	596,143
Unspent Budget Authority	<u>\$ 2,414,490</u>	<u>\$ 56,718</u>	<u>\$ 2,257,144</u>	<u>\$ 5,205</u>	<u>\$ 113,362</u>	<u>\$ 49,503</u>	<u>\$ 4,896,422</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, 2008

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	ANIMAL HEALTH DIVISION	BRANDS ENFORCEMENT DIVISION	CENTRALIZED SERVICES DIVISION	DIAGNOSTIC LABORATORY DIVISION	MEAT/POULTRY INSPECTION	MILK & EGG PROGRAM	Total
Personal Services							
Salaries	\$ 477,968	\$ 1,846,357	\$ 716,074	\$ 807,445	\$ 627,860	\$ 181,225	\$ 4,656,929
Other Compensation	400		6,000			100	6,500
Employee Benefits	161,349	686,026	243,896	284,128	233,789	61,112	1,670,301
Total	639,717	2,532,383	965,970	1,091,573	861,649	242,438	6,333,730
Operating Expenses							
Other Services	514,884	29,628	427,572	49,500	17,134	1,630	1,040,348
Supplies & Materials	160,792	182,707	61,267	379,161	5,839	18,449	808,215
Communications	50,688	55,664	30,961	11,549	11,320	5,109	165,291
Travel	38,335	42,647	66,658	6,324	51,922	10,884	216,770
Rent	35,405	292	138,693	6,803	107,778		288,971
Utilities	691	13,500		52,656			66,847
Repair & Maintenance	19,042	29,505	277,020	48,991	14,595	4,564	393,717
Other Expenses	(21,756)	53,318	406,085	(746)	37,960	6,326	481,187
Total	798,081	407,261	1,408,256	554,238	246,548	46,962	3,461,346
Equipment & Intangible Assets							
Equipment	112,462	162,987		87,900		20,676	384,025
Total	112,462	162,987		87,900		20,676	384,025
Benefits & Claims							
From State Sources			10,196				10,196
Total			10,196				10,196
Total Expenditures & Transfers-Out	\$ 1,550,260	\$ 3,102,631	\$ 2,384,422	\$ 1,733,711	\$ 1,108,197	\$ 310,076	\$ 10,189,297
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 50,408	\$ 73,478	\$ 224,422	\$ 471,669	\$ 584,305		\$ 1,404,282
State Special Revenue Fund	455,434	3,029,153	2,160,000	1,251,723	2,200	292,194	7,190,704
Federal Special Revenue Fund	1,044,418			10,319	521,692	17,882	1,594,311
Total Expenditures & Transfers-Out	1,550,260	3,102,631	2,384,422	1,733,711	1,108,197	310,076	10,189,297
Less: Nonbudgeted Expenditures & Transfers-Out	(343)	(1,859)	(580)	(628)	(530)	(114)	(4,054)
Prior Year Expenditures & Transfers-Out Adjustments	(22,995)	14	679	(30)	(4,579)		(26,911)
Actual Budgeted Expenditures & Transfers-Out	1,573,598	3,104,476	2,384,323	1,734,369	1,113,306	310,190	10,220,262
Budget Authority	2,293,738	3,166,394	5,007,534	1,790,002	1,298,558	355,703	13,911,929
Unspent Budget Authority	\$ 720,140	\$ 61,918	\$ 2,623,211	\$ 55,633	\$ 185,252	\$ 45,513	\$ 3,691,667
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 37,736	\$ 21,864	\$ 60,844	\$ 903	\$ 41,653		\$ 163,000
State Special Revenue Fund	32,942	40,054	2,562,367	40,097	4,275	24,521	2,704,256
Federal Special Revenue Fund	649,462			14,633	139,324	20,992	824,411
Unspent Budget Authority	\$ 720,140	\$ 61,918	\$ 2,623,211	\$ 55,633	\$ 185,252	\$ 45,513	\$ 3,691,667

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, 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, 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. 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.

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. Department Federal Special Revenue Funds include Meat and Poultry Inspection, Bison Trap, National Animal Identification System (NAIS), Swine Feeding, 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 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 two fiscal years ended June 30, 2009.

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. Revenue Estimates

The department records revenue estimates in State Special Revenue funds on the state's accounting records. In fiscal year 2008-09 the department improperly recorded estimated revenues as \$30,504,392 instead of \$10,813,396. The \$19,690,985 difference resulted in recorded errors in Estimated Revenues & Transfers-In and Total Budgeted Revenues & Transfers-In Over (Under) Estimated on the Schedule of Total Revenues & Transfers-In.

DEPARTMENT OF
LIVESTOCK

DEPARTMENT RESPONSE



DEPARTMENT OF LIVESTOCK

BRIAN SCHWEITZER, GOVERNOR
BOX 202001

STATE OF MONTANA

BOARD OF LIVESTOCK – (406) 444-9321
BRANDS ENFORCEMENT DIVISION – (406) 444-2045
ANIMAL HEALTH DIVISION – (406) 444-2043
CENTRALIZED SERVICES DIVISION – (406) 444-4994
MEAT & POULTRY INSPECTION DIVISION – (406) 444-5202
MILK & EGG BUREAU – (406) 444-9761

HELENA, MONTANA 59620-2001

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LEGISLATIVE AUDIT DIV.

October 26, 2009

Tori Hunthausen
Legislative Auditor
Room 160, State Capitol
P.O. Box 201705
Helena, Montana 59620-1705

Dear Ms. Hunthausen:

On behalf of the Board of Livestock, I submit the following responses to your audit recommendations for the two fiscal years ended June 30, 2009.

Recommendation #1

We recommend the department document, implement, test, and monitor its internal controls in accordance with state accounting policy.

Department Response:

Concur:

We are in the process of documenting and implementing our internal control policies and procedures that addresses each item mentioned in the recommendation. The coding of expenditures and the revenue estimate has been corrected. Efforts are being made to expedite the federal fund balance process.

Recommendation #2

We recommend that the department:

- A. Monitor employees to ensure deposits for market inspection fees comply with state law.
- B. Comply with state law related to forfeiture of excess annual leave.

Department Response:

Concur:

- A. The Brands Enforcement Division will continue efforts to eliminate late deposits from local and market inspectors. The department will request a modified deposit schedule from the Department of Administration.
- B. The excess leave errors have been addressed and corrected.

Sincerely,

Christian Mackay, Executive Officer
To the Board of Livestock
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