



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Revenue

*For the Two Fiscal Years Ended
June 30, 2010*

OCTOBER 2010

LEGISLATIVE AUDIT
DIVISION

10-14

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

October 2010

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Revenue for the two fiscal years ended June 30, 2010. Included in this report are two recommendations related to compliance with state laws and regulations and two disclosure issues on improving internal control documentation and revenue estimates. The department's response begins on page B-3.

We thank the department's director and staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

Administrative Officials

Dan Bucks, Director

Alan Peura, Deputy Director

C.A. Daw, Chief Legal Counsel

Rich Bechtel, Taxpayer Assistance and Public Outreach Director

JeanAnn Scheuer, Human Resources

Ed Caplis, Tax Policy and Research

Gene Walborn, Administrator, Business and Income Tax

Steve Austin, Administrator, Citizen Services and Resource Management

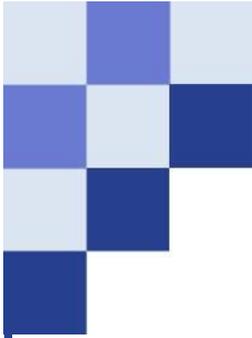
Margaret Kauska, Administrator, Information Technology and Processing

Shauna Helfert, Administrator, Liquor Control

Cynthia Moore, Administrator, Property Assessment

For additional information concerning the Department of Revenue, contact
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FINANCIAL-COMPLIANCE AUDIT

Montana Department of Revenue

For the Two Fiscal Years Ended June 30, 2010

OCTOBER 2010

10-14

REPORT SUMMARY

The Montana Department of Revenue administers state tax laws, enforcing regulations for more than 30 state taxes and fees. Revenues collected by the department include, but are not limited to, individual income, natural resource, corporation, accommodation, property, alcohol, and tobacco taxes. In fiscal year 2009-10, the department collected approximately 18 percent of the state's total revenues.

Context

In addition to tax administration, the department oversees liquor distribution and licensing operations in the state and administers the one-stop licensing program and bad debt collections on behalf of state agencies. The department also manages unclaimed property, returning property to its rightful owners. For fiscal year 2009-10, the department had 667 authorized full-time equivalent employees.

The audit report contains a disclosure issue on duplicate and missing revenue estimates. No accounting policy, and minimal budget policy, is available to the department for processing revenue estimates. The report also contains a disclosure issue on improving internal control documentation for recording the October distribution of oil and gas tax receipts.

Results

The previous audit report contained seven recommendations. Of these, the department implemented six and did not implement one. This report contains two recommendations. We address the requirement to report corporate license tax nonfilers and delinquent filers to the Secretary of State. This is the third report addressing that issue. We also address changes to coal tax distributions in fiscal year 2009-10.

Recommendation Concurrence	
Concur	2
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Department of Revenue (department) for the two fiscal years ended June 30, 2010. The objectives of our audit were to:

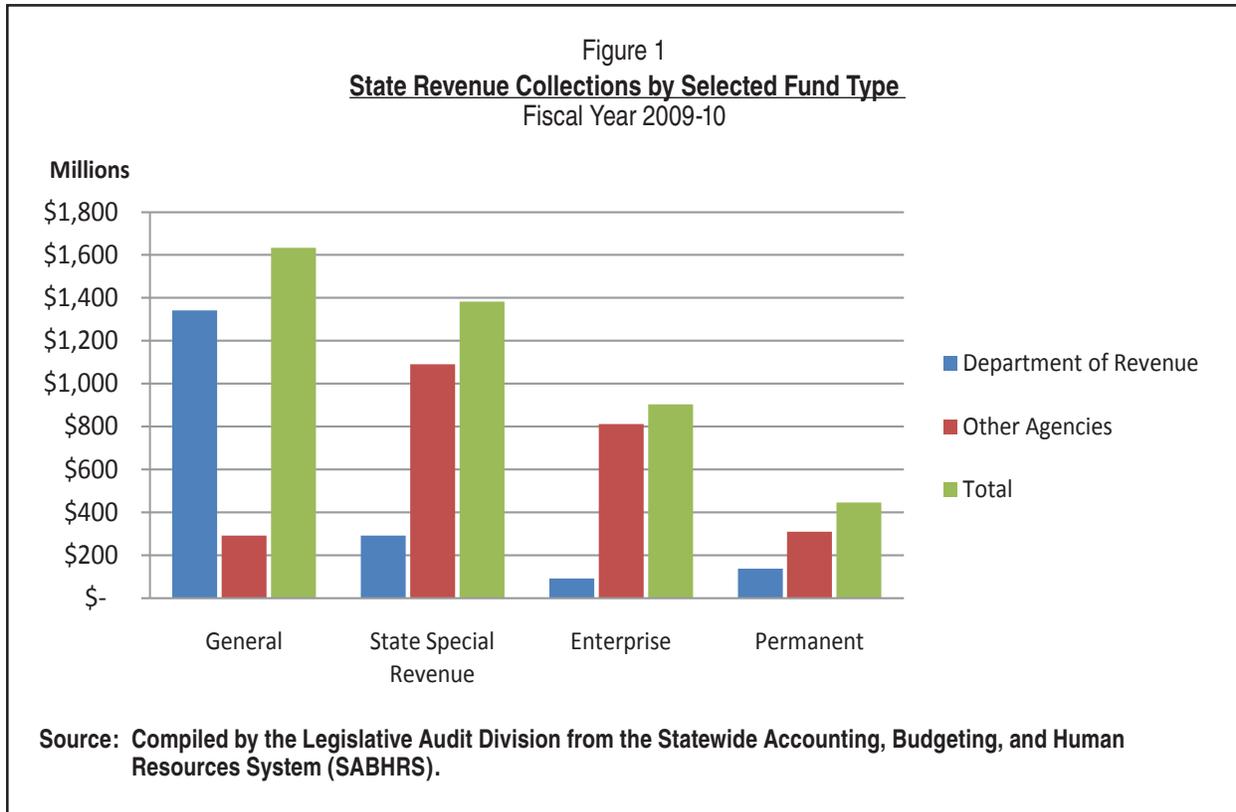
1. Determine whether the department complied with selected state laws and regulations during the audit period.
2. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.
3. Determine the implementation status of prior audit recommendations.
4. Determine whether the department's financial schedules fairly present the results of its operations for each of the fiscal years ended June 30, 2010 and 2009.

In accordance with §5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations contained in this report. Issues deemed not to have significant effect on department operations have been discussed with management, but are not included in this report.

As required by §17-8-101(6), MCA, we analyzed the fees and charges for services and the fund equity of the department's Internal Service Fund, which is used to provide bad debt collection services to state agencies. Refer to the discussion of this analysis in the prior audit recommendations section of this report on page 4.

Department Organization and Functions

The department is responsible for the administration of state tax laws, enforcing regulations for more than 30 state taxes and fees. Revenues collected by the department include, but are not limited to, individual income, corporation, natural resource, accommodation, property, alcohol and tobacco taxes. During fiscal years 2008-09 and 2009-10, the department's revenues represent 27 and 18 percent of the state's total revenues, respectively. Figure 1 illustrates the department's portion of state revenue collections for selected fund types in fiscal year 2009-10. Department tax revenues are recorded primarily in the General, State Special Revenue and Permanent Funds. The department also regulates the sale and distribution of alcoholic beverages in the state; associated revenue collections are recorded in the Enterprise Fund.



The department also collects some of the other agency revenues shown in Figure 1. Most of these revenues are received through county collection reports, such as property tax designated for vocational-technical education, fire protection tax, and court-related fines and fees.

For fiscal year 2009-10, the department was authorized 666.83 full-time equivalent (FTE) employees in five divisions. The department uses an additional 3.50 FTE to operate the Collection Services Program, which collects bad debts on behalf of all state agencies. This program is funded through collection service charges and operates in the Internal Service Fund.

Director's Office (48.98 FTE) provides overall department direction and management. It also supports the agency's director and is composed of five work units. The basic function for each unit is:

- ◆ **Legal Services** supervises the overall legal efforts of the department, which includes rules, policies, bankruptcy, the disclosure officer, and the Office of Dispute Resolution.
- ◆ **Tax Policy and Research** is responsible for the preparation of legislative fiscal notes that affect revenue, the analysis of legislative proposals affecting the department, and department economic data and tax compliance analysis.

- ◆ **Human Resources** manages the personnel activities of the department. The office includes three units: Human Resources, Payroll and Benefits, and Education and Training.
- ◆ **Executive Office** includes budget analysis, public information, and administrative support.
- ◆ **Office of Taxpayer Assistance** is authorized by §15-1-223, MCA. The office assists taxpayers by providing understandable information on department audit, correction and review, and appeal procedures. The office answers questions on preparation and filing of returns and reports and locates documents or payments filed with or submitted to the department. The office also handles taxpayer complaints, monitors the department's compliance with the Taxpayer Bill of Rights, monitors collection activities, and performs any other function necessary to assist taxpayers in complying with Montana's tax laws.

Business and Income Taxes Division (157.95 FTE) oversees tax audits and verifies compliance with Montana tax law for all state taxes, oversees state revenue collection activity, and completes appraisals and assessments of industrial and centrally assessed property. The division also operates the collection services program.

Citizen Services and Resource Management Division (28.00 FTE) provides service to Montana citizens, businesses, and nonresident taxpayers through a call center, one-stop licensing, forms design, and other taxpayer services. The division also provides service and support to the department in the areas of accounting, purchasing, and facilities and asset management. The division also seeks to return unclaimed property, lost money, and other properties to its rightful owners.

Information Technology and Processing Division (87.25 FTE) provides application development and support services, as well as network services in the areas of data, desktop, information security, and help desk support. The division also processes tax returns and payments for the department and for state agency partners.

Liquor Control Division (29.00 FTE) administers the state's Alcoholic Beverage Code, which governs the control, sale, and distribution of alcoholic beverages. The division includes liquor distribution and liquor licensing.

Property Assessment Division (315.65 FTE) is responsible for the valuation and assessment of real and personal property throughout the state for property tax purposes. The division has a central office located in Helena and a local office in each county.

The department is a member of the Multistate Tax Commission, the Federation of Tax Administrators, the Western States Association of Tax Administrators, the National

Alcohol and Beverage Control Association, and the National Association of Unclaimed Property Administrators.

Advisory Councils, Boards, and Memberships

Advisory Council for Multi-State Tax Compact is authorized by §2-15-1311, MCA, to act in an advisory capacity to the multi-state tax commission member for Montana for the purpose of complying with Article VI, section 1(B) of the compact. That member is the department director or the director's designee. This council has no rulemaking or rule adjudicating authority.

Agricultural Land Valuation Advisory Council is created by §15-7-201(7), MCA, to advise the department concerning the valuation of agricultural property. This council must include a member from the Montana State University-Bozeman, College of Agriculture, staff. This advisory council is not a policymaking body and has no rulemaking authority.

The **Board of Review** established by the Montana Small Business Licensing Coordination Act in §30-16-302, MCA, oversees the department's one-stop licensing program, and is attached to the department for administrative purposes only. The board has separate rulemaking authority under §30-16-104, MCA.

Prior Audit Recommendations

The previous financial-compliance audit report of the department for the two fiscal years ended June 30, 2008, contained seven recommendations. The department implemented six and partially implemented one of those recommendations. The partially implemented recommendation is addressed again in this report. On page 7, we discuss the statutory requirement to notify the Secretary of State about corporation license tax nonfilers and delinquent filers.

Internal Service Fund Rate and Equity

The department has one Internal Service Fund, used to account for its debt collection program. In the prior audit, we determined the debt collection fees were not commensurate with cost and that excessive fund equity existed in the fund. Section 17-8-101(6), MCA, requires Internal Service Fund fees be commensurate with costs. Fees are commensurate with cost when the fund's equity approximates 60 days of working capital. Section 17-4-106(2), MCA, also requires the fees deposited in excess of the debt collection program's appropriation be used to reduce the rate charged in subsequent years. We recommended the department analyze and adjust its Internal Service Fund rate as often as necessary to be commensurate with costs. In response, the department implemented a quarterly review of the fund's activity and rate. The

department is using a rate of five percent, the maximum rate authorized by the legislature for the 2009 and 2011 bienniums. This rate is not commensurate with program costs. As required by §17-4-106(2), MCA, the fund's excess working capital was used to reduce the delinquent account collection rate for fiscal years 2008-09 and 2009-10. In addition, the fund equity at June 30, 2009, and 2010, continues to exceed the working capital needs of the fund. Fund equity was \$246,382, \$184,816, and \$109,811 at June 30, 2008, 2009, and 2010, respectively. If the fund's current level of activity continues, fund equity should approximate 60 days working capital by the end of fiscal year 2010-11. Because the department has a monitoring mechanism in place and is in the process of reducing the fund's excess working capital, we believe the department implemented the prior audit recommendation. We make no further recommendation at this time.

Vacation Leave and Exempt Compensatory Time

In the prior audit, we recommended the department revise its procedures to ensure excess vacation leave is properly calculated and used by employees or forfeited in accordance with state law. The department modified its procedures in response to this recommendation. During this audit, we identified two instances where the department did not comply with vacation and exempt compensatory time requirements. The department did not reduce an employee's vacation leave balance as required by state law. Because of a data input error, department personnel reduced an employee's leave balance by 104 hours, 56 hours less than required. After we notified them of the error, department personnel corrected the employee's leave balance. In addition, the department allowed an employee's termination date to be extended for 160 exempt compensatory time hours, 40 more than the limit established in state policy. The extension was authorized by the employee's supervisor. The department's human resources personnel indicated they have since established procedures notifying them of these types of arrangements before they occur. Based on our review of employee leave balances, we believe these are isolated instances of noncompliance. Because the department revised its procedures to ensure compliance with state law and policy, we believe the department implemented the prior audit recommendation. We make no further recommendation at this time.

Chapter II – Findings and Recommendations

Notification of Nonfilers and Delinquent Filers

The department does not notify the Secretary of State of corporation license tax nonfilers and delinquent filers, as required by state law.

Section 15-31-603, MCA, requires the Secretary of State to provide a list of all new corporations, limited partnerships, limited liability companies, and limited liability partnerships, foreign and domestic, to the department each month. The department uses this list to identify and communicate tax reporting responsibilities to potentially new taxpayers and to identify entities that may not be paying their tax liabilities. The department is required by §15-31-523, MCA, to report corporation license tax nonfilers or delinquent filers to the Secretary of State so the suspension, forfeiture, or dissolution of corporate rights provided in law can be made.

During the audit period, the department did not notify the Secretary of State when a corporation did not file or was delinquent in filing. This issue was also addressed during the last two audits. Department personnel have been concerned about improperly suspending a corporation that has properly filed and the related cost to correct such an error.

To effectively match the corporation information maintained by the Secretary of State with the department's tax information, an identifier unique to each corporation must be used by both agencies. During the audit period, department personnel learned that the Secretary of State assigns a unique file identification number to each corporation which can be used by both agencies. Department personnel intend to modify their tax system and tax forms to collect corporation file identification numbers. This will improve the department's ability to effectively identify corporations that must be reported to the Secretary of State for suspension, forfeiture, or dissolution of corporate rights.

RECOMMENDATION #1

We recommend the department report corporation license tax nonfilers and delinquent filers to the Secretary of State as required by state law.

Coal Tax Allocation Change

The department did not initially modify its fiscal year 2009-10 coal tax distribution percentages to reflect a change in state law.

State law, §15-35-108(7), MCA, requires the department to allocate a portion of the coal severance tax revenue to the Coal Natural Resource Account. Effective July 1, 2009, the distribution percentage for this account increased from 2.9 percent to 5.8 percent, reducing the coal tax revenue to the General Fund by the same amount. After each legislative session, the department compiles a summary of legislation affecting its operations. The summary of 2009 legislation identified this change affecting the coal tax distributions. Department personnel, however, improperly interpreted the legislation's coordination language as requiring an effective date of July 1, 2011. Department personnel did not modify their coal tax revenue distribution procedures until we inquired about the change. Consulting with legal counsel would have allowed the department to identify the correct effective date. At the time of our inquiry, a total of \$685,012 of revenue belonging to the Coal Natural Resource Account had been distributed to the General Fund. In May 2010, department personnel corrected its fiscal year 2009-10 distributions to comply with state law.

RECOMMENDATION #2

We recommend department personnel consult with legal counsel when necessary to ensure required changes in coal tax distributions are implemented timely.

Chapter III – Disclosure Issues

Improving Internal Control Documentation

In fiscal year 2008-09, the department incorrectly recorded its October distribution of oil and gas tax receipts as a prior year revenue adjustment in the State Special Revenue Fund. This contributed to the opinion qualification on page A-1. Distributions occur quarterly, but because a portion of the receipts distributed in October are accrued at the end of the previous fiscal year, the October distribution is more complex. Due to the magnitude of the error, we evaluated the adequacy of the department's internal control documentation. The documentation identifies the need, purpose, and timing for the entry. While we believe the department's internal control documentation requires the October distribution be coded as a current year transaction, we also believe including an example with the proper coding will enhance the documentation and guide its employees to properly code the transaction. Department personnel properly recorded the distribution in other fiscal years. We present this information for disclosure purposes only and make no recommendation at this time.

Revenue Estimates

On a biennial basis, the Legislature adopts revenue estimates for the General Fund and selected other funds. These revenue estimates are entered into the state's accounting records by the Office of Budget and Program Planning. The department is responsible for establishing and recording revenue estimates for its other budgeted funds and accounts, as well as some of its nonbudgeted funds and accounts. Estimates adopted by the legislature or entered by the department can be adjusted by the department throughout the budget cycle to reflect changing conditions.

The state's accounting system requires revenue estimates to process transactions against specified funds and accounts. If the revenue estimates are not entered according to the system's specifications, agencies can experience difficulty processing revenue transactions. In some situations, the accounting system prompts agencies to process an estimate when one already exists. The system will also allow revenue transactions to process against zero dollar estimates.

As discussed in note 6 on page A-12, the department recorded a duplicate revenue estimate of \$7,250,000 in the General Fund in order for the accounting system to process a revenue transaction in fiscal year 2008-09. The department also duplicated revenue estimates in the Enterprise and State Special Revenue Funds for \$16,556,670 and \$44,348,571, respectively, by establishing estimates for nonbudgeted clearing accounts. The department recorded, then reversed a revenue estimate for the Coal Severance Tax Trust Fund of \$21,000,000, creating a zero dollar estimate. The system accepted this estimate.

There is no guidance in state accounting policy addressing revenue estimates or accounting system requirements. The Office of Budget and Program Planning's budget submission manual directs agencies to enter accurate revenue estimates, but does not guide agencies to consider system requirements when establishing those estimates. If more comprehensive policy had been available, we believe the department's revenue estimates would have been more accurate. Because of the lack of policy, we present this information for disclosure purposes and make no recommendation at this time.

Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

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 Revenue for each of the fiscal years ended June 30, 2010, and 2009. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express opinions 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 opinions.

As described in note 1, these 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.

As described in note 4, the department incorrectly recorded its distribution of fiscal year 2008-09 oil and gas tax revenues as a prior year revenue adjustment in the State Special Revenue Fund. Prior Year Revenues & Transfers-In Adjustments are understated and Budgeted Revenues & Transfers-In are overstated by \$106,200,438 on the Schedule of Changes in Fund Balances & Property Held in Trust and the Schedule of Total Revenues & Transfers-In for the fiscal year ended June 30, 2009.

In our opinion, except for the effect of the error discussed in the previous paragraph, 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 Revenue for each of the fiscal years ended June 30, 2010, and 2009, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

September 8, 2010

DEPARTMENT OF REVENUE
 SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund	Permanent Fund
FUND BALANCE: July 1, 2009	\$ (7,400,824)	\$ 28,341,985	\$ (257)	\$ 106,473	\$ 1,416,897	\$ 4,944,626	\$ 184,816	\$ 0	\$ 1,332,133	\$ 906,498,486
PROPERTY HELD IN TRUST: July 1, 2009								\$ 132,071		
ADDITIONS										
Budgeted Revenues & Transfers-In	1,334,327,290	290,539,744	350,451		7,209,414	93,302,442	109,368			92,241,544
Nonbudgeted Revenues & Transfers-In	3,405,762	3,301,347		691,723		(387,974)			4,238,138	46,718,318
Prior Year Revenues & Transfers-In Adjustments	3,638,325	(2,087,089)	(63,784)	(9,604)	(132,664)	(548,709)				(1,356,665)
Direct Entries to Fund Balance	(1,183,273,046)	(179,570,429)		(700,365)	(7,147,395)	(1,845,465)				(895,410)
Additions to Property Held in Trust								3,828,198		
Total Additions	<u>158,098,331</u>	<u>112,183,573</u>	<u>286,667</u>	<u>(18,246)</u>	<u>(70,645)</u>	<u>90,520,294</u>	<u>109,368</u>	<u>3,828,198</u>	<u>4,238,138</u>	<u>136,707,787</u>
REDUCTIONS										
Budgeted Expenditures & Transfers-Out	146,766,799	108,114,162	286,177		152,842	90,961,603	175,506			
Nonbudgeted Expenditures & Transfers-Out	50	3,097,374			2	161,075	8,866		3,086,701	69,730,752
Prior Year Expenditures & Transfers-Out Adjustments	(182,087)	(2,166,523)				3,705,561				
Reductions in Property Held in Trust								3,799,406		
Total Reductions	<u>146,584,762</u>	<u>109,045,013</u>	<u>286,177</u>	<u>0</u>	<u>152,844</u>	<u>94,828,239</u>	<u>184,372</u>	<u>3,799,406</u>	<u>3,086,701</u>	<u>69,730,752</u>
FUND BALANCE: June 30, 2010	\$ <u>4,112,745</u>	\$ <u>31,480,545</u>	\$ <u>233</u>	\$ <u>88,227</u>	\$ <u>1,193,408</u>	\$ <u>636,681</u>	\$ <u>109,812</u>	\$ <u>0</u>	\$ <u>2,483,570</u>	\$ <u>973,475,521</u>
PROPERTY HELD IN TRUST: June 30, 2010								\$ <u>160,863</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-9.

DEPARTMENT OF REVENUE
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	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund	Permanent Fund
FUND BALANCE: July 1, 2008	\$ 49,761,402	\$ 38,914,397	\$ 16,203	\$ 98,614	\$ 1,302,874	\$ 2,953,149	\$ 246,383	\$ 0	\$ 1,196,300	\$ 894,566,964
PROPERTY HELD IN TRUST: July 1, 2008								\$ 143,377		
ADDITIONS										
Budgeted Revenues & Transfers-In	1,503,028,011	406,827,662	284,593		7,926,255	75,972,934	53,592			96,079,907
Nonbudgeted Revenues & Transfers-In	4,107,680	1,541,136		742,797		16,556,670			2,571,288	(5,871,810)
Prior Year Revenues & Transfers-In Adjustments	4,149,876	(103,313,062)	(16,435)	736	7,865	(454,659)			(3,679)	(784,060)
Direct Entries to Fund Balance	(1,425,974,030)	(194,360,761)		(735,674)	(7,820,097)	(1,111,428)				(915,027)
Additions to Property Held in Trust								3,475,650		
Total Additions	<u>85,311,537</u>	<u>110,694,975</u>	<u>268,158</u>	<u>7,859</u>	<u>114,023</u>	<u>90,963,517</u>	<u>53,592</u>	<u>3,475,650</u>	<u>2,567,609</u>	<u>88,509,010</u>
REDUCTIONS										
Budgeted Expenditures & Transfers-Out	142,447,145	115,647,587	284,618			85,027,114	103,131			
Nonbudgeted Expenditures & Transfers-Out	(356)	3,390,008				211,098	12,028		2,444,221	76,577,488
Prior Year Expenditures & Transfers-Out Adjustments	26,974	2,229,792				3,733,828			(12,445)	
Reductions in Property Held in Trust								3,486,956		
Total Reductions	<u>142,473,763</u>	<u>121,267,387</u>	<u>284,618</u>	<u>0</u>	<u>0</u>	<u>88,972,040</u>	<u>115,159</u>	<u>3,486,956</u>	<u>2,431,776</u>	<u>76,577,488</u>
FUND BALANCE: June 30, 2009	\$ <u>(7,400,824)</u>	\$ <u>28,341,985</u>	\$ <u>(257)</u>	\$ <u>106,473</u>	\$ <u>1,416,897</u>	\$ <u>4,944,626</u>	\$ <u>184,816</u>	\$ <u>0</u>	\$ <u>1,332,133</u>	\$ <u>906,498,486</u>
PROPERTY HELD IN TRUST: June 30, 2009								\$ <u>132,071</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-9.

DEPARTMENT OF REVENUE
 SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS										
Licenses and Permits	\$ 5,313,388	\$ 31,866,576				\$ 2,067,189				\$ 39,247,153
Taxes	1,235,445,045	206,505,601	\$ 6	\$ 682,119	\$ 7,076,750	25,006,734			\$ 22,403,396	1,497,119,651
Charges for Services	4,473	15,437,529				3,450	\$ 109,368			15,554,820
Investment Earnings								\$ 6,212	91,959,229	91,965,441
Fines and Forfeits						161,241				161,241
Sale of Documents, Merchandise and Property						65,115,570				65,115,570
Grants, Contracts, and Donations	7,929,786	434,502						4,231,926		12,596,214
Transfers-in	57,992,784	25,939,900							23,240,572	107,173,256
Federal Indirect Cost Recoveries	26,761									26,761
Miscellaneous	12,373	20,972				11,575				44,920
Federal	34,646,767	11,548,922	286,661							46,482,350
Total Revenues & Transfers-In	1,341,371,377	291,754,002	286,667	682,119	7,076,750	92,365,759	109,368	4,238,138	137,603,197	1,875,487,377
Less: Nonbudgeted Revenues & Transfers-In	3,405,762	3,301,347		691,723		(387,974)		4,238,138	46,718,318	57,967,314
Prior Year Revenues & Transfers-In Adjustments	3,638,325	(2,087,089)	(63,784)	(9,604)	(132,664)	(548,709)			(1,356,665)	(560,190)
Actual Budgeted Revenues & Transfers-In	1,334,327,290	290,539,744	350,451	0	7,209,414	93,302,442	109,368	0	92,241,544	1,818,080,253
Estimated Revenues & Transfers-In	1,525,802,356	280,058,296	206,319		8,141,000	112,093,197	182,778		91,780,150	2,018,264,096
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (191,475,066)	\$ 10,481,448	\$ 144,132	\$ 0	\$ (931,586)	\$ (18,790,755)	\$ (73,410)	\$ 0	\$ 461,394	\$ (200,183,843)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS										
Licenses and Permits	\$ 71,446	\$ 456,633				\$ (402,137)				\$ 125,942
Taxes	(192,963,936)	8,606,140			\$ (931,586)	(1,269,017)			\$ (3,031,912)	(189,590,311)
Charges for Services	(264,736)	802,360	\$ (1)			3,449	\$ (73,410)			467,662
Investment Earnings									7,291,487	7,291,487
Fines and Forfeits						(1,095)				(1,095)
Sale of Documents, Merchandise and Property						(17,121,955)				(17,121,955)
Grants, Contracts, and Donations	3,021,904	(111,058)								2,910,846
Transfers-in	(3,807,988)	96,442							(3,798,181)	(7,509,727)
Federal Indirect Cost Recoveries	(18,330)									(18,330)
Miscellaneous	(5,220)	(200,000)								(205,220)
Federal	2,491,794	830,931	144,133							3,466,858
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (191,475,066)	\$ 10,481,448	\$ 144,132	\$ 0	\$ (931,586)	\$ (18,790,755)	\$ (73,410)	\$ 0	\$ 461,394	\$ (200,183,843)

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-9.

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

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS										
Licenses and Permits	\$ 5,405,443	\$ 30,227,338				\$ 2,099,322				\$ 37,732,103
Taxes	1,418,263,268	219,436,829	\$ 102	\$ 743,533	\$ 7,934,120	21,107,494			\$ 25,763,979	1,693,249,325
Charges for Services	500,125	14,480,067				4,383	\$ 53,592			15,038,167
Investment Earnings	(58,837)							\$ 18,463	37,674,266	37,633,892
Fines and Forfeits						175,859				175,859
Sale of Documents, Merchandise and Property						68,676,545				68,676,545
Grants, Contracts, and Donations	1,793,296	326,197						2,549,146		4,668,639
Transfers-in	54,101,703	30,137,939							25,985,792	110,225,434
Federal Indirect Cost Recoveries	27,983									27,983
Miscellaneous	4,685	31,399				11,342				47,426
Federal	31,247,901	10,415,967	268,056							41,931,924
Total Revenues & Transfers-In	1,511,285,567	305,055,736	268,158	743,533	7,934,120	92,074,945	53,592	2,567,609	89,424,037	2,009,407,297
Less: Nonbudgeted Revenues & Transfers-In	4,107,680	1,541,136		742,797		16,556,670		2,571,288	(5,871,810)	19,647,761
Prior Year Revenues & Transfers-In Adjustments	4,149,876	(103,313,062)	(16,435)	736	7,865	(454,659)		(3,679)	(784,060)	(100,413,418)
Actual Budgeted Revenues & Transfers-In	1,503,028,011	406,827,662	284,593	0	7,926,255	75,972,934	53,592	0	96,079,907	2,090,172,954
Estimated Revenues & Transfers-In	1,551,542,397	348,686,254	423,989		6,260,000	117,547,631	53,500		76,020,000	2,100,533,771
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (48,514,386)	\$ 58,141,408	\$ (139,396)	\$ 0	\$ 1,666,255	\$ (41,574,697)	\$ 92	\$ 0	\$ 20,059,907	\$ (10,360,817)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS										
Licenses and Permits	\$ (284,136)	\$ (596,523)				\$ (311,433)				\$ (1,192,092)
Taxes	(31,947,216)	57,309,650			\$ 1,666,255	(5,718,158)			\$ 25,723,778	47,034,309
Charges for Services	6,048	2,961,301	\$ (132,000)			4,383	\$ 92			2,839,824
Investment Earnings	(55,678)	(3,150,869)							(3,662,107)	(6,868,654)
Fines and Forfeits						39,146				39,146
Sale of Documents, Merchandise and Property						(35,588,635)				(35,588,635)
Grants, Contracts, and Donations	(103,103)	(1,716)								(104,819)
Transfers-in	(17,659,440)	3,095,110							(2,001,764)	(16,566,094)
Federal Indirect Cost Recoveries	(18,330)									(18,330)
Miscellaneous	(625,895)									(625,895)
Federal	2,173,364	(1,475,545)	(7,396)							690,423
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (48,514,386)	\$ 58,141,408	\$ (139,396)	\$ 0	\$ 1,666,255	\$ (41,574,697)	\$ 92	\$ 0	\$ 20,059,907	\$ (10,360,817)

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-9.

DEPARTMENT OF REVENUE
 SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	BUSINESS & INCOME TAXES DIVISION	CITIZEN SERVICES & RESOURCE MANAGEMENT DIVISION	DIRECTOR'S OFFICE	INFORMATION TECHNOLOGY & PROCESSING DIVISION	LIQUOR CONTROL DIVISION	PROPERTY ASSESSMENT DIVISION	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT							
Personal Services							
Salaries	\$ 6,740,635	\$ 1,106,360	\$ 2,926,111	\$ 3,028,949	\$ 1,169,511	\$ 11,508,629	\$ 26,480,195
Employee Benefits	2,290,201	380,096	855,524	1,044,667	406,798	4,176,104	9,153,390
Personal Services-Other	(419)				29,740		29,321
Total	9,030,417	1,486,456	3,781,635	4,073,616	1,606,049	15,684,733	35,662,906
Operating Expenses							
Other Services	547,292	371,404	1,654,290	3,736,412	237,733	1,339,278	7,886,409
Supplies & Materials	341,516	41,059	152,884	1,013,530	146,501	760,507	2,455,997
Communications	208,573	171,364	70,139	868,732	60,664	480,006	1,859,478
Travel	297,137	726	98,082	12,048	22,513	147,864	578,370
Rent	302,225	35,472	157,130	722,400	551	2,002,874	3,220,652
Utilities		1,533			82,568	14	84,115
Repair & Maintenance	17,985	10,359	34,342	2,291,554	59,951	26,436	2,440,627
Other Expenses	273,849	10,250	47,945	46,712		27,791	540,095
Goods Purchased For Resale					57,862,483		57,862,483
Total	1,988,577	642,167	2,214,812	8,691,388	58,606,512	4,784,770	76,928,226
Equipment & Intangible Assets							
Equipment	52,799			274,618	(22,305)	66,158	371,270
Total	52,799			274,618	(22,305)	66,158	371,270
Local Assistance							
From State Sources	3,814,218	415,762	95,596,142			100,763,157	200,589,279
Total	3,814,218	415,762	95,596,142			100,763,157	200,589,279
From Other Sources							
Distrib from Priv Purp Trusts		3,047,947					3,047,947
Total		3,047,947					3,047,947
Transfers-out							
Fund transfers		2,784,844			34,331,892	70,065,212	107,181,948
Total		2,784,844			34,331,892	70,065,212	107,181,948
Other Post Employment Benefits							
Other Post Employment Benefits	9,548				107,736		117,284
Total	9,548				107,736		117,284
Total Expenditures & Transfers-Out	\$ 14,895,559	\$ 8,377,176	\$ 101,592,589	\$ 13,039,622	\$ 94,629,884	\$ 191,364,030	\$ 423,898,860
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 10,074,533	\$ 1,928,999	\$ 101,394,873	\$ 12,679,160	\$	\$ 20,507,197	\$ 146,584,762
State Special Revenue Fund	4,351,477	3,349,421	107,460	131,575	17,755	101,087,325	109,045,013
Federal Special Revenue Fund	285,177		1,000				286,177
Capital Projects Fund				152,842		2	152,844
Enterprise Fund		50,809	89,256	76,045	94,612,129		94,828,239
Internal Service Fund	184,372						184,372
Private Purpose Trust Fund		3,047,947				38,754	3,086,701
Permanent Fund						69,730,752	69,730,752
Total Expenditures & Transfers-Out	14,895,559	8,377,176	101,592,589	13,039,622	94,629,884	191,364,030	423,898,860
Less: Nonbudgeted Expenditures & Transfers-Out	8,505	5,832,790	(169)	50	178,430	70,065,214	76,084,820
Prior Year Expenditures & Transfers-Out Adjustments	(600,896)		(53,465)	(76,722)	3,705,962	(1,617,926)	1,356,953
Actual Budgeted Expenditures & Transfers-Out	15,487,950	2,544,386	101,646,223	13,116,294	90,745,492	122,916,742	346,457,087
Budget Authority	17,817,828	2,597,179	102,439,501	16,212,481	131,355,720	128,505,136	398,927,845
Unspent Budget Authority	\$ 2,329,878	\$ 52,793	\$ 793,278	\$ 3,096,187	\$ 40,610,228	\$ 5,588,394	\$ 52,470,758
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 11,699	\$ 3,555	\$ 793,098	\$ 6,123	\$	\$ 9,172	\$ 823,647
State Special Revenue Fund	2,243,831	49,238	180			5,579,222	7,872,471
Federal Special Revenue Fund	67,076						67,076
Capital Projects Fund				3,090,064			3,090,064
Enterprise Fund		0			40,610,228		40,610,228
Internal Service Fund	7,272						7,272
Unspent Budget Authority	\$ 2,329,878	\$ 52,793	\$ 793,278	\$ 3,096,187	\$ 40,610,228	\$ 5,588,394	\$ 52,470,758

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-9.

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

	BUSINESS & INCOME TAXES DIVISION	CITIZEN SERVICES & RESOURCE MANAGEMENT DIVISION	DIRECTOR'S OFFICE	INFORMATION TECHNOLOGY & PROCESSING DIVISION	LIQUOR CONTROL DIVISION	PROPERTY ASSESSMENT DIVISION	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT							
Personal Services							
Salaries	\$ 6,710,237	\$ 1,071,360	\$ 2,945,290	\$ 3,112,485	\$ 1,211,578	\$ 11,725,779	\$ 26,776,729
Hourly Wages						82	82
Other Compensation						425	425
Employee Benefits	2,286,151	373,469	863,592	1,079,751	436,929	4,278,833	9,318,725
Personal Services-Other	488			(26,592)	4,671	(219,324)	(240,757)
Total	<u>8,996,876</u>	<u>1,444,829</u>	<u>3,808,882</u>	<u>4,165,644</u>	<u>1,653,178</u>	<u>15,785,795</u>	<u>35,855,204</u>
Operating Expenses							
Other Services	491,701	480,719	860,197	4,747,635	104,813	(3,139,223)	3,545,842
Supplies & Materials	196,202	41,673	114,303	915,779	62,178	313,120	1,643,255
Communications	106,335	137,976	73,401	1,061,609	32,495	350,975	1,762,791
Travel	337,611	4,003	119,897	27,834	25,182	238,358	752,885
Rent	220,108	25,527	117,721	583,967	526	1,947,277	2,895,126
Utilities		1,631		308	87,204	1,291	90,434
Repair & Maintenance	9,940	7,814	21,073	1,538,669	42,007	23,859	1,643,362
Other Expenses	260,517	12,512	35,886	38,386	121,897	23,848	493,046
Goods Purchased For Resale					57,718,533		57,718,533
Total	<u>1,622,414</u>	<u>711,855</u>	<u>1,342,478</u>	<u>8,914,187</u>	<u>58,194,835</u>	<u>(240,495)</u>	<u>70,545,274</u>
Equipment & Intangible Assets							
Equipment		3,353		302,817	27,351	8,722	342,243
Intangible Assets				326,434		4,822,585	5,149,019
Total		<u>3,353</u>		<u>629,251</u>	<u>27,351</u>	<u>4,831,307</u>	<u>5,491,262</u>
Local Assistance							
From State Sources	5,983,878	411,797	91,895,544			110,667,574	208,958,793
Total	<u>5,983,878</u>	<u>411,797</u>	<u>91,895,544</u>			<u>110,667,574</u>	<u>208,958,793</u>
From Other Sources							
Distrib from Priv Purp Trusts		2,444,221					2,444,221
Total		<u>2,444,221</u>					<u>2,444,221</u>
Transfers-out							
Fund transfers		3,350,186			28,732,583	76,595,044	108,677,813
Total		<u>3,350,186</u>			<u>28,732,583</u>	<u>76,595,044</u>	<u>108,677,813</u>
Other Post Employment Benefits							
Other Post Employment Benefits	11,737				137,927		149,664
Total	<u>11,737</u>				<u>137,927</u>		<u>149,664</u>
Total Expenditures & Transfers-Out	<u>\$ 16,614,905</u>	<u>\$ 8,366,241</u>	<u>\$ 97,046,904</u>	<u>\$ 13,709,082</u>	<u>\$ 88,745,874</u>	<u>\$ 207,639,225</u>	<u>\$ 432,122,231</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 9,820,691	\$ 1,999,223	\$ 96,787,315	\$ 13,471,152	\$	\$ 20,395,382	\$ 142,473,763
State Special Revenue Fund	6,394,437	3,873,989	114,485	163,295	42,381	110,678,800	121,267,387
Federal Special Revenue Fund	284,618						284,618
Enterprise Fund		48,808	145,104	74,635	88,703,493		88,972,040
Internal Service Fund	115,159						115,159
Private Purpose Trust Fund		2,444,221				(12,445)	2,431,776
Permanent Fund						76,577,488	76,577,488
Total Expenditures & Transfers-Out	<u>16,614,905</u>	<u>8,366,241</u>	<u>97,046,904</u>	<u>13,709,082</u>	<u>88,745,874</u>	<u>207,639,225</u>	<u>432,122,231</u>
Less: Nonbudgeted Expenditures & Transfers-Out	12,094	5,794,384	(54)	(71)	250,923	76,577,210	82,634,486
Prior Year Expenditures & Transfers-Out Adjustments	162,128	2	644	621	3,736,384	2,078,371	5,978,150
Actual Budgeted Expenditures & Transfers-Out	<u>16,440,683</u>	<u>2,571,855</u>	<u>97,046,314</u>	<u>13,708,532</u>	<u>84,758,567</u>	<u>128,983,644</u>	<u>343,509,595</u>
Budget Authority	20,038,701	2,648,368	97,742,943	14,100,629	114,140,884	232,802,667	481,474,192
Unspent Budget Authority	<u>\$ 3,598,018</u>	<u>\$ 76,513</u>	<u>\$ 696,629</u>	<u>\$ 392,097</u>	<u>\$ 29,382,317</u>	<u>\$ 103,819,023</u>	<u>\$ 137,964,597</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 39,905	\$ 63,310	\$ 696,327	\$ 192,097	\$	\$ 35,492	\$ 1,027,131
State Special Revenue Fund	3,487,168	13,203	302	68,000		103,783,531	107,352,204
Federal Special Revenue Fund	8,263			132,000			140,263
Enterprise Fund					\$ 29,382,317		29,382,317
Internal Service Fund	62,682						62,682
Unspent Budget Authority	<u>\$ 3,598,018</u>	<u>\$ 76,513</u>	<u>\$ 696,629</u>	<u>\$ 392,097</u>	<u>\$ 29,382,317</u>	<u>\$ 103,819,023</u>	<u>\$ 137,964,597</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-9.

Department of Revenue
Notes to the Financial Schedules
For the Fiscal Year Ended June 30, 2010

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, Capital Projects, Debt Service, and Permanent). Under the modified accrual basis, revenues are recognized when cash is received or when receipts are realizable, measurable, earned, and available to pay current period liabilities.

Expenditures for valid obligations are recorded 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 cost of employees' annual and sick leave to be recorded when used or paid.

The department uses full accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Private-Purpose Trust and Agency) fund categories as defined by state accounting policy. Under the full accrual basis, revenues are recorded in the accounting period when realizable, measurable, and earned, and expenses are recorded in the period incurred when measurable.

Expenditures and expenses within a fiscal year may include: Materials and supplies or equipment ordered with a purchase order before fiscal year-end; services received; or commitments under legally binding contracts.

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 various earmarked tax accounts.

- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds relate to the federal Mineral Royalty Audit Program.
- ♦ **Debt Service Fund** – to account for resources accumulated for the payment of principal and interest on general long-term obligation debt. The department deposits coal and resource indemnity taxes into this fund type. These revenues are pledged for repayment of Renewable Resource and CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act of 1980, Public Law 96-510) bonds.
- ♦ **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. Coal severance tax and cigarette tax revenues collected by the department in support of the state Long Range Building Program are accounted for in capital project funds.
- ♦ **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 government's programs. The department uses this fund to account for its activity in the Permanent Coal Trust Fund; the Cultural Trust Fund; the Coal Severance Tax Income and Bond Funds; the Resource Indemnity Trust and Income Funds; the Treasure State Endowment, Income Regional Water System, and Regional Water Income Funds; and the Big Sky Economic Development Funds.

Proprietary Fund Category

- ♦ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The department's Internal Service Fund accounts for bad debt collection activity.
- ♦ **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; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The department's Enterprise Fund accounts for the Liquor Control Division's administration of the alcoholic beverage code.

Fiduciary Fund Category

- ♦ **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. Department Private-Purpose Trust Funds are used to account for unclaimed property, escheated property, and unlocated mineral owner interests.
- ♦ **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 department Agency Funds are used as clearing accounts to facilitate the distribution of receipts from the administration of the one-stop licensing program, the county collection reports, bad debt collections, dishonored checks, treasury deposit and bank corrections, Automated Clearing House (ACH) collections, and accounts receivable activity.

2. General Fund Balance

The negative fund balance in the General Fund for the fiscal year ended June 30, 2009, 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 had placed in the fund, resulting in a negative ending General Fund balance for the fiscal year ended June 30, 2009. For the fiscal year ended June 30, 2010, the department's total assets placed in the fund exceed outstanding liabilities, resulting in positive ending General Fund balance.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General, State Special Revenue, Debt Service, Capital Projects, Enterprise, and Permanent funds, as reported on the Schedule of Changes in Fund Balances & Property Held in Trust include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

4. Prior Year Revenues and Transfers-In Adjustments

On the Schedule of Changes in Fund Balance & Property Held in Trust and the Schedule of Total Revenues & Transfers-In for fiscal year 2009 and fiscal year 2010 the department recorded transactions that total \$4,149, 876 and \$3,638,325, respectively, in the General Fund and \$(103,313,062) in fiscal year 2009 and \$(2,087,089) in fiscal year 2010 in the State Special Revenue Fund as explained below:

- ♦ **General Fund** – The majority of this activity includes the difference between reversing *estimated* revenues accrued in the prior fiscal year versus reclassifying current year *actual* revenue collections as prior year revenue plus the reversal of accounts receivable revenues accrued in the prior year at fiscal year end. The entries to prior year revenue also include reimbursement to corporation license tax for Insure Montana credits claimed.
- ♦ **State Special Revenue Fund** – The majority of transactions recorded as prior year revenue in the State Special Revenue Fund represents the difference between the reversal of *estimated* revenues accrued in the prior fiscal year versus current year *actual* revenue collections reclassified as prior year revenue plus in fiscal year 2009 the distribution of fiscal year 2008 fourth quarter combined oil and gas tax (COGS) revenues. The distribution from the COGS clearing account was recorded as prior year revenue in error in fiscal year 2009. The program year was corrected to program year 2009 in fiscal year 2010.

5. Nonbudgeted Revenues & Transfers-In

The Schedule of Total Revenues and Transfers-In and The Schedule of Changes in Fund Balances & Property Held in Trust for the fiscal year ended June 30, 2009, report nonbudgeted revenues and transfers-in of \$16,556,670 in the Enterprise Fund and \$(5,871,810) in the Permanent Fund. In addition, The Schedule of Total Revenues and Transfers In and The Schedule of Changes in Fund Balances & Property Held in Trust for the fiscal year ended June 30, 2010, report nonbudgeted revenues and transfers-in of \$46,718,318 in the Permanent Fund. These are explained below:

- ♦ **Enterprise Fund** – Entries represent the accrual of revenues at fiscal year-end in the nonbudgeted clearing account for sales made, but not collected before fiscal year-end close, and the differences between liquor receipts recorded to the clearing account and distributions of the receipts as sales, commissions, discounts, and liquor excise and license taxes during the fiscal year.
- ♦ **Permanent Fund** – All entries to nonbudgeted revenues in the permanent trust fund were recorded by the Board of Investments to account for investments depreciation, loan principal loss, security lending expenses and earnings, and interest earned. The entries in fiscal year 2010 also include a non-budgeted transfer made by the department of \$38,754 in escheated estate collections to the Common School Permanent Trust.

6. Revenues Over (Under) Estimate

The Schedule of Total Revenues and Transfers-In for the fiscal year ended June 30, 2009, reports revenues under estimate by \$48,514,386 in the General Fund and \$41,574,697 in the Enterprise Fund. The Schedule of Total Revenues and Transfers-In for the fiscal year ended June 30, 2010, reports revenue under estimate by \$191,475,066 in the General Fund and \$18,790,755 in the Enterprise Fund. These are explained below:

- ♦ **General Fund** – Overall, for the fiscal year ended June 30, 2009, individual income tax collections were less than HJR2 estimates by \$53 million, a combination of smaller collections and more paid out in refunds than estimated; whereas actual revenues collected for property tax (95 mills), coal production tax, mineral royalty withholding tax and public contractor gross receipts tax exceeded revenue estimates by \$21.5 million; and interest earnings transferred to the general fund by the Board of Investments were \$2.7 million less than estimated. For the fiscal year ended June 30, 2010, individual income taxes, corporation license taxes, and combined oil & gas taxes collected were less than HJR2 estimates by \$138 million, \$27 million, and \$21 million respectively. U.S. Mineral Leasing Royalties exceeded the HJR2 estimates by \$2.5 million.

In fiscal year 2009, liquor excise tax and license tax revenues were less than the estimate by \$6.2 million due to the department's implementation of a prior audit recommendation and less taxes collected than estimated.

Finally, the revenue estimate for liquor profits in fiscal year 2009 was overstated by \$7.2 million because a duplicate estimate was recorded between the Office of Budget and Program Planning (OBPP) and the department in SABHRS. OBPP inputs revenue estimates for all revenue accounts that are deposited to the general fund. The department also recorded an estimate to a different org when recording the accrual of profits at fiscal year-end.

- ♦ **Enterprise Fund** – Revenues in the enterprise fund were less than estimated due to several factors including implementation of a prior audit recommendation whereby receipts in July and August and the associated liquor excise and license taxes were reclassified to the prior year; the schedules that sum the estimated revenues includes an estimate in the nonbudgeted clearing account, but does not in turn include the revenues recorded to the clearing account when comparing estimated to actual revenues; and actual collections were less than originally estimated for fiscal years ending June 30, 2009 and 2010.

The Schedule of Total Revenues and Transfers-In for the fiscal year ended June 30, 2009 and June 30, 2010, reports revenues over estimate by \$58,141,408 and \$10,481,448, respectively, in the State Special Revenue Fund. For the fiscal year ended June 30, 2009 revenues exceed revenues estimated by \$20,059,907 in the Permanent Fund. These are explained below:

- ♦ **State Special Revenue Fund** – Revenues in the state special revenue funds exceed revenues estimated for the fiscal year ending June 30, 2009, primarily due to the net difference between a revenue estimate of \$44 million recorded to the Combined Oil and Gas (COGS) nonbudgeted clearing account (revenues are initially recorded to the clearing account before they are distributed) and \$106 million distributed in COGS revenues for fiscal year 2008 4th quarter from the COGS clearing account and recorded as prior year when the program year should have been recorded as current fiscal year 2009. The correction to the proper year in the clearing account was made in fiscal year 2010.

For the fiscal year ended June 30, 2010 total revenue collections exceeded estimated revenues primarily due to increases of \$15.3 million in COGS and \$2.5 million in metal mines tax offset by actual collections being less than estimated by \$3.9 million in coal tax, \$1.3 million in bentonite tax, and \$2.0 million in Public Service Commission (PSC) and Consumer Counsel (CC) taxes. The PSC and CC tax rates decreased in fiscal year 2010.

- ♦ **Permanent Fund** – Revenue collections in the Permanent Fund exceed revenues estimated for the fiscal year ending June 30, 2009, because a revenue estimate of \$21 million for fiscal year 2009 was recorded in July 2007, the same time the estimate was recorded for fiscal year 2008. It was determined that the estimate for 2009 should be made at a later date and therefore the estimate was reversed and reduced to zero. Because of how the statewide system recognizes an estimate exists (although \$0 in this case) a subsequent estimate was not made for fiscal year 2009 so actual revenues exceeded the estimated revenues by \$20 million.

7. Nonbudgeted Expenditures & Transfers-Out

Nonbudgeted Expenditures & Transfers Out in the Permanent Fund, on the Schedule of Changes in Fund Balance & Property Held in Trust, for fiscal years ending June 30, 2009 and 2010, are approximately \$76.5 million and \$69.7 million respectively. These amounts are also reflected in Fund Transfers on the Schedule of Total Expenditures & Transfers-Out and are related to coal tax transfers required by state law. These include transfers from the Coal Tax Bond Fund, distributions of investment earnings on the Treasure State Endowment Funds, Big Sky Economic Development Fund, Resource Indemnity Trust Fund and the coal tax trust funds.

8. Unspent Budget Authority

The Schedule of Total Expenditures and Transfers-Out for fiscal year 2009 reports unspent budget authority under the Property Assessment Division of \$103,783,531 in the State Special Revenue Fund and \$29,382,317 under the Liquor Control Division in the Enterprise Fund. In fiscal year 2010, unspent budget authority under the Liquor Control Division was \$40,610,228. Unspent budget authority exists because:

The unspent budget authority in the Property Assessment Division is created due to fiscal year 2009 revenues collected or accrued and distributed to local governments being less than revenues collected in fiscal year 2008 for combined oil and gas taxes, metal mines taxes and coal gross proceeds redistribution. Additionally, the distributions of tobacco and cigarette taxes to Indian Tribal Governments under revenue sharing agreements for fiscal year 2009 were less than the prior fiscal year.

The Liquor Control Division receives language appropriations for funds necessary to

maintain adequate inventories, pay freight charges, and transfer profits, taxes, and liquor licensing revenues to the appropriate accounts. In fiscal years 2009 and 2010 the appropriation was not to exceed \$112 million and \$139 million, respectively. The department purchased inventory and distributed profits and taxes based upon the volume of sales and did not spend up to the total appropriation authority. The language appropriation for the transfer of licensing revenues includes appropriation authority for both the Department of Revenue and the Department of Justice to administer liquor licensing. By law, the transfer is net of this authority and deferred revenues; thereby, reflecting unspent transfer budget authority.

9. Negative Other Services Expenditures

For the fiscal year ended June 30, 2009, the Schedule of Total Expenditures and Transfers-Out shows negative expenditures of \$3.1 million for “Other Services” for the Property Assessment Division. Included in this amount are corrections made by the department to properly capitalize assets under state accounting policy which creates a net negative total.

DEPARTMENT OF
REVENUE

DEPARTMENT RESPONSE



Dan Bucks
Director

Montana Department of Revenue



B-1

Brian Schweitzer
Governor

September 28, 2010

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

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SEP 28 2010

LEGISLATIVE AUDIT DIV.

Dear Ms. Hunthausen:

Thank you for allowing the department the opportunity to respond to the Financial Compliance Audit Report recently completed for the two fiscal years ended June 30, 2009 and 2010. This audit report included two recommendations which the department concurs with. The department also notes the disclosure issues raised and will take the appropriate measures necessary to prevent these from occurring in the future. Our response to the two recommendations is as follows:

Recommendation # 1

We recommend the department report corporation license tax nonfilers and delinquent filers to the Secretary of State as required by law.

Concur. As the audit report indicates, this is the third report addressing this issue. The department has previously responded that in order to effectively administer the intent of the law the Secretary of State would need to require a taxpayer identification number on the information filed with their office. The department's previous attempts to resolve this issue through legislation have been unsuccessful. Nevertheless, as indicated in the audit report, the department has since added a field to the 2010 corporate tax return and the 2010 pass-through entities tax returns to request the Secretary of State's identification number. This identification number will help the department identify and report nonfilers and delinquent filers to the Secretary of State.

Recommendation #2

We recommend department personnel consult with legal counsel when necessary to ensure required changes in coal tax distributions are implemented timely.

Concur. The department has a process it follows to monitor and implement legislation that is passed to ensure it is implemented as intended. This process includes

Tori Hunthausen
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consultation with the department's legal counsel on bills when legal interpretation is considered necessary. In this particular case the bill was interpreted by accounting to change the distribution of coal severance taxes effective July 1, 2011 and legal's interpretation of the legislation was not deemed necessary. The department will continue to follow the procedures in place to address legislation that is passed and stress the importance of seeking legal's review in all cases where there is any doubt of misinterpretation.

Thank you for allowing us to respond to the financial compliance audit report and the opportunity to discuss the issues with you and your staff during the exit conference. I would also like to thank your staff who conducted the audit for their professionalism and their fairness in working through the issues that were raised.

Sincerely,

A handwritten signature in black ink, appearing to read "Dan Bucks", written in a cursive style.

Dan Bucks, Director

