



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Agriculture

*For the Two Fiscal Years Ended
June 30, 2011*

OCTOBER 2011

LEGISLATIVE AUDIT
DIVISION

11-21

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FINANCIAL-COMPLIANCE AUDITS

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

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2009, was issued March 1, 2010. The Single Audit Report for the two fiscal years ended June 30, 2011, will be issued by March 31, 2012. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angie Grove

October 2011

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the financial-compliance audit of the Department of Agriculture for the two fiscal years ended June 30, 2011. This report includes one recommendation concerning deposits at the State Grain Lab. The department's written response is included in this report.

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

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

Department of Agriculture Ron de Yong, Director
Libbi Lovshin, Administrator, Central Services Division
Gregory H. Ames, Administrator, Agricultural Services Division
Joel A. Clairmont, Administrator, Agricultural Development Division

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

For additional information concerning the Department of Agriculture, contact:

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Department of Agriculture

For the Two Fiscal Years Ended June 30, 2011

OCTOBER 2011

11-21

REPORT SUMMARY

The department of Agriculture's State Grain Lab deposits revenue weekly, even though its level of collections requires more frequent deposits.

Context

The Department has 124.5 employees and is organized under three divisions; Agricultural Sciences Division, Agricultural Development Division, and Central Services Division. Expenditures totaled approximately \$25.9 and \$24.6 million in fiscal years 2011 and 2010 respectively. Approximately 10 percent of the Department's funding is derived from the General Fund, while over 50 percent of the funding is generated primarily from Licenses and Permits and Taxes on Agricultural Products. Another 30 percent is derived from Charges for Services for the Hail Insurance Program.

Results

There is one recommendation resulting from our audit.

The State Grain Lab (SGL) had not deposited collections in compliance with state law. The SGL bills and collects payment for the testing services provided to grain producers and elevators. We found the SGL is depositing their collections weekly while state law requires deposits to be made on a timelier schedule.

Recommendation Concurrence	
Concur	1
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 Agriculture (department) for the two fiscal years ended June 30, 2011. The objectives of the audit were to:

1. Obtain an understanding of the department's internal controls to the extent necessary to support our audit of the financial schedules and, if necessary, make recommendations for improvement.
2. Determine whether the department complied with selected laws and regulations.
3. Determine the implementation status of prior audit recommendations.
4. Determine whether the financial schedules are fairly presented for each of the two fiscal years ending June 30, 2011, in conformity with state accounting policy.

This report contains one recommendation to the department. Immaterial accounting issues deemed not to have a significant effect on the successful operations of the department are not included in this report, but have been discussed with management. In accordance with §5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report.

Background

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

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

The department is organized under the following divisions:

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

Agricultural Sciences Division (66.17 FTE) - administers agricultural programs relating to the production, manufacturing, and marketing of commodities exported from or distributed in the state. The division administers the Montana Pesticides Act, Crop Insect Detection Act, Vertebrate Pest Management Act, Agricultural Chemical Groundwater Protection Act, Noxious Weed Management Trust Fund Act, Commercial Feed and Fertilizer laws, Organic Certification program, and the department's Chemical Analytical Laboratory. Division personnel provide technical and consultant services to consumers and agricultural producers.

Agricultural Development Division (43.37 FTE) - administers programs that promote Montana agriculture through market development and business assistance. The program provides administrative support to the Alfalfa Seed Committee, the Montana Wheat and Barley Committee, the Agricultural Development Council, the Board of Hail Insurance, the Pulse Crop Advisory Committee, the Potato Advisory Committee, and the Cherry Advisory Committee. The division includes the State Grain Laboratory, which performs tests to establish contract settlement prices between buyers and sellers of grain crops.

Prior Audit Recommendations

The prior audit report for the two fiscal years ended June 30, 2009 contained one recommendation. The department implemented this recommendation.

Chapter II – Findings and Recommendations

Grain Lab Cash Deposits

The State Grain Lab did not deposit collections in compliance with state law.

The department operates a State Grain Lab (lab) in Great Falls to test grain quality for producers and grain elevators across the state. The lab bills for the services, receives payments by check, and deposits into a local treasury bank account on a weekly basis. Section 17-6-105(6), MCA, requires a state agency to deposit receipts with the state treasurer or in a depository approved by the state treasurer each day when the accumulated amount of coin and currency requiring deposit exceeds \$200 or total collections exceed \$750. All money, credits, evidences of indebtedness, and securities collected must be deposited at least weekly.

We reviewed the deposits made for the month of April 2011 and found there had been four deposits made during the month in the amounts of \$8,468, \$25,783, \$12,993, and \$2,074. Using total billed revenue, we calculated that the average weekly deposits exceeded \$16,000 and \$9,000 per week for fiscal years 2010-11 and 2009-10, respectively. This translates to average daily collections of \$3,200 and \$1,800 for the same fiscal years. Although actual collections vary with seasonal workload, estimated daily cash receipts in April clearly surpass the \$750 threshold for deposits, thereby requiring deposits more often than weekly to achieve compliance with state law.

According to a department official, the State Grain Lab has continuously complied with the requirement to make deposits at least weekly. Collections exceeding the dollar thresholds in §17-6-105(6), MCA, were not always deposited each day due to a lack of personnel available to process payments. This official also indicated, the State Grain Lab has already assigned necessary personnel and implemented procedures that will enable deposits to be made in full compliance with state law.

RECOMMENDATION # 1

We recommend the department deposit receipts at the State Grain Lab in accordance with state law.

Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Agriculture for each of the fiscal years ended June 30, 2011, and 2010. 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.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Department of Agriculture for each of the fiscal years ended June 30, 2011, and 2010, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

August 9, 2011

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Agency Fund	Permanent Fund
FUND BALANCE: July 1, 2010	\$ (217,174)	\$ 9,542,256	\$ (413,341)	\$ 12,566,129	\$ 0	\$ 10,791,884
PROPERTY HELD IN TRUST: July 1, 2010					\$ 1,170,025	
ADDITIONS						
Budgeted Revenues & Transfers-In	34	13,080,794	2,244,288	6,748,435		
Nonbudgeted Revenues & Transfers-In	1,158	266,037	1,095	4,180		647,266
Prior Year Revenues & Transfers-In Adjustments		400	2,474			
Direct Entries to Fund Balance	2,203,223	486,605	23,264			
Additions to Property Held in Trust					22,513	
Total Additions	2,204,415	13,833,836	2,271,121	6,752,615	22,513	647,266
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	2,293,877	11,927,356	2,443,065	7,690,515		
Nonbudgeted Expenditures & Transfers-Out	11,508	385,127		785,005		502,836
Prior Year Expenditures & Transfers-Out Adjustments	(24,839)	(47,227)	2,368	8,741		
Reductions in Property Held in Trust					9,000	
Total Reductions	2,280,546	12,265,256	2,445,433	8,484,261	9,000	502,836
FUND BALANCE: June 30, 2011	\$ (293,305)	\$ 11,110,836	\$ (587,653)	\$ 10,834,483	\$ 0	\$ 10,936,314
PROPERTY HELD IN TRUST: June 30, 2011					\$ 1,183,538	

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.

MONTANA DEPARTMENT OF AGRICULTURE
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	Enterprise Fund	Agency Fund	Permanent Fund
FUND BALANCE: July 1, 2009	\$ (258,329)	\$ 9,380,670	\$ (371,616)	\$ 11,962,623	\$ 0	\$ 10,073,941
PROPERTY HELD IN TRUST: July 1, 2009					\$ 1,199,101	
ADDITIONS						
Budgeted Revenues & Transfers-In	1,606	11,951,107	2,688,910	6,162,150		
Nonbudgeted Revenues & Transfers-In	385	270,946	1,207	3,389		1,196,078
Prior Year Revenues & Transfers-In Adjustments		(885)	(132)	785,417		25,029
Direct Entries to Fund Balance	2,634,215	364,887	3,695			
Additions to Property Held in Trust					14,000	
Total Additions	2,636,206	12,586,055	2,693,680	6,950,956	14,000	1,221,107
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	2,615,089	11,959,979	2,737,589	4,440,779		
Nonbudgeted Expenditures & Transfers-Out	(16,331)	494,621		1,904,843		503,164
Prior Year Expenditures & Transfers-Out Adjustments	(3,707)	(30,131)	(2,184)	1,828		
Reductions in Property Held in Trust					43,076	
Total Reductions	2,595,051	12,424,469	2,735,405	6,347,450	43,076	503,164
FUND BALANCE: June 30, 2010	\$ (217,174)	\$ 9,542,256	\$ (413,341)	\$ 12,566,129	\$ 0	\$ 10,791,884
PROPERTY HELD IN TRUST: June 30, 2010					\$ 1,170,025	

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.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits		\$ 3,189,239				\$ 3,189,239
Taxes	\$ 1,158	6,014,190	1,095	294		6,016,737
Charges for Services		1,576,299		6,709,851		8,286,150
Investment Earnings		253,484		30,125	613,779	897,388
Fines and Forfeits		11,785		12,345		24,130
Monetary Settlements	9	17				26
Sale of Documents, Merchandise and Property		22,369				22,369
Grants, Contracts, and Donations		16,680				16,680
Transfers-in		2,260,503			33,487	2,293,990
Capital Asset Sale Proceeds		2,340				2,340
Federal Indirect Cost Recoveries			55,848			55,848
Miscellaneous	25	325	13,293			13,643
Federal			2,177,621			2,177,621
Total Revenues & Transfers-In	1,192	13,347,231	2,247,857	6,752,615	647,266	22,996,161
Less: Nonbudgeted Revenues & Transfers-In	1,158	266,037	1,095	4,180	647,266	919,736
Prior Year Revenues & Transfers-In Adjustments		400	2,474			2,874
Actual Budgeted Revenues & Transfers-In	34	13,080,794	2,244,288	6,748,435	0	22,073,551
Estimated Revenues & Transfers-In	535	13,592,915	2,329,550	7,025,970		22,948,970
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (501)	\$ (512,121)	\$ (85,262)	\$ (277,535)	\$ 0	\$ (875,419)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits		\$ 73,626				\$ 73,626
Taxes	\$ (475)	(21,700)		(100)		(22,275)
Charges for Services		(76,045)		(252,649)		(328,694)
Investment Earnings		(169,415)	(50)	(24,131)		(193,596)
Fines and Forfeits		(54,115)		(655)		(54,770)
Monetary Settlements	(1)	(33)				(34)
Sale of Documents, Merchandise and Property		(581)				(581)
Grants, Contracts, and Donations		(156,850)				(156,850)
Transfers-in		(100,998)	(50,000)			(150,998)
Capital Asset Sale Proceeds		(5,685)				(5,685)
Federal Indirect Cost Recoveries			5,848			5,848
Miscellaneous	(25)	(325)	(207)			(557)
Federal			(40,853)			(40,853)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (501)	\$ (512,121)	\$ (85,262)	\$ (277,535)	\$ 0	\$ (875,419)

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.

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

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits		\$ 3,097,215			\$	3,097,215
Taxes	385	4,785,813	1,207	120		4,787,525
Charges for Services		1,209,923		6,885,972		8,095,895
Investment Earnings		254,871		35,541	1,122,692	1,413,104
Fines and Forfeits		401,377		29,323		430,700
Sale of Documents, Merchandise and Property		13,259				13,259
Grants, Contracts, and Donations		9,570				9,570
Transfers-in		2,387,326	164,911		98,415	2,650,652
Capital Asset Sale Proceeds		23,680				23,680
Federal Indirect Cost Recoveries			71,571			71,571
Miscellaneous	1,606	38,134				39,740
Federal			2,452,296			2,452,296
Total Revenues & Transfers-In	1,991	12,221,168	2,689,985	6,950,956	1,221,107	23,085,207
Less: Nonbudgeted Revenues & Transfers-In	385	270,946	1,207	3,389	1,196,078	1,472,005
Prior Year Revenues & Transfers-In Adjustments		(885)	(132)	785,417	25,029	809,429
Actual Budgeted Revenues & Transfers-In	1,606	11,951,107	2,688,910	6,162,150	0	20,803,773
Estimated Revenues & Transfers-In	1,606	11,917,894	2,688,910	6,162,150		20,770,560
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ 33,213	\$ 0	\$ 0	\$ 0	\$ 33,213
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Taxes	\$	33,213			\$	33,213
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ 33,213	\$ 0	\$ 0	\$ 0	\$ 33,213

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.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Agricultural Development Division	Agricultural Sciences Division	Central Services Division	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT				
Personal Services				
Salaries	\$ 1,242,000	\$ 2,631,840	\$ 782,676	\$ 4,656,516
Hourly Wages	152,004	187,549		339,553
Other Compensation	10,500	2,500		13,000
Employee Benefits	430,780	936,569	251,095	1,618,444
Personal Services-Other	886			886
Total	1,836,170	3,758,458	1,033,771	6,628,399
Operating Expenses				
Other Services	714,664	413,448	79,278	1,207,390
Supplies & Materials	114,731	292,753	40,562	448,046
Communications	73,974	111,366	17,802	203,142
Travel	250,794	210,803	7,268	468,865
Rent	65,264	174,966	48,260	288,490
Utilities	9,755			9,755
Repair & Maintenance	20,063	78,888	3,118	102,069
Other Expenses	1,881,182	110,818	18,714	2,010,714
Total	3,130,427	1,393,042	215,002	4,738,471
Equipment & Intangible Assets				
Equipment	73,351	501,258	15,965	590,574
Total	73,351	501,258	15,965	590,574
Grants				
From State Sources	3,061,945	1,700,941		4,762,886
From Federal Sources	157,125	907,079		1,064,204
From Other Sources	(366,028)			(366,028)
Total	2,853,042	2,608,020		5,461,062
Benefits & Claims				
From State Sources	6,939,703			6,939,703
Total	6,939,703			6,939,703
Transfers-out				
Fund transfers	370,876	685,464		1,056,340
Intra-Entity Expense		547,585		547,585
Total	370,876	1,233,049		1,603,925
Other Post Employment Benefits				
Other Post Employment Benefits	16,198			16,198
Total	16,198			16,198
Total Expenditures & Transfers-Out	\$ 15,219,767	\$ 9,493,827	\$ 1,264,738	\$ 25,978,332

EXPENDITURES & TRANSFERS-OUT BY FUND

General Fund	\$ 1,431,441	\$ 718,488	\$ 130,617	\$ 2,280,546
State Special Revenue Fund	5,223,757	6,187,394	854,105	12,265,256
Federal Special Revenue Fund	224,542	2,085,109	135,782	2,445,433
Enterprise Fund	8,340,027		144,234	8,484,261
Permanent Fund		502,836		502,836
Total Expenditures & Transfers-Out	15,219,767	9,493,827	1,264,738	25,978,332
Less: Nonbudgeted Expenditures & Transfers-Out	615,895	1,048,017	20,564	1,684,476
Prior Year Expenditures & Transfers-Out Adjustments	(58,150)	(3,099)	292	(60,957)
Actual Budgeted Expenditures & Transfers-Out	14,662,022	8,448,909	1,243,882	24,354,813
Budget Authority	19,163,863	10,555,359	1,497,932	31,217,154
Unspent Budget Authority	\$ 4,501,841	\$ 2,106,450	\$ 254,050	\$ 6,862,341

UNSPENT BUDGET AUTHORITY BY FUND

General Fund	\$ 76,021	\$ 28,080	\$ 63,916	\$ 168,017
State Special Revenue Fund	1,042,398	1,678,254	167,662	2,888,314
Federal Special Revenue Fund	425,013	400,116	22,472	847,601
Enterprise Fund	2,958,409			2,958,409
Unspent Budget Authority	\$ 4,501,841	\$ 2,106,450	\$ 254,050	\$ 6,862,341

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.

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

	Agricultural Development Division	Agricultural Sciences Division	Central Services Division	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT				
Personal Services				
Salaries	\$ 1,306,576	\$ 2,639,775	\$ 758,995	\$ 4,705,346
Hourly Wages	94,684	102,989		197,673
Other Compensation	11,350	3,200		14,550
Employee Benefits	442,635	888,204	236,802	1,567,641
Personal Services-Other	(4,828)			(4,828)
Total	<u>1,850,417</u>	<u>3,634,168</u>	<u>995,797</u>	<u>6,480,382</u>
Operating Expenses				
Other Services	755,785	537,615	54,900	1,348,300
Supplies & Materials	88,297	386,174	27,101	501,572
Communications	81,658	116,768	18,607	217,033
Travel	225,036	188,370	9,105	422,511
Rent	65,076	157,562	48,620	271,258
Utilities	8,104	7,648		15,752
Repair & Maintenance	18,817	102,340	4,713	125,870
Other Expenses	2,750,952	115,855	24,851	2,891,658
Total	<u>3,993,725</u>	<u>1,612,332</u>	<u>187,897</u>	<u>5,793,954</u>
Equipment & Intangible Assets				
Equipment	15,000	438,376		453,376
Total	<u>15,000</u>	<u>438,376</u>		<u>453,376</u>
Grants				
From State Sources	2,852,599	2,200,405		5,053,004
From Federal Sources	304,331	922,206		1,226,537
From Other Sources	(108,864)			(108,864)
Total	<u>3,048,066</u>	<u>3,122,611</u>		<u>6,170,677</u>
Benefits & Claims				
From State Sources	3,696,956			3,696,956
From Other Sources		539,621		539,621
Total	<u>3,696,956</u>	<u>539,621</u>		<u>4,236,577</u>
Transfers-out				
Fund transfers	362,766	671,085		1,033,851
Intra-Entity Expense		423,386		423,386
Total	<u>362,766</u>	<u>1,094,471</u>		<u>1,457,237</u>
Other Post Employment Benefits				
Other Post Employment Benefits	13,336			13,336
Total	<u>13,336</u>			<u>13,336</u>
Total Expenditures & Transfers-Out	<u>\$ 12,980,266</u>	<u>\$ 10,441,579</u>	<u>\$ 1,183,694</u>	<u>\$ 24,605,539</u>

EXPENDITURES & TRANSFERS-OUT BY FUND

General Fund	\$ 1,948,061	\$ 520,364	\$ 126,626	\$ 2,595,051
State Special Revenue Fund	4,422,268	7,235,118	767,083	12,424,469
Federal Special Revenue Fund	418,982	2,169,788	146,635	2,735,405
Enterprise Fund	6,190,955	13,145	143,350	6,347,450
Permanent Fund		503,164		503,164
Total Expenditures & Transfers-Out	<u>12,980,266</u>	<u>10,441,579</u>	<u>1,183,694</u>	<u>24,605,539</u>
Less: Nonbudgeted Expenditures & Transfers-Out	1,918,321	965,723	2,253	2,886,297
Prior Year Expenditures & Transfers-Out Adjustments	(28,388)	(3,037)	(2,769)	(34,194)
Actual Budgeted Expenditures & Transfers-Out	<u>11,090,333</u>	<u>9,478,893</u>	<u>1,184,210</u>	<u>21,753,436</u>
Budget Authority	19,830,833	11,266,743	1,531,119	32,628,695
Unspent Budget Authority	<u>\$ 8,740,500</u>	<u>\$ 1,787,850</u>	<u>\$ 346,909</u>	<u>\$ 10,875,259</u>

UNSPENT BUDGET AUTHORITY BY FUND

General Fund	\$ 178,072	\$ 121,331	\$ 105,413	\$ 404,816
State Special Revenue Fund	1,914,935	1,230,671	231,496	3,377,102
Federal Special Revenue Fund	428,248	435,848	10,000	874,096
Enterprise Fund	6,219,245			6,219,245
Unspent Budget Authority	<u>\$ 8,740,500</u>	<u>\$ 1,787,850</u>	<u>\$ 346,909</u>	<u>\$ 10,875,259</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 Agriculture

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2011

1. Summary of Significant Accounting Policies

Basis of Accounting

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

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

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

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

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.

- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include activities related to registration and inspection of fertilizers and feed grain inspections; wheat, barley, and alfalfa seed market research and promotion; Growth Through Agriculture investments and noxious weed management projects.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include Agricultural Sciences, Agricultural Development, and Central Services.
- ♦ **Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's programs. The department uses this fund to account for the Noxious Weed Management Trust activity.

Proprietary Fund Category

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

Fiduciary Fund Category

- ♦ **Agency Fund** – to account for resources held by the state in a custodial capacity. The department agency fund accounts for commercial pesticide applicator certificates of deposit.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2011 and June 30, 2010.

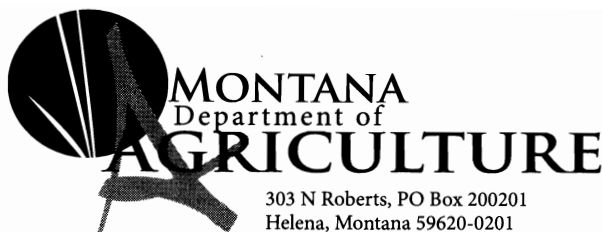
3. Direct Entries to Fund Balance

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

DEPARTMENT OF
AGRICULTURE

DEPARTMENT RESPONSE

Brian Schweitzer
Governor



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Ron de Yong
Director

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October 4, 2011

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

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LEGISLATIVE AUDIT DIV.

Dear Ms. Hunthausen:

Thank you for the opportunity to review and comment on the financial compliance audit of the Montana Department of Agriculture for the two fiscal years ended June 30, 2011.

The financial compliance audit includes one recommendation. Our response to the recommendation is provided below:

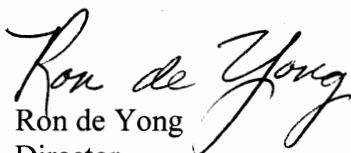
Recommendation #1

We recommend the department deposit receipts at the State Grain Lab in accordance with state law.

We concur. The department began depositing receipts at the State Grain Lab in accordance with the requirements of state law in September 2011.

The professionalism displayed by your audit staff while conducting the audit was greatly appreciated. I am available to answer questions or provide further information that you or the Legislative Audit Committee may require.

Sincerely,


Ron de Yong
Director