



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Livestock

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

DECEMBER 2011

LEGISLATIVE AUDIT
DIVISION

11-22

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Cindy Jorgenson
Angie Grove

December 2011

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Livestock (department) for the two fiscal years ended June 30, 2011. The report contains three recommendations to the department concerning accounting controls, Board of Horse Racing simulcast revenues and licensing fees, and untimely deposits. The department's response is located at the end of the report.

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

Respectfully submitted,

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

			Industry <u>Represented</u>	Term Expires <u>March 1</u>
Board of Livestock	Jan French, Chair	Hobson	Cattle	2015
	Linda Nielsen, Vice Chair	Nashua	Cattle	2017
	Stan Boone	Ingomar	Cattle	2013
	Brett DeBruycker	Dutton	Cattle	2015
	Ed Waldner	Chester	Swine	2017
	Jeffrey Lewis	Corvallis	Dairy	2017
	John H. Lehfeldt	Lavina	Sheep	2013

Department of Livestock

Christian Mackay, Executive Officer

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

Margie Kelly, Alternative Livestock Program

Centralized Services Division

George Harris, Administrator

Monte Nick, Bureau Chief, Milk Control Bureau

Ryan Sherman, Executive Secretary, Board of Horse Racing

George Edwards, Coordinator, Livestock Loss Board

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

John Grainger, Administrator, Brands Enforcement Division and
Coordinator, Livestock Crimestoppers Commission

Meat, Milk and Egg Inspection Division

Dan Turcotte, Bureau Chief, Milk and Egg Inspection Bureau

Carol Olmstead, Bureau Chief, Meat and Poultry Inspection Bureau

For additional information concerning the Department of Livestock
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Department of Livestock

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Department of Livestock

For the Two Fiscal Years Ended June 30, 2011

DECEMBER 2011

11-22

REPORT SUMMARY

The Department of Livestock (department) is established by state law and governed by the Board of Livestock. As of June 30, 2011, the department collected approximately \$2,768,000 in brand re-record fees for the 2011 brand re-record year.

Context

State law tasks the department with controlling and eradicating animal disease, preventing the transmission of such diseases to humans, protecting livestock from predatory animals, performing meat, milk, and egg inspections, and regulating producer pricing of the milk industry. The department carries out these tasks through the Animal Health Division, the Brands Enforcement Division, the Diagnostic Laboratory, and the Meat, Milk, and Egg Inspection Division. Department-wide functions, such as budgeting, accounting, and payroll, are performed by the Centralized Services Division.

The department's operations are funded through brand license fees, per capita livestock taxes, and various charges for services. Every ten years, the department requires that brand holders re-record their brands. Brand holders are charged a fee of \$100 per brand re-recorded in exchange for the exclusive use of the brand for ten years. Calendar year 2011 is a re-record year. From January to June 2011, the department collected approximately \$2,768,000 in brand re-record fees. The department anticipates collecting a total of \$4,800,000 in re-record fees for the 2011 re-record.

Results

This report contains three recommendations to the department. The recommendations address areas where the department can improve accounting controls related to recording brand transactions, coding revenue transactions, and eliminating balances of federal moneys; enhance compliance with laws and regulations related to the Board of Horse Racing; and improve the timeliness of deposits to comply with state law and state accounting policy.

Recommendation Concurrence	
Concur	3
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 Livestock (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 control systems to the extent necessary to support our audit of the department's financial schedules, and if appropriate, make recommendations for improvement in the internal and management controls of the department.
2. Determine whether the department complied with selected applicable laws and regulations.
3. Determine whether the department's financial schedules fairly present the results of operations and changes in fund balance and property held in trust for each of the two fiscal years ended June 30, 2011, and June 30, 2010.
4. Determine the implementation status of prior audit recommendations.

Auditing standards require us to communicate, in writing, deficiencies in internal control we identified as a result of audit objective #1 above and considered to be significant or material. A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or detect and correct misstatements on a timely basis. A material weakness is one or more deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A significant deficiency is one or more deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

This report contains three recommendations to the department. The recommendations address areas where the department can improve accounting controls, enhance compliance with accounting policy related to the Board of Horse Racing, and improve

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

Background

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

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

Centralized Services Division (20.78 FTE) - provides budgeting, accounting, payroll, legal, purchasing, and data processing services to the department. This division also includes the Milk Control Bureau, Milk Control Board, Predator Control Program, Board of Horse Racing, and Livestock Loss Board. The Milk Control Board is responsible for the regulation of milk producer pricing. The Predator Control Program contracts with the U.S. Department of Agriculture to control predators that injure or kill domestic livestock. The Board of Horse Racing, which monitors and regulates the horse racing industry in Montana, is administratively attached to the department. The Livestock Loss Board, also administratively attached to the department, provides financial reimbursement to producers for losses caused by wolves and works to decrease the risk of wolf-caused losses.

Brands Enforcement Division (59.21 FTE) - includes the Inspection and Control Program, which is responsible for brand inspections, recording livestock brands, market dealer licensing, and livestock theft investigations. This program has employees in 13 market centers and 18 districts throughout the state. There are 557 deputy state livestock inspectors. These inspectors retain their inspection fees, and their permits and inspection reports are processed by the division. The Livestock Crimestoppers Commission is administratively attached to the department. This commission provides a reward program for information used in the detection of livestock-related crimes.

Animal Health Division (16.0 FTE) - includes the Disease Control Program, which is responsible for the control and eradication of animal diseases and the prevention of transmission of animal diseases to humans.

Diagnostic Laboratory (22.0 FTE) - provides laboratory support for the Disease Control Program, Milk and Egg Program, veterinarians, and livestock producers. The Diagnostic Laboratory operates on the Bozeman campus of Montana State University.

Meat, Milk, and Egg Inspection Division (25.50 FTE) - includes the Milk and Egg Program and the Meat and Poultry Inspection Program. The Milk and Egg Program ensures that eggs and milk products sold or manufactured in the state are fit for human consumption. The Meat and Poultry Inspection Program provides for a state-certified supply of wholesome meat products for retail consumption.

Prior Audit Recommendations

The prior financial-compliance audit of the Department of Livestock for the two fiscal years ended June 30, 2009, contained two recommendations. The department has partially implemented one recommendation and has not implemented the other. The partially implemented recommendation concerns compliance with state law related to timely deposits of state moneys and the forfeiture of excess annual leave. The department implemented the portion of this recommendation related to excess leave, but has not implemented the recommendation for timely deposits of market receipts. The recommendation not implemented concerns establishing, documenting, and testing internal controls in accordance with state accounting policy. These issues are discussed in greater detail on pages 9 and 5, respectively.

Chapter II–Findings and Recommendations

Accounting Controls

The department has not complied with state accounting policy requirements related to establishing and maintaining internal controls, resulting in uncorrected accounting errors and noncompliance with state law during the audit period.

State accounting policy requires that management establish and maintain internal controls to ensure proper recording of transactions in accordance with generally accepted accounting principles (GAAP). The following sections outline areas in which accounting errors could have been prevented or detected and corrected, had an effective internal control structure been in place during the audit period. They also present areas of noncompliance with §17-1-102(2), MCA, which requires that the receipt, use, and disposition of all public money be accounted for in accordance with GAAP.

Brand Revenue

The department collects fees for the re-recording and transferring of existing brands and for the recording of new brands. Once recorded, a brand is valid until the next re-record year, which occurs every ten years. Calendar year 2011 is a re-record year. State accounting policy requires that the revenue received from multi-year licenses, such as brands, be deferred and recognized over the license term. In our review of revenues, we identified instances in which brand revenues were incorrectly accounted for in the State Special Revenue Fund.

- ♦ The department deferred the current year's portion of the 2001 brand re-record revenue instead of recognizing the revenue, resulting in a \$455,116 revenue understatement in the brand re-record account for fiscal year 2010-11.
- ♦ The department incorrectly recorded a portion of the 2011 brand re-record collections in the livestock dealer's account. The department posted entries in an attempt to correct the errors. However, the department posted one entry incorrectly, resulting in an \$88,200 revenue understatement in the re-record account and a \$176,400 revenue overstatement in the license dealer's account for fiscal year 2010-11.
- ♦ The department did not defer new brand and transfer revenue collected during fiscal year 2009-10, and did not record revenue deferred in prior years, resulting in a net understatement in the new brand and transfers account of \$34,216. The department posted the necessary correcting entries in fiscal year 2010-11.

- ♦ The department did not correct errors made during fiscal year 2008-09 related to the recording of new brands and transfers revenue, resulting in a prior-year revenue understatement of \$79,037 in fiscal year 2009-10. The department posted the necessary correcting entries in fiscal year 2010-11.

Revenue Coding

State accounting policy provides revenue accounts categorizing additions to fund financial resources; state agencies must ensure revenue is recorded in the appropriate revenue account. In our review of revenue activity during the audit period, we identified instances in which the department used incorrect revenue accounts.

- ♦ The department recorded \$15,493 of market inspection fees in the market license account, resulting in overstated market license revenues and understated market inspection revenues during fiscal year 2010-11.
- ♦ The department recorded grazing permit revenue in the local inspections account, resulting in overstated local inspection revenue and understated permit revenue of \$8,390 and \$7,940 in fiscal year 2009-10 and 2010-11, respectively.
- ♦ The department recorded revenues for sheep and market transportation permits in the local inspections account, resulting in overstated local inspection revenue and understated permit revenue of \$1,812 and \$2,795 in fiscal years 2009-10 and 2010-11, respectively.

Additionally, we noted one instance in which the department entered an incorrect dollar amount for a transaction, resulting in a \$139,860 understatement of federal revenues for fiscal year 2009-10.

Federal Special Revenue Fund Fiscal Year-End Accruals

The department administers several federal grants on a cost reimbursement basis. The activity related to these grants is accounted for in the Federal Special Revenue Fund. Accounting policy requires agencies to accrue reimbursements due from the federal government that have not been received by June 30. This accrual process results in the agency recording revenue for the amount due from the federal government. For fiscal year 2009-2010 and 2010-11, the department did not accrue federal revenues in accordance with state accounting policy, understating federal revenues and fund balances by \$37,413 and \$350,613, respectively.

Summary

The following table summarizes the net impact that the accounting errors identified during the audit period have on the department's financial schedules.

Table 2
Net Accounting Errors, by Fund and Account, Impacting the Department's Financial Schedules

Fund	Financial Schedule Impacted	Financial Schedule Line Item	Amount Over (Under) Stated
Fiscal Year 2010-11			
State Special Revenue	Schedule of Total Revenues & Transfers-In (pg. A-5)	Licenses and Permits Revenue Charges for Services Revenue Total Revenues & Transfers-In	(\$316,851)* (\$4,758) (\$321,609)*
	Schedule of Changes in Fund Balance and Property Held in Trust (pg. A-3)	Budgeted Revenues & Transfers-In Total Additions Fund Balance: June 30, 2011	(\$321,609)* (\$321,609)* (\$321,609)*
Federal Special Revenue	Schedule of Total Revenues & Transfers-In (pg. A-5)	Federal Revenue Total Revenues & Transfers-In	(\$359,503) (\$359,503)
	Schedule of Changes in Fund Balance & Property Held in Trust (pg. A-3)	Budgeted Revenues & Transfers-In Total Additions Fund Balance: June 30, 2011	(\$359,503) (\$359,503) (\$359,503)
Fiscal Year 2009-10			
State Special Revenue	Schedule of Total Revenues & Transfers-In (pg. A-6)	Licenses and Permits Revenue Charges for Services Revenue Total Revenues & Transfers-In Adjustments Prior Year Revenue Adjustments	(\$123,455) \$10,202 (\$113,253) (\$79,037)
	Schedule of Changes in Fund Balance & Property Held in Trust (pg. A-4)	Budgeted Revenues & Transfers-In Prior Year Revenues & Transfers-In Adjustments Total Additions Fund Balance: June 30, 2010	(\$34,216) (\$79,037) (\$113,253) (\$113,253)
Federal Special Revenue	Schedule of Total Revenues & Transfers-In (pg. A-6)	Federal Revenue Total Revenues & Transfers-In	(\$37,413) (\$37,413)
	Schedule of Changes in Fund Balance & Property Held in Trust (pg. A-4)	Budgeted Revenues & Transfers-In Total Additions Fund Balance: June 30, 2010	(\$37,413) (\$37,413) (\$37,413)

*This amount includes the simulcast error discussed on page 8.

Source: Compiled by the Legislative Audit Division.

Department personnel attributed the errors outlined above primarily to turnover in key accounting positions and lack of secondary review of transactions. Additionally, the department contracted with a third-party to provide on-line application services so that individuals have the option to re-record brands or purchase sheep and market transportation permits via the internet. The revenue accounts included in the contracts, and therefore the accounts used in recording the associated revenues on the state's accounting system, were incorrect. The contract issues contributed to the brand re-record revenue errors noted in the Brand Revenue section and the market and sheep transportation errors noted in the Revenue Coding section.

The extent of errors identified during the audit period illustrates the importance of complying with state accounting policy by implementing, testing, and monitoring internal controls for key accounting processes.

RECOMMENDATION #1

We recommend the department establish and implement effective internal controls to ensure that transactions are recorded in accordance with state law and accounting policy.

Board of Horse Racing

The department is not in compliance with state accounting policy related to recording simulcast transactions.

The Board of Horse Racing (board) is responsible for regulating the horse racing industry in Montana. The following paragraphs detail areas in which the department and board can improve compliance with state accounting policy related to recording simulcast revenues.

Simulcast Revenue Recognition

The board contracts with various vendors to provide for the transmission of horse races from tracks outside of the state into simulcast facilities within the state so that individuals can more easily wager on horse races. There are currently seven licensed simulcast vendors in the state. The simulcast wagering collections are split between the vendor and the state based on an approved contract. Vendors remit the state's portions of the revenues to the department.

The department identifies, by week, which vendors have remitted payment. At the end of fiscal year 2010-11, the department estimated that \$51,887 of simulcast revenues had been collected by vendors, but not remitted to the state. At fiscal year-end, the department recorded accounts receivable and simulcast revenues for the \$51,887 estimated amount.

Department records show that \$45,307 of the total receivable was for payments that were two to five months delinquent. Based on the review of state accounting policy and discussion with department personnel, the amounts due on these delinquent accounts did not meet the availability criteria for recognizing revenue established in

state accounting policy. State accounting policy provides that moneys are considered available for use if they are collected or expected to be collected within 60 days of June 30. When asked, department personnel indicated they did not believe these past due amounts would be available for use within 60 days of fiscal year-end. The department should have deferred the \$45,307 due on the delinquent accounts. As a result, simulcast revenues recorded in the State Special Revenue Fund are overstated by \$45,307 and deferred revenues are understated by the same amount for fiscal year 2010-11.

Department management said its staff is working with the board to develop procedures related to improving the timeliness of simulcast revenue collection.

RECOMMENDATION #2

We recommend the department record simulcast revenues in accordance with state accounting policy.

Deposits

The department did not comply with state law and state accounting policy requiring timely deposits for brand re-record, market inspection, and simulcast wagering collections.

In our review of accounting records and department policies and procedures, we noted instances in which the department's depositing procedures were not sufficient to comply with state law or state accounting policy, as detailed in the following two sections. By not complying with deposit requirements, the department has increased risk of theft, loss, or misappropriation of department assets.

Brands Re-Record Deposits

Section 17-6-105(6), MCA, establishes requirements for the deposit of state moneys. The law requires agencies to deposit daily when cash collections exceed \$200 or total collections exceed \$750.

The Brands Division receives and processes moneys for re-recording brands. According to department personnel, timing differences between daily depositing deadlines and the close of business in the Brands Division drives the Brands Division to hold cash overnight. Cash is remitted to Centralized Services Division personnel for deposit

the following business day. Cash on hand at the Brands Division varies daily, but consistently exceeds the threshold in state law. Department records showed daily cash on hand ranging from \$2,000 to \$20,000.

Third-Party Collections

State accounting policy provides guidance to agencies for the deposit of state moneys collected by third parties. In general, policy requires that all state moneys collected by third parties be deposited in an approved Treasury Account on a daily basis. Various third parties, including livestock markets and simulcast vendors, collect moneys on behalf of the department. Depositing procedures related to these collections, as detailed below, are not consistent with state accounting policy requirements.

Market Inspection Deposits – Livestock markets throughout the state collect inspection fees on behalf of the department. These inspection fees become state moneys at the time of collection. The various markets across the state write checks to the department after each weekly sale, but hold the checks until the end of the month. The checks are remitted to the department at the end of the month, and department personnel make monthly deposits for amounts ranging from \$1,900 to in excess of \$8,000.

Simulcast Collection Deposits – Licensed simulcast vendors collect simulcast betting revenues on behalf of the department. In our review of simulcast deposit dates in the state's accounting system, we noted that vendors typically remit payments monthly. The average total monthly simulcast payments remitted to the state ranged from approximately \$16,000 to in excess of \$173,000. Once remitted, collections are deposited by department personnel. Department personnel explained that the simulcast program came into existence quickly in the fall of 2010, and the department did not have adequate time to implement procedures to ensure compliance with depositing requirements.

RECOMMENDATION #3

We recommend the department ensure:

- A. *Brand depositing procedures comply with requirements in state law.*
 - B. *Third party collections are deposited in accordance with state accounting policy.*
-

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 Livestock 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 and liabilities.

As described in note 4, the department did not properly recognize brand re-record revenues in the State Special Revenue Fund during fiscal year 2010-11, resulting in a \$366,916 understatement of the Reported Licenses and Permits Revenue and Total Revenues & Transfers-In for the State Special Revenue Fund. Additionally, as described in note 5, the department did not correctly record federal revenues in the Federal Special Revenue Fund during the fiscal year 2010-11. This resulted in a \$359,503 understatement of the reported Federal Revenue and Total Revenues & Transfers-In for the Federal Special Revenue Fund.

In our opinion, except for the matter disclosed 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 Livestock 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,

Cindy Jorgenson, CPA
Deputy Legislative Auditor

September 26, 2011

DEPARTMENT OF LIVESTOCK
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	Agency Fund
FUND BALANCE: July 1, 2010	\$ (19,777)	\$ 2,291,809	\$ (37,529)	\$ 0
PROPERTY HELD IN TRUST: July 1, 2010				\$ 25,428
ADDITIONS				
Budgeted Revenues & Transfers-In	8,734	7,477,900	1,366,018	
Nonbudgeted Revenues & Transfers-In	2,043	713,195		
Prior Year Revenues & Transfers-In Adjustments		80,451	9	
Direct Entries to Fund Balance	1,248,344	295,432	(21,785)	
Additions to Property Held in Trust				2,150,335
Total Additions	1,259,121	8,566,978	1,344,242	2,150,335
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	1,285,993	9,163,792	1,641,408	
Nonbudgeted Expenditures & Transfers-Out	(167)	659,653	(227)	
Prior Year Expenditures & Transfers-Out Adjustments	(180)	40,798	47	
Reductions in Property Held in Trust				2,128,241
Total Reductions	1,285,646	9,864,243	1,641,228	2,128,241
FUND BALANCE: June 30, 2011	\$ (46,302)	\$ 994,544	\$ (334,515)	\$ 0
PROPERTY HELD IN TRUST: June 30, 2011				\$ 47,522

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 LIVESTOCK
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	Agency Fund
	\$ (418,524)	\$ 2,827,445	\$ 399,818	\$ 0
FUND BALANCE: July 1, 2009				
PROPERTY HELD IN TRUST: July 1, 2009				\$ 13,174
ADDITIONS				
Budgeted Revenues & Transfers-In	4,419	7,299,878	1,625,719	
Nonbudgeted Revenues & Transfers-In	1,657	22,058	2,328	
Prior Year Revenues & Transfers-In Adjustments		(7,465)	(541,053)	
Direct Entries to Fund Balance	3,026,720	1,389	78,621	
Additions to Property Held in Trust				2,678,891
Total Additions	3,032,796	7,315,860	1,165,615	2,678,891
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	2,644,326	7,883,947	1,630,422	
Nonbudgeted Expenditures & Transfers-Out	(1,874)	(17,621)	(2,354)	
Prior Year Expenditures & Transfers-Out Adjustments	(8,403)	(14,830)	(25,106)	
Reductions in Property Held in Trust				2,666,637
Total Reductions	2,634,049	7,851,496	1,602,962	2,666,637
FUND BALANCE: June 30, 2010	\$ (19,777)	\$ 2,291,809	\$ (37,529)	\$ 0
PROPERTY HELD IN TRUST: June 30, 2010				\$ 25,428

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

TOTAL REVENUES & TRANSFERS-IN BY CLASS

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
Licenses and Permits	\$ 3,859	\$ 461,073		\$ 464,932
Taxes	2,043	4,213,131	705	4,215,879
Charges for Services		2,711,004		2,711,004
Investment Earnings		6,180		6,180
Fines and Forfeits	1,375	3,328		4,703
Sale of Documents, Merchandise and Property		6,156		6,156
Grants, Contracts, and Donations		34,775		38,275
Transfers-in	3,500		40,731	702,094
Capital Asset Sale Proceeds		661,363		21,006
Inception of Lease/Installment Contract		21,006		52,850
Federal Indirect Cost Recoveries		52,850		105,427
Miscellaneous		105,427		(4,747)
Federal		(4,747)		1,324,591
Total Revenues & Transfers-In	10,777	8,271,546	1,366,027	9,648,350
Less: Nonbudgeted Revenues & Transfers-In	2,043	713,195		715,238
Prior Year Revenues & Transfers-In Adjustments		80,451	9	80,460
Actual Budgeted Revenues & Transfers-In	8,734	7,477,900	1,366,018	8,852,652
Estimated Revenues & Transfers-In	7,125	12,680,931	2,597,240	15,285,296
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 1,609	\$ (5,203,031)	\$ (1,231,222)	\$ (6,432,644)

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

Licenses and Permits	\$	(491)	\$	(831,805)	\$	(832,296)
Taxes				(1,325,364)		(1,325,364)
Charges for Services				(2,418,576)		(2,418,576)
Investment Earnings				(129,817)		(129,817)
Fines and Forfeits	(1,150)			828		(322)
Sale of Documents, Merchandise and Property				(16,944)		(16,944)
Grants, Contracts, and Donations	3,250			(177,409)	\$	3,250
Transfers-in				(10,000)	(39,509)	(216,918)
Capital Asset Sale Proceeds				(278,944)	(10,000)	(10,000)
Federal Indirect Cost Recoveries				(15,000)	(278,944)	(278,944)
Federal				(5,203,031)	(1,191,713)	(1,206,713)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 1,609	\$ (5,203,031)	\$ (1,231,222)	\$ (6,432,644)		

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

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Licenses and Permits	\$ 3,819	\$ 668,887	\$	\$ 672,706
Taxes	1,657	4,194,520	93	4,196,270
Charges for Services		2,253,518		2,253,518
Investment Earnings		7,273		7,273
Fines and Forfeits	600	2,823		3,423
Sale of Documents, Merchandise and Property		19,086		19,086
Grants, Contracts, and Donations		48		48
Capital Asset Sale Proceeds		21,341	2,328	23,669
Federal Indirect Cost Recoveries		146,975		146,975
Federal			1,084,573	1,084,573
Total Revenues & Transfers-In	6,076	7,314,471	1,086,994	8,407,541
Less: Nonbudgeted Revenues & Transfers-In	1,657	22,058	2,328	26,043
Prior Year Revenues & Transfers-In Adjustments		(7,465)	(541,053)	(548,518)
Actual Budgeted Revenues & Transfers-In	4,419	7,299,878	1,625,719	8,930,016
Estimated Revenues & Transfers-In	6,875	11,980,846	2,349,000	14,336,721
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (2,456)</u>	<u>\$ (4,680,968)</u>	<u>\$ (723,281)</u>	<u>\$ (5,406,705)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Licenses and Permits	\$ (531)	\$ (471,962)	\$	\$ (472,493)
Taxes		(1,059,077)		(1,059,077)
Charges for Services		(631,695)		(631,695)
Investment Earnings		(527,896)		(527,896)
Fines and Forfeits	(1,925)	323		(1,602)
Sale of Documents, Merchandise and Property		(2,012,514)		(2,012,514)
Capital Asset Sale Proceeds		(10,000)		(10,000)
Federal Indirect Cost Recoveries		46,853		46,853
Federal		(15,000)	(723,281)	(738,281)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (2,456)</u>	<u>\$ (4,680,968)</u>	<u>\$ (723,281)</u>	<u>\$ (5,406,705)</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 LIVESTOCK
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Animal Health Division	Brands Enforcement Division	Centralized Services Division	Diagnostic Laboratory Division	Meat/Poultry Inspection	Milk & Egg Program	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT							
Personal Services							
Salaries	\$ 696,295	\$ 1,984,828	\$ 857,279	\$ 834,379	\$ 635,403	\$ 198,274	\$ 5,206,458
Other Compensation			7,250				7,250
Employee Benefits	245,581	824,554	303,225	325,001	280,906	66,316	2,045,583
Total	941,876	2,809,382	1,167,754	1,159,380	916,309	264,590	7,259,291
Operating Expenses							
Other Services	756,452	291,193	672,476	88,322	12,296	2,735	1,823,474
Supplies & Materials	83,441	156,753	53,918	462,491	19,134	17,841	793,578
Communications	46,090	99,906	89,343	11,939	9,409	4,346	261,033
Travel	24,542	23,746	66,469	5,249	45,329	8,876	174,211
Rent	94,028	323	148,784	2,566	140,735		386,436
Utilities		11,700		43,504			55,204
Repair & Maintenance	9,871	36,157	136,512	57,721	8,739	2,567	251,567
Other Expenses	108,375	75,729	283,208	121,625	43,053	11,551	643,541
Goods Purchased For Resale			4,000				4,000
Total	1,122,799	695,507	1,454,710	793,417	278,695	47,916	4,393,044
Equipment & Intangible Assets							
Equipment	21,898	125,915		57,784		22,705	228,302
Capital leases - equipment				52,850			52,850
Total	21,898	125,915		110,634		22,705	281,152
Benefits & Claims							
From State Sources			107,327				107,327
Total			107,327				107,327
Transfers-out							
Fund transfers			731,353				731,353
Total			731,353				731,353
Debt Service							
Capital Leases				18,950			18,950
Total				18,950			18,950
Total Expenditures & Transfers-Out	\$ 2,086,573	\$ 3,630,804	\$ 3,461,144	\$ 2,082,381	\$ 1,195,004	\$ 335,211	\$ 12,791,117
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 92,000		\$ 180,651	\$ 411,749	\$ 601,246		\$ 1,285,646
State Special Revenue Fund	1,086,807	\$ 3,630,804	3,280,493	1,559,613	6,407	\$ 300,119	9,864,243
Federal Special Revenue Fund	907,766			111,019	587,351	35,092	1,641,228
Total Expenditures & Transfers-Out	2,086,573	3,630,804	3,461,144	2,082,381	1,195,004	335,211	12,791,117
Less: Nonbudgeted Expenditures & Transfers-Out	(238)	(851)	661,054	(327)	(305)	(74)	659,259
Prior Year Expenditures & Transfers-Out Adjustments	1,451	(118)	(11,761)	51,310	(74)	(143)	40,665
Actual Budgeted Expenditures & Transfers-Out	2,085,360	3,631,773	2,811,851	2,031,398	1,195,383	335,428	12,091,193
Budget Authority	2,966,155	3,663,114	3,733,823	2,110,865	1,269,704	372,987	14,116,648
Unspent Budget Authority	\$ 880,795	\$ 31,341	\$ 921,972	\$ 79,467	\$ 74,321	\$ 37,559	\$ 2,025,455
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 314,834	\$ 3,042	\$ 33,330	\$ 31,389	\$ 31,518		\$ 414,113
State Special Revenue Fund	96,680	28,298	588,642	14,635	209	\$ 34,415	762,879
Federal Special Revenue Fund	469,281	1	300,000	33,443	42,594	3,144	848,463
Unspent Budget Authority	\$ 880,795	\$ 31,341	\$ 921,972	\$ 79,467	\$ 74,321	\$ 37,559	\$ 2,025,455

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

	Animal Health Division	Brands Enforcement Division	Centralized Services Division	Diagnostic Laboratory Division	Meat/Poultry Inspection	Milk & Egg Program	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT							
Personal Services							
Salaries	\$ 698,579	\$ 1,952,657	\$ 819,137	\$ 846,142	\$ 657,265	\$ 197,914	\$ 5,171,694
Other Compensation			6,550				6,550
Employee Benefits	240,982	756,540	279,170	302,029	261,937	62,051	1,902,709
Total	<u>939,561</u>	<u>2,709,197</u>	<u>1,104,857</u>	<u>1,148,171</u>	<u>919,202</u>	<u>259,965</u>	<u>7,080,953</u>
Operating Expenses							
Other Services	1,624,299	103,457	550,336	82,892	20,623	2,904	2,384,511
Supplies & Materials	98,282	174,447	72,912	409,311	20,985	17,331	793,268
Communications	69,882	56,557	83,060	14,244	12,439	3,591	239,773
Travel	24,527	30,166	61,461	5,996	39,841	8,073	170,064
Rent	92,508	631	150,404	16,369	141,093	(6)	400,999
Utilities	34	11,700		50,148			61,882
Repair & Maintenance	3,613	35,829	9,787	91,363	10,552	6,066	157,210
Other Expenses	123,452	35,902	197,322	87,409	37,412	7,850	489,347
Total	<u>2,036,597</u>	<u>448,689</u>	<u>1,125,282</u>	<u>757,732</u>	<u>282,945</u>	<u>45,809</u>	<u>4,697,054</u>
Equipment & Intangible Assets							
Equipment	19,948	96,574	9,352	10,689		22,058	158,621
Total	<u>19,948</u>	<u>96,574</u>	<u>9,352</u>	<u>10,689</u>		<u>22,058</u>	<u>158,621</u>
Benefits & Claims							
From State Sources			151,879				151,879
Total			<u>151,879</u>				<u>151,879</u>
Total Expenditures & Transfers-Out	\$ <u>2,996,106</u>	\$ <u>3,254,460</u>	\$ <u>2,391,370</u>	\$ <u>1,916,592</u>	\$ <u>1,202,147</u>	\$ <u>327,832</u>	\$ <u>12,088,507</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 1,359,732	\$ 2,999	\$ 77,889	\$ 585,259	\$ 608,170		\$ 2,634,049
State Special Revenue Fund	792,961	3,251,461	2,173,481	1,328,631	5,717	\$ 299,245	7,851,496
Federal Special Revenue Fund	843,413		140,000	2,702	588,260	28,587	1,602,962
Total Expenditures & Transfers-Out	2,996,106	3,254,460	2,391,370	1,916,592	1,202,147	327,832	12,088,507
Less: Nonbudgeted Expenditures & Transfers-Out	(2,471)	(8,834)	(3,210)	(3,397)	(3,166)	(771)	(21,849)
Prior Year Expenditures & Transfers-Out Adjustments	(25,646)	(626)	(21,269)	(117)		(681)	(48,339)
Actual Budgeted Expenditures & Transfers-Out	3,024,223	3,263,920	2,415,849	1,920,106	1,205,313	329,284	12,158,695
Budget Authority	4,276,393	3,446,792	3,117,775	2,008,504	1,271,090	352,216	14,472,770
Unspent Budget Authority	\$ <u>1,252,170</u>	\$ <u>182,872</u>	\$ <u>701,926</u>	\$ <u>88,398</u>	\$ <u>65,777</u>	\$ <u>22,932</u>	\$ <u>2,314,075</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 841,428	\$ 41	\$ 145,952	\$ 10,531	\$ 34,627		\$ 1,032,579
State Special Revenue Fund	86,978	182,831	395,974	12,318	696	\$ 15,199	693,996
Federal Special Revenue Fund	323,764		160,000	65,549	30,454	7,733	587,500
Unspent Budget Authority	\$ <u>1,252,170</u>	\$ <u>182,872</u>	\$ <u>701,926</u>	\$ <u>88,398</u>	\$ <u>65,777</u>	\$ <u>22,932</u>	\$ <u>2,314,075</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 Livestock

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 and Federal Special Revenue) and certain liabilities of defined benefit pension plans and certain post employment healthcare plans. In applying the modified accrual basis, the department records:

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

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

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

Basis of Presentation

The financial schedule format 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.
- ♦ **Special Revenue Fund** – to account for proceeds of specific revenue that

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

- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include Meat and Poultry Inspection, Bison Trap, National Animal Identification System (NAIS), Swine Feeding, Foreign Animal Disease, Scrapies, and Homeland Security.

Fiduciary Fund Category

- ♦ **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end. The department agency funds include Beef Check-Off and the Producers Milk Pool.

2. General Fund Balance

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

3. Direct Entries to Fund Balance

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

4. Brand Re-Record Revenues

Revenues are recognized when they are realizable, measurable, earned, and available. In fiscal year 2010-2011, \$366,916 of brand re-record revenues meeting these criteria were not recognized, lowering revenues and fund balance in the State Special Revenue Fund.

5. Federal Special Revenue Fund Balances

At June 30, 2011, the Federal Special Revenue Fund reported a net negative fund balance of \$334,515, due in part to \$359,503 of federal revenues that were not recorded.

DEPARTMENT OF
LIVESTOCK

DEPARTMENT RESPONSE

STATE OF MONTANA

BRIAN SCHWEITZER, GOVERNOR

B-1

DEPARTMENT OF LIVESTOCK

PO BOX 202001
HELENA, MONTANA 59620-2001
FAX (406) 444-1929



DEPARTMENT OF LIVESTOCK (406) 444-7323
ANIMAL HEALTH DIVISION (406) 444-2043
BRANDS ENFORCEMENT DIVISION (406) 444-2045
CENTRALIZED SERVICES DIVISION (406) 444-4994

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DEC 02 2011

LEGISLATIVE AUDIT DIV.

December 2, 2011

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

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DEC 02 2011

LEGISLATIVE AUDIT DIV.

Dear Ms. Hunthausen:

On behalf of the Board of Livestock, I submit the following responses to your audit recommendations for the two fiscal years ended June 30, 2011.

Recommendation #1

We recommend the department establish and implement effective internal controls to ensure that transactions are recorded in accordance with state law and accounting policy.

Department Response:

The department concurs with this recommendation. With a relatively new accounting staff in place, errors have been corrected and controls put into place to avoid future errors. The department will consolidate existing internal control policies and revise or add controls to address these issues by June 30, 2012.

Recommendation #2

We recommend the department record simulcast revenues in accordance with state accounting policy.

Department Response:

The department concurs with this recommendation. Accounts receivable for simulcast are monitored several times a week by our accounting staff. The Executive Secretary to the Board of Horse Racing contacts these vendors several times per week. Delinquent accounts are being reviewed by the BOHR and services discontinued for failure to comply.

The BOHR is renewing contracts with each vendor and is including language requiring compliance with timely deposits and including consequences for failure to comply. These contracts are to be completed by January 6, 2012. At fiscal-year-end delinquent amounts due will be deferred.

Recommendation # 3

We recommend the department ensure:

- A. Brand depositing procedures comply with requirements in state law.
- B. Third party collections are deposited in accordance with state accounting policy.

Department Response:

- A. The department concurs with this recommendation. The department has requested a formal exception from the State Accounting Division for depositing of rerecord funds. Approval of the exception is anticipated and MDOL will be in compliance with 17-6-105 (6).
- B. The department concurs with this recommendation. Livestock markets will be contacted by January 6, 2012 and informed that they must comply with weekly remittance of funds.

As stated in recommendation #2 above, the BOHR will enter into new contractual agreements requiring simulcast vendors to meet timely deposits. Failure to comply will have specific consequences up to and including discontinuing services.

Sincerely

A handwritten signature in black ink, appearing to read 'Christian Mackay', with a stylized flourish at the end.

Christian Mackay, Executive Officer
To the Board of Livestock