



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Agriculture

*For the Two Fiscal Years Ended
June 30, 2013*

MARCH 2014

LEGISLATIVE AUDIT
DIVISION

13-21

**LEGISLATIVE AUDIT
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REPRESENTATIVES

RANDY BRODEHL, CHAIR

brodehl@centurytel.net

VIRGINIA COURT

Vjchd52@yahoo.com

MIKE CUFFE

mike@mcuffe.com

MARY McNALLY

mcnallyhd49@gmail.com

RYAN OSMUNDSON

Ryanosmundson@gmail.com

J.P. POMNICHOWSKI

pomnicho@montanadsl.net

SENATORS

DEE BROWN

repdee@yahoo.com

TAYLOR BROWN

taylor@northernbroadcasting.com

GREG JERGESON, VICE CHAIR

jergeson4senator@yahoo.com

SUE MALEK

senatormalek@gmail.com

FREDRICK (ERIC) MOORE

mail@SenatorEricMoore.com

MITCH TROPILA

tropila@mt.net

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether 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) licenses.

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, 2011, was issued March 29, 2012. The Single Audit Report for the two fiscal years ended June 30, 2013, will be issued by March 31, 2014. 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
Helena, MT 59620-0802

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

AUDIT STAFF

DAVID BRAMMER
JENNIFER ERDAHL
PAUL J. O'LOUGHLIN

JEFF CLARKE
SHERRIE LINDBO

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

March 2014

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Agriculture for the two fiscal years ended June 30, 2013. During the course of the audit, we analyzed the financial schedules, reviewed financial records, and tested compliance with selected state laws and regulations. This report contains no recommendations.

This report includes the department's financial schedules. The financial schedule presentation is intended to provide the legislative body with information necessary for decision-making purposes; it is not intended to conform to the financial reporting requirements established in generally accepted accounting principles (GAAP). The financial schedule presentation has not changed, but audit reporting standards have changed. Auditing standards require us to clearly communicate that the financial schedule presentation is not intended to, and does not, conform to GAAP reporting requirements. The Independent Auditor's Report on page A-1 contains language to this effect in the section titled "Adverse Opinions on U.S. Generally Accepted Accounting Principles." This section does not imply the amounts presented on the department's financial schedules are not fairly stated. Page A-1 also communicates the extent to which the user can rely on the information contained in the financial schedules in the sections titled "Qualified Opinions on Regulatory Basis of Accounting" and "Unmodified Opinions on Regulatory Basis of Accounting."

The department's written response to the audit is included in the audit report at page B-1. We thank the director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

Department of Agriculture Ron de Yong, Director
Libbi Lovshin, Administrator, Central Services Division
Gregory H. Ames, Administrator, Agricultural Sciences 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:

Ron de Yong, Director
302 North Roberts
P.O. Box 200201
Helena, MT 59620-0201
(406) 444-3144
e-mail: RdeYong@mt.gov



MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Department of Agriculture

For the Two Fiscal Years Ended June 30, 2013

MARCH 2014

13-21

REPORT SUMMARY

The Department of Agriculture paid out approximately \$14 million of hail insurance claims for the 2013 hail year, which includes months June through August. Claims related to the current hail year will be reflected in the 2014 financial schedules. This is an increase of 260 percent over the previous hail year and has resulted in a depletion of the hail insurance reserves.

Context

The Department of Agriculture, (department) has 123.5 employees and is organized under three divisions, Agricultural Sciences Division, Agricultural Development Division and Central Services Division. For fiscal years 2012 and 2013, approximately 55 percent of the department's financial activity is recorded in the State Special Revenue Fund, which is comprised of numerous accounts for various agricultural programs. Wheat and Barley, Noxious Weeds, and Pesticide programs account for a significant amount of this activity. General Fund expenditures account for less than 10 percent of total expenditures.

The Hail Insurance Program recorded in the Enterprise Fund historically accounts for approximately 30 percent of the financial activity for the department. The benefits paid out during this audit period, which includes the 2011 and 2012 hail years, were \$4.8 and \$3.9 million, respectively. The benefits paid out for the 2013 hail year discussed previously are recorded in fiscal year 2014, so are not reflected on the financial schedules included in this report.

Results

During the course of our audit, we reviewed the internal control procedures and tested selected transactions related to the revenues generated from licensing and permitting of various commodities, wheat and barley taxes, noxious weed transfers, and hail insurance premiums. We also reviewed grant expenditures, hail insurance benefits and claims, and refunds. There are no recommendations resulting from our audit.

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

For a complete copy of the report (13-21) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>

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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, 2013. The objectives of the audit were to:

- ♦ 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.
- ♦ Determine whether the department complied with selected laws and regulations.
- ♦ Determine the implementation status of the prior audit recommendation.
- ♦ Determine whether the financial schedules are fairly presented for each of the two fiscal years ending June 30, 2013, in conformity with state accounting policy.

The report contains no recommendations to the department. There is a financial misstatement related to recording pesticide applicator surety bonds and certificates of deposit in an agency fund, rather than a private purpose trust fund as required by state accounting policy. This misstatement resulted in a qualified opinion as noted in the "Basis for Qualified Opinions on Regulatory Basis of Accounting" paragraph in the Independent Auditor's Report on page A-2 and is disclosed in Note 1 under the Fiduciary Fund Category. Since the department identified and corrected the error in fiscal year 2013, we make no recommendation regarding this misstatement.

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:

- ♦ Encourage and promote the interests of Montana agriculture.
- ♦ Collect and publish agricultural statistics.
- ♦ Assist, encourage, and promote the organization of farmers' institutes, agricultural societies, fairs, and other exhibitions of agriculture.
- ♦ Adopt standards for grade and other classifications of farm products.
- ♦ Assist in the development of economical and efficient marketing distribution systems.
- ♦ Gather and distribute marketing information concerning supply, demand, price, and movement of farm products.

- ♦ 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 (65.77 FTE) – administers agricultural programs relating to the production, manufacturing, certification, 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 (42.75 FTE) – assists Montana's agricultural industry by providing services including market and agribusiness development, Growth Through Agriculture grants and loans, wheat and barley research and marketing, agriculture loans including beginning farmer/rancher loans, hail insurance, grain grading and inspection, agriculture education and outreach, agriculture literacy, and administration of agricultural commodity research and market development programs. The division provides support to the Montana Alfalfa Seed Committee, the Wheat and Barley Committee, the Agricultural Development Council, the Board of Hail Insurance, and advisory committees for cherries, potatoes, mint, and pulse crops.

Prior Audit Recommendation

The prior audit report for the two fiscal years ended June 30, 2011 contained one recommendation related to deposits made by the State Grain Lab (lab) in Great Falls not complying with state law. 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. This recommendation was partially implemented. During the previous audit, the lab made weekly deposits, but the collections required deposits to be made more frequently. During fiscal years 2012 and 2013, the grain lab made deposits more often than weekly, however, we could not

determine from the evidence available whether the department was depositing as often as required by state law. Since our review of the deposit records, the lab modified their procedures to include documenting both the date a check is received and the date of the deposit. They also strengthened the internal controls over the receipt and deposit procedures. We emphasize the importance of retaining documentation sufficient to show compliance with state accounting policy. We will continue to evaluate cash depositing procedures at the State Grain Lab.

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
Angus Maciver

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2012, and the Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for fiscal year ended June 30, 2013, of the Department of Agriculture, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the department's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, liabilities, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the department as of June 30, 2013, and June 30, 2012, or changes in financial position for the years then ended.

Basis for Qualified Opinions on Regulatory Basis of Accounting

As discussed in Note 1, prior to fiscal year 2012, the department recorded surety bonds and certificates of deposit held for pesticide applicators in an agency fund. State Accounting Policy requires these be reported in a private purpose trust fund. During fiscal year 2012, the department reclassified this financial activity to a private purpose trust fund. Due to an error in accounting, the Schedule of Changes in Fund Equity & Property Held in Trust for the fiscal year ended June 30, 2012, does not report private purpose trust fund financial position and results of operations. In addition, the Schedule of Changes in Fund Equity for the fiscal year ended June 30, 2013, does not report the private purpose trust fund financial position at July 1, 2012. The results of the errors are presented in the following table:

Fiscal Year 2012		
	Agency Fund	Private Purpose Trust Fund
	Over (under) Stated	Over (under) Stated
Property Held in Trust: July 1, 2011	\$1,183,538	
Reductions to Property Held in Trust	\$1,183,538	
Fund Equity: July 1, 2011		\$(1,183,538)
Fund Equity: June 30, 2012		\$(1,183,538)
Fiscal Year 2013		
		Private Purpose Trust Fund
		Over (under) Stated
Fund Equity: July 1, 2012		\$(1,183,538)
Direct Entries to Fund Equity		\$ 1,183,538

Qualified Opinions on Regulatory Basis of Accounting

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinions on Regulatory Basis of Accounting” paragraph, the Schedule of Changes in Fund Equity & Property Held in Trust for the fiscal year ended June 30, 2012, and the Schedule of Changes in Fund Equity for the fiscal year ended June 30, 2013, present fairly, in all material respects, the changes in fund equity and property held in trust of the Department of Agriculture for each of the fiscal years ended June 30, 2013, and 2012, in conformity with the basis of accounting described in Note 1.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Total Revenues & Transfers-In and the Schedules of Total Expenditures & Transfers-Out present fairly, in all material respects, the results of operations of the Department of Agriculture for each of the fiscal years ended June 30, 2013, and 2012, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

January 8, 2014

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	State Special	Federal Special	Enterprise Fund	Private Purpose	Permanent Fund
FUND EQUITY: July 1, 2012	\$ (441,428)	Revenue Fund	Revenue Fund	\$ 10,761,516	Trust Fund	\$ 11,337,619
		\$ 12,492,955	\$ (630,111)	\$	0	\$
ADDITIONS						
Budgeted Revenues & Transfers-In	125	13,431,798	2,102,083	7,137,603		
Nonbudgeted Revenues & Transfers-In		259,991		64	38,682	271,334
Prior Year Revenues & Transfers-In Adjustments	37	(2,258)	(1,150)			
Direct Entries to Fund Equity	1,715,451	323,404	6,670		1,183,538	
Total Additions	1,715,613	14,012,935	2,107,603	7,137,667	1,222,220	271,334
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	1,709,339	13,049,850	1,858,603	4,582,269		
Nonbudgeted Expenditures & Transfers-Out	5,694	727,212	23	2,855,524	18,000	820,529
Prior Year Expenditures & Transfers-Out Adjustments	(4,930)	731	(6,705)			
Total Reductions	1,710,102	13,777,793	1,851,921	7,437,793	18,000	820,529
FUND EQUITY: June 30, 2013	\$ (435,918)	\$ 12,728,097	\$ (374,429)	\$ 10,461,391	\$ 1,204,220	\$ 10,788,425

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 EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Agency Fund	Permanent Fund
	\$ (293,305)	\$ 11,110,836	\$ (587,653)	\$ 10,834,483	\$ 0	\$ 10,936,314
FUND EQUITY July 1, 2011						
PROPERTY HELD IN TRUST: July 1, 2011					\$ 1,183,538	
ADDITIONS						
Budgeted Revenues & Transfers-In	116	12,907,062	2,232,581	7,082,304		
Nonbudgeted Revenues & Transfers-In		251,041	1,522	2,384		901,081
Prior Year Revenues & Transfers-In Adjustments		(27,751)				
Direct Entries to Fund Equity	1,707,493	400,651	0			
Total Additions	1,707,609	13,531,002	2,234,103	7,084,688	0	901,081
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	1,818,661	11,378,757	2,276,626	5,561,976		
Nonbudgeted Expenditures & Transfers-Out	33,369	842,176		1,593,998		499,775
Prior Year Expenditures & Transfers-Out Adjustments	3,703	(72,050)	(64)	1,681		
Reductions in Property Held in Trust					1,183,538	
Total Reductions	1,855,733	12,148,883	2,276,562	7,157,655	1,183,538	499,775
FUND EQUITY June 30, 2012	\$ (441,428)	\$ 12,492,955	\$ (630,111)	\$ 10,761,516	\$ 0	\$ 11,337,619
PROPERTY HELD IN TRUST: June 30, 2012					\$ 0	

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, 2013

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Private Purpose Trust Fund	Permanent Fund	Total
Licenses and Permits							
Taxes	\$	3,321,660				\$	3,321,660
Charges for Services		5,845,569	\$ 1,939				5,847,509
Investment Earnings		1,399,628		\$ 7,100,860			8,500,488
Fines and Forfeits		239,243		24,156		\$ 196,383	459,782
Sale of Documents, Merchandise and Property		22,608		12,652			35,259
Grants, Contracts, and Donations		14,473					14,473
Transfers-in		40,439			\$ 38,682	74,950	79,121
Capital Asset Sale Proceeds		2,763,567					2,838,517
Federal Indirect Cost Recoveries		1,815	171,196				1,815
Miscellaneous	\$ 162	40,528					171,196
Federal							40,690
Total Revenues & Transfers-In	162	13,689,531	1,927,798	7,137,667	38,682	271,334	1,927,798
Less: Nonbudgeted Revenues & Transfers-In		259,991	2,100,933	64	38,682	271,334	23,238,309
Prior Year Revenues & Transfers-In Adjustments	37	(2,258)	(1,150)				(3,371)
Actual Budgeted Revenues & Transfers-In	125	13,431,798	2,102,083	7,137,603	0	0	22,671,609
Estimated Revenues & Transfers-In	100	13,433,450	2,102,038	7,137,597			22,673,185
Budgeted Revenues & Transfers-In Over (Under) Estimated	25	\$ (1,652)	\$ 45	\$ 6	\$ 0	\$ 0	\$ (1,576)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Licenses and Permits	\$	(1)				\$	(1)
Taxes		(169)	94				(74)
Charges for Services		471					471
Investment Earnings		(981)	(50)				(1,026)
Fines and Forfeits		(370)		5			(368)
Sale of Documents, Merchandise and Property		(63)		2			(63)
Grants, Contracts, and Donations		(353)					(353)
Transfers-in		(2)					(2)
Capital Asset Sale Proceeds		(185)					(185)
Federal Indirect Cost Recoveries			1				1
Miscellaneous	\$ 25	(1)					24
Budgeted Revenues & Transfers-In Over (Under) Estimated	25	\$ (1,652)	\$ 45	\$ 6	\$ 0	\$ 0	\$ (1,576)

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, 2012

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Permanent Fund	Total
Licenses and Permits		\$ 3,231,613				\$ 3,231,613
Taxes		5,679,177	1,522			5,680,699
Charges for Services		1,362,399		\$ 7,034,019		8,396,418
Investment Earnings		243,861		29,560	\$ 798,413	1,071,834
Fines and Forfeits		55,652		21,109		76,760
Sale of Documents, Merchandise and Property		35,373	2,306			37,678
Grants, Contracts, and Donations		24,472				24,472
Transfers-in		2,459,331			102,668	2,561,998
Capital Asset Sale Proceeds		6,070				6,070
Federal Indirect Cost Recoveries			177,065			177,065
Miscellaneous	\$ 116	32,406				32,522
Federal			2,053,210			2,053,210
Total Revenues & Transfers-In	116	13,130,352	2,234,103	7,084,688	901,081	23,350,340
Less: Nonbudgeted Revenues & Transfers-In		251,041	1,522	2,384	901,081	1,156,028
Prior Year Revenues & Transfers-In Adjustments		(27,751)				(27,751)
Actual Budgeted Revenues & Transfers-In	116	12,907,062	2,232,581	7,082,304	0	22,222,063
Estimated Revenues & Transfers-In	485	12,909,348	2,232,906	7,082,422		22,225,161
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (369)	\$ (2,287)	\$ (325)	\$ (118)	\$ 0	\$ (3,099)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	\$	348				\$ 348
Taxes	(385)	133		(100)		(352)
Charges for Services		(1,039)		(1)		(1,039)
Investment Earnings		379	(50)	(26)		303
Fines and Forfeits		565		9		574
Sale of Documents, Merchandise and Property		(527)				(528)
Grants, Contracts, and Donations		(500)				(500)
Transfers-in		(1,164)				(1,164)
Capital Asset Sale Proceeds		14				14
Federal Indirect Cost Recoveries			(35)			(35)
Miscellaneous	16	(496)				(480)
Federal			(240)			(240)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (369)	\$ (2,287)	\$ (325)	\$ (118)	\$ 0	\$ (3,099)

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, 2013

	Agricultural Development Division	Agricultural Sciences Division	Central Magement Division	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT				
Personal Services				
Salaries	\$ 1,444,370	\$ 2,844,044	\$ 858,867	\$ 5,147,282
Hourly Wages	94,188	169,745		263,933
Other Compensation	11,225	3,700		14,925
Employee Benefits	513,940	993,202	267,968	1,775,111
Personal Services-Other	(383)			(383)
Total	<u>2,063,341</u>	<u>4,010,691</u>	<u>1,126,836</u>	<u>7,200,868</u>
Operating Expenses				
Other Services	636,630	405,719	39,868	1,082,218
Supplies & Materials	163,846	283,764	20,657	468,268
Communications	78,481	154,484	15,325	248,290
Travel	262,649	199,252	11,994	473,896
Rent	80,299	171,082	46,098	297,479
Utilities	9,710			9,710
Repair & Maintenance	19,037	88,830	5,113	112,979
Other Expenses	3,691,100	98,951	7,612	3,797,663
Total	<u>4,941,751</u>	<u>1,402,082</u>	<u>146,668</u>	<u>6,490,501</u>
Equipment & Intangible Assets				
Equipment	12,280	33,818		46,098
Intangible Assets		300,000		300,000
Total	<u>12,280</u>	<u>333,818</u>		<u>346,098</u>
Grants				
From State Sources	3,012,774	2,071,847		5,084,621
From Federal Sources	319,681	505,801		825,482
Total	<u>3,332,455</u>	<u>2,577,648</u>		<u>5,910,103</u>
Benefits & Claims				
From State Sources	3,876,177			3,876,177
From Other Sources		18,000		18,000
Total	<u>3,876,177</u>	<u>18,000</u>		<u>3,894,177</u>
Transfers-out				
Fund transfers	269,095	910,479		1,179,574
Intra-Entity Expense		580,263		580,263
Total	<u>269,095</u>	<u>1,490,742</u>		<u>1,759,837</u>
Other Post Employment Benefits				
Other Post Employment Benefits	14,554			14,554
Total	<u>14,554</u>			<u>14,554</u>
Total Expenditures & Transfers-Out	<u>\$ 14,509,652</u>	<u>\$ 9,832,981</u>	<u>\$ 1,273,504</u>	<u>\$ 25,616,138</u>
EXPENDITURES & TRANSFERS-OUT BY FUND				
General Fund	\$ 1,191,305	\$ 385,052	\$ 133,745	\$ 1,710,102
State Special Revenue Fund	5,676,618	7,280,925	820,250	13,777,793
Federal Special Revenue Fund	332,465	1,328,475	190,981	1,851,921
Enterprise Fund	7,309,265		128,528	7,437,793
Private Purpose Trust Fund		18,000		18,000
Permanent Fund		820,529		820,529
Total Expenditures & Transfers-Out	<u>14,509,652</u>	<u>9,832,981</u>	<u>1,273,504</u>	<u>25,616,138</u>
Less: Nonbudgeted Expenditures & Transfers-Out	2,926,233	1,500,785	(36)	4,426,982
Prior Year Expenditures & Transfers-Out Adjustments	(4,199)	(6,705)		(10,904)
Actual Budgeted Expenditures & Transfers-Out	<u>11,587,619</u>	<u>8,338,902</u>	<u>1,273,540</u>	<u>21,200,060</u>
Budget Authority	15,869,242	9,950,871	1,289,757	27,109,870
Unspent Budget Authority	<u>\$ 4,281,623</u>	<u>\$ 1,611,969</u>	<u>\$ 16,217</u>	<u>\$ 5,909,809</u>
UNSPENT BUDGET AUTHORITY BY FUND				
General Fund	\$ 5,963	\$ 709	\$ 2,064	\$ 8,736
State Special Revenue Fund	229,663	751,886		981,549
Federal Special Revenue Fund	510,573	859,374	14,153	1,384,100
Enterprise Fund	3,535,425			3,535,425
Unspent Budget Authority	<u>\$ 4,281,623</u>	<u>\$ 1,611,969</u>	<u>\$ 16,217</u>	<u>\$ 5,909,809</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.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Agricultural Development Division	Agricultural Sciences Division	Central Management Division	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT				
Personal Services				
Salaries	\$ 1,355,766	\$ 2,681,912	\$ 793,761	\$ 4,831,439
Hourly Wages	90,070	205,646		295,716
Other Compensation	9,575	3,500		13,075
Employee Benefits	495,804	947,620	252,885	1,696,309
Personal Services-Other	222			222
Total	1,951,437	3,838,678	1,046,646	6,836,760
Operating Expenses				
Other Services	648,704	426,177	44,289	1,119,169
Supplies & Materials	143,194	424,963	30,491	598,648
Communications	78,372	147,673	16,450	242,495
Travel	272,686	223,638	16,577	512,900
Rent	89,276	164,586	38,490	292,352
Utilities	9,846			9,846
Repair & Maintenance	13,614	87,826	3,665	105,105
Other Expenses	2,407,803	109,823	13,437	2,531,063
Total	3,663,494	1,584,685	163,399	5,411,578
Equipment & Intangible Assets				
Equipment	49,014	148,702	3,197	200,913
Intangible Assets		280,000		280,000
Total	49,014	428,702	3,197	480,913
Grants				
From State Sources	2,418,890	1,295,085		3,713,975
From Federal Sources	223,918	812,572		1,036,489
Total	2,642,808	2,107,657		4,750,465
Benefits & Claims				
From State Sources	4,849,878			4,849,878
From Other Sources		36,000		36,000
Total	4,849,878	36,000		4,885,878
Transfers-out				
Fund transfers	348,591	617,083		965,674
Intra-Entity Expense		592,246		592,246
Total	348,591	1,209,329		1,557,921
Other Post Employment Benefits				
Other Post Employment Benefits	15,094			15,094
Total	15,094			15,094
Total Expenditures & Transfers-Out	\$ 13,520,315	\$ 9,205,051	\$ 1,213,241	\$ 23,938,608
EXPENDITURES & TRANSFERS-OUT BY FUND				
General Fund	\$ 1,234,204	\$ 477,450	\$ 144,079	\$ 1,855,733
State Special Revenue Fund	4,962,283	6,373,600	813,000	12,148,883
Federal Special Revenue Fund	289,166	1,854,227	133,169	2,276,562
Enterprise Fund	7,034,662		122,993	7,157,655
Permanent Fund		499,775		499,775
Total Expenditures & Transfers-Out	13,520,315	9,205,051	1,213,241	23,938,608
Less: Nonbudgeted Expenditures & Transfers-Out	1,811,401	1,158,637	(720)	2,969,319
Prior Year Expenditures & Transfers-Out Adjustments	(28,157)	(36,506)	(2,068)	(66,731)
Actual Budgeted Expenditures & Transfers-Out	11,737,071	8,082,920	1,216,029	21,036,020
Budget Authority	15,241,821	10,207,480	1,249,935	26,699,236
Unspent Budget Authority	\$ 3,504,750	\$ 2,124,560	\$ 33,906	\$ 5,663,216
UNSPENT BUDGET AUTHORITY BY FUND				
General Fund	\$ 264	\$ 98,293	\$ 33,312	\$ 131,868
State Special Revenue Fund	491,456	1,555,225		2,046,682
Federal Special Revenue Fund	461,955	471,042	299	933,296
Enterprise Fund	2,551,075		295	2,551,370
Unspent Budget Authority	\$ 3,504,750	\$ 2,124,560	\$ 33,906	\$ 5,663,216

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, 2013

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 and Private-Purpose Trust) 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 dated June 30 or earlier, but not received as of fiscal year-end; and equipment ordered with a purchase order dated June 30 or earlier.

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. Uses for department Federal Special Revenue Funds include pass-through weed grants, pest surveys, feed inspections, analysis of water samples for pesticides, review of private farm applicator restricted use pesticide application records, marketing, specialty crop block grants, and negotiated indirect costs.
- ♦ **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. 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. Prior to fiscal year 2012 pesticide applicator certificates of deposit were recorded in an Agency fund.
- ♦ **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. Commercial pesticide applicator certificates of deposit are now recorded in a Private-Purpose Trust Fund.

An error occurred in fiscal year 2012 during the reclassification of property held in trust out of the agency fund into the private purpose trust fund which caused neither a property held in trust balance nor a fund balance to appear on the fiscal year 2012 financial schedule. The balance is reported correctly as ending fund equity in the private purpose trust fund in fiscal year 2013.

2. General Fund Equity

The negative fund equity 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 Equity for each of the fiscal years ended June 30, 2012, and June 30, 2013.

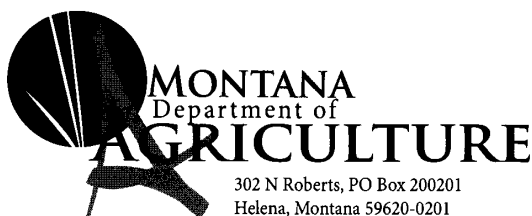
3. Direct Entries to Fund Equity

Direct entries to fund equity 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. Direct entries to fund equity in the Private-Purpose Trust Fund include an adjustment from a previous period that occurred at least two fiscal years prior. Because commercial pesticide applicator certificates of deposit must be recorded in the Private-Purpose Trust fund as revenue when received and as an expense when surrendered, but were recorded in the Agency fund as an asset with an offsetting liability, a direct entry to fund equity was necessary to record certificates received before fiscal year 2012.

DEPARTMENT OF
AGRICULTURE

DEPARTMENT RESPONSE

Steve Bullock
Governor



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

Ron de Yong
Director

406.444-3144 • Fax: 406.444.5409 • agr@mt.gov • www.agr.mt.gov

February 27, 2014

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

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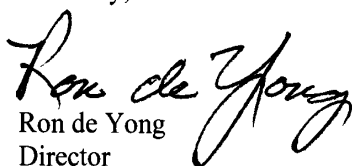
Dear Ms. Hunthausen:

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, 2013.

A fiscal year 2012 reclassification of the fund type for surety bonds and certificates of deposit held for pesticide applicators contained an accounting error which resulted in a qualified opinion. The accounting error was corrected in fiscal year 2013. The department will continue to work with the department of administration when unusual transactions occur.

The professionalism displayed by your audit staff while conducting the audit is 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