



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Environmental Quality

*For the Two Fiscal Years Ended
June 30, 2014*

OCTOBER 2014

LEGISLATIVE AUDIT
DIVISION

14-16

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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, 2013, was issued March 28, 2014. The Single Audit Report for the two fiscal years ended June 30, 2015, will be issued by March 31, 2016. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

October 2014

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Environmental Quality (department) for the two fiscal years ended June 30, 2014. Our report contains five recommendations. Two recommendations address accounting misstatements related to accounts receivable and fund equity classification. The other three recommendations address computer passwords, compliance with the Federal Transparency Act, and noncompliance with the department's relocation expenses policy.

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 section titled "Unmodified Opinions on Regulatory Basis of Accounting."

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

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

TABLE OF CONTENTS

Appointed and Administrative Officials	ii
Report Summary	S-1
CHAPTER I – INTRODUCTION.....	1
Introduction.....	1
Background.....	1
Prior Audit Recommendations.....	3
CHAPTER II – FINDINGS AND RECOMMENDATIONS.....	5
Overstated Accounts Receivable.....	5
Fund Equity Classification.....	6
Federal Reporting	7
Relocation Reimbursement.....	8
Password Security.....	8
INDEPENDENT AUDITOR’S REPORT AND DEPARTMENT FINANCIAL SCHEDULES	
Independent Auditor’s Report	A-1
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2014.....	A-3
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2013.....	A-4
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2014.....	A-5
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2013.....	A-6
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2014.....	A-7
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2013.....	A-8
Notes to the Financial Schedules	A-9
DEPARTMENT RESPONSE	
Department of Environmental Quality	B-1

APPOINTED AND ADMINISTRATIVE OFFICIALS

Department of Environmental Quality

Tracy Stone-Manning, Director

Tom Livers, Deputy Director

Dean Rude, Chief Financial Officer

John Arrigo, Enforcement Division Administrator

John DeArment, Permitting and Compliance Division Administrator

George Mathieus, Planning, Prevention and Assistance Division
Administrator

Jenny Chambers, Remediation Division Administrator

Board of Environmental Review

		<u>Term Expires</u>
Robin Shropshire, Chair	Helena	January 1, 2017
Marietta Canty	Clancy	January 1, 2017
Heidi Kaiser	Park City	January 1, 2015
Joan Miles	Helena	January 1, 2017
Larry Mires	Glasgow	January 1, 2015
Joe Russell	Kalispell	January 1, 2015
Chris Tweeten	Missoula	January 1, 2017

Petroleum Tank Release Compensation Board

Roger Noble, Presiding Officer	Kalispell	July 1, 2016
Jerry Breen	Choteau	July 1, 2016
Kate Cassidy	Whitefish	June 30, 2017
Tom Downey	Butte	July 1, 2016
Timothy McDermott	Bozeman	June 30, 2015
Roy Morris	Butte	June 30, 2015
Susan Quigley	Shelby	July 1, 2017

For additional information concerning the Department of
Environmental Quality, contact:

Chris Saeger, Communications Director
Department of Environmental Quality
Office: 406-444-2667
Mobile: 406-461-6183
e-mail: CSaeger@mt.gov



MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Department of Environmental Quality For the Two Fiscal Years Ended June 30, 2014

OCTOBER 2014

14-16

REPORT SUMMARY

The Department of Environmental Quality administers environmental protection and enforcement efforts of the state of Montana. The department ensures remediation of environmental damage in Montana and enforces the state's environmental laws. We determined accounts receivables in the Leaking Underground Storage Tanks cleanup program are overstated by \$5.4 million. In addition, we found the department did not comply with requirements of their relocation policy and state policy related to computer password security.

Context

The Department of Environmental Quality (department) promotes environmental quality through programs to promote air quality; improve water supply, wastewater, and solid waste disposal infrastructure; regulate the discharge of pollutants; enforce the environmental laws of the state; and ensure remediation and reclamation at the sites of past natural resource damages.

and account classification. Three other recommendations address noncompliance with the Federal Transparency Act, the moving and relocation policy, and the computer password security policy.

Our prior audit report for the two fiscal years ended June 30, 2012, contained four recommendations. The department implemented all four recommendations.

Results

During the course of the audit, we reviewed the internal control procedures and tested selected transactions related to the revenues generated from licensing and permitting and the State Revolving Fund. We also reviewed expenditures related to personal services, other services and transfers out. The report contains five recommendations. Two recommendations related to accounting misstatements involve accounts receivables

Recommendation Concurrence	
Concur	5
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (14-16) 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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Call toll-free 1-800-222-4446, or e-mail ladhotline@mt.gov.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Department of Environmental Quality (department) for the two fiscal years ended June 30, 2014. The objectives of the audit were to:

1. Determine the department's compliance with selected state and federal laws and regulations.
2. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.
3. Determine the implementation status of prior audit recommendations.
4. Determine whether the department's financial schedules present fairly the results of operations and changes in fund equity for each of the two fiscal years ended June 30, 2014, and June 30, 2013.

During the course of the audit, we reviewed the internal control procedures and tested selected transactions related to the revenues generated from licensing and permitting and the State Revolving Fund. We also reviewed expenditures related to personal services, other services and transfers out. The report contains five recommendations. Two recommendations related to accounting misstatements involve accounts receivables and account classification. Three other recommendations address noncompliance with the Federal Transparency Act, the moving and relocation policy, and the computer password security policy.

In accordance with §17-8-101(6), MCA, we reviewed the fees charged and the fund equity of the department's Internal Service Fund. We consider fees commensurate with costs if working capital does not exceed 60 days of expenditure activity for the fund. The department has one Internal Service Fund, which funds the Central Management Program. We reviewed the Internal Service Fund activity and determined the fees are commensurate with costs and the fund equity balance is reasonable.

Background

The department administers certain environmental and natural resources functions of state government. The department is organized along the functional lines of planning, permitting, enforcement, and remediation. Total authorized full-time equivalent employees (FTE) for the department are identified below.

Planning, Prevention and Assistance Program (83.50 FTE) develops air, water, waste management, and energy plans to protect Montana's resources. The program monitors environmental conditions, maintains data on the condition of Montana's environment, and encourages businesses and government units to adopt sound environmental practices.

Permitting and Compliance Program (209.67 FTE) administers the permitting and compliance activities related to various federal and state statutes, including air quality, water quality, solid waste, hazardous waste, junk vehicle, mining, mine reclamation, public water supply, and sanitation in subdivision laws. The program reviews and assesses all environmental permit applications, prepares appropriate environmental impact documents, and inspects facilities to determine compliance with permit terms and the underlying laws and regulations. The division is also responsible for financial assurance activities relative to some of the permitting programs.

Enforcement Program (14.73 FTE) implements and tracks the department's formal enforcement activities, investigates and validates citizen complaints, and ensures that spills are cleaned up. Environmental statutes administered by the department authorize administrative or judicial enforcement actions that may seek corrective actions and penalties for violations of permit requirements or standards. Enforcement actions are initiated against a wide range of regulated entities including public water suppliers, wastewater dischargers, air emissions sources, underground storage tank owners and operators, solid waste or hazardous waste management facilities, subdivisions, junk vehicle owners, asbestos abatement contractors, gravel pits, precious metal mines, and coal mines.

Remediation Program (63.0 FTE) is responsible for overseeing investigation and cleanup activities at state and federal Superfund sites; reclaiming abandoned mine lands; regulating, permitting, and licensing underground storage tanks; implementing corrective actions at sites with leaking underground storage tanks; and overseeing groundwater remediation at sites where agricultural and industrial chemical spills have caused groundwater contamination.

Central Management Program (63.50 FTE) consists of the director's office, a financial services office, and an information technology office. The director's office includes the director's staff, the deputy director, an administrative officer, a public information officer, a centralized legal services unit, and a centralized personnel office. The financial services office provides budgeting, accounting, payroll, internal auditing, procurement and contract management support to other divisions. The information technology office provides information technology services support to other divisions.

Petroleum Tank Release Compensation Board (6.1 FTE) oversees the Petroleum Tank Release Cleanup Fund, established by §75-11-313, MCA, which reimburses eligible owners for the costs of petroleum release cleanup. Fund administration is a joint responsibility of the board and the department.

Board of Environmental Review (BER) is established by §2-15-3502, MCA, as a quasi-judicial board consisting of seven members appointed by the governor. BER reviews administrative decisions made by the department that are appealed to it by affected parties as provided by statute. BER is attached to the department for administrative purposes only. Expenditures for the board are recorded in the Central Management Program.

Prior Audit Recommendations

The prior financial-compliance audit report of the Department of Environmental Quality for the two fiscal years ended June 30, 2012, contained four recommendations. The department implemented all of the prior recommendations.

Chapter II – Findings and Recommendations

Overstated Accounts Receivable

The department's accounts receivables are overstated by approximately \$5.4 million.

The Department of Environmental Quality (department) performs Leaking Underground Storage Tanks (LUST) clean up procedures and bills the responsible parties for the cost. Department personnel establish accounts receivable on the state's accounting system for LUST cost recoveries not yet collected. Per department personnel, collection on these receivables are very rare since the majority of the entities that are billed do not have a means of paying for the cleanup.

State accounting policy requires the department to establish an allowance for uncollectible accounts so that the accounting records fairly state the amount expected to be collected. The department records an accounts receivable but does not have a process in place to estimate and establish an uncollectible portion on the accounting records. We identified twelve businesses with accounts receivable balances that are more than ten years old. These businesses have not been billed in over a year and no payments have been received. As a result, we believe the likelihood of collection is remote.

We estimate the LUST Cost Recovery Fund accounts receivable balance are overstated on the state's accounting records by approximately \$5.4 million. Department personnel insist that they need to collect on the receivables and do not have as much leverage to collect and hold the entity responsible if the receivables are recorded as uncollectible. Establishing an allowance for uncollectible accounts does not mean the department cannot collect on the receivable. The allowance is an estimate of the amount that may not be collectable; it does not remove the obligation of the third party. The department should monitor and adjust the accounts receivable through the allowance account to fairly state the amounts they truly believe they can collect.

Per state policy, receivables and their related allowance should not permanently sit idle on the accounting system. According to state law, when an agency has made all reasonable attempts and cannot collect a valid accounts receivable, it must transfer the account to the Department of Revenue or an outside collection agency for further collection attempts.

RECOMMENDATION #1

We recommend the department establish procedures to:

- A. *Estimate and record an allowance for uncollectible accounts.*
 - B. *Monitor and periodically adjust accounts receivable balances on the state's accounting system as required by state accounting policy.*
-

Fund Equity Classification

The department does not have adequate internal controls over fund equity classification.

In fiscal year 2014, the department received \$5.2 million as part of a settlement agreement that specifically restricts the use of the funds.

State accounting policy requires fund equity be reported in classifications that identify the extent to which the government is bound to honor constraints on the use of those funds. Misclassifying fund equity can be misleading to the legislature because it shows funds could be made available through legislative action when in fact the use of the funds has been established by the settlement. Restricted fund equity is used for amounts that can only be spent for specific purposes and the constraints are externally imposed. Committed fund equity is used when constraints placed on the use of resources are imposed by the legislature. The difference between the two is who is imposing the constraints, external or the legislature. Since the fund use is for a specified purpose that cannot be changed by the legislature, the equity balance should have been classified as restricted. The fund equity balance was incorrectly classified as committed which was not identified by management during their review.

The department submitted the proper forms to the Department of Administration to correct the misclassification, but the change was never made by the Department of Administration and the department did not catch it before fiscal year-end. This classification error in the accounting records at fiscal year-end will necessitate an adjustment by the Department of Administration in order for the state's basic financial statements to be presented correctly.

Based on our review, the committed fund equity is overstated and restricted fund equity is understated by \$5.2 million on the state's accounting records. This does not

have an effect on the department's financial schedules because fund equity classification does not appear on the face of the financial schedules, but impacts preparation of basic financial statements.

RECOMMENDATION #2

We recommend the department improve its review process to ensure fund equity is properly classified on the accounting records by fiscal year-end.

Federal Reporting

The department did not comply with reporting requirements of the Federal Funding Accountability and Transparency Act.

The State Revolving Fund Programs (SRF) provide low interest loans to local governments and communities for water pollution control and drinking water projects. The Federal Funding Accountability and Transparency Act requires the department to report each subaward action, including loans, exceeding \$25,000 on the federal subaward system no later than the end of the month following the month in which the obligation was made. The department is required to report SRF loans since the majority of the loans are over the \$25,000 threshold. Department personnel indicated they have been reporting grants in other federal programs but were not aware that loans were included in the requirements of the Transparency Act. As of fiscal year-end 2014, the department had not reported any of these obligations as required and is in noncompliance with federal requirements.

RECOMMENDATION #3

We recommend the department comply with the Federal Funding Accountability and Transparency Act by reporting loans distributed by the State Revolving Fund programs.

Relocation Reimbursement

The department has not complied with requirements of its relocation policy.

The department's Moving and Relocation Policy outlines circumstances under which the department will consider reimbursement for relocation costs incurred by employees. Reimbursements are to assist new and current employees in relocating when accepting employment and to attract qualified people in difficult to fill positions.

We reviewed reimbursements to 6 of the 31 employees reimbursed during the audit period. We found the department was not in compliance with its policy for five of the six. The department's policy outlines the relocation costs that can be reimbursed but department accountants are not consistent in their application of the policy. We found instances where meals were paid above per diem, employees were paid actual fuel costs rather than mileage, and hotel bills paid were above approved rates. The exceptions we noted did not all result in overpayments to the employee since the agreements cap the payments at a set amount based on mileage. We identified actual overpayments totaling \$838. Relocation expenses in fiscal years 2013 and 2014 were approximately \$24,000 and \$28,000, respectively.

Department staff indicated that some of these circumstances are not addressed in department or state travel policies, and no one questioned the payments. Per department personnel, the intent of the policy is to pay only expenses allowed under department and state travel policies and to be fiscally frugal.

RECOMMENDATION #4

We recommend the department comply with the requirements of its moving and relocation policy.

Password Security

The department is not requiring changing passwords as required by state policy.

Passwords help secure user accounts by ensuring access to systems occurs only through assigned accounts. Users should have unique usernames and passwords to log into a system. Statewide enterprise policy requires passwords be changed by the users at their initial login, and at least every 60 days after that. During the audit, we noted the

Revenue & Accounts Receivable System Interface Application, Cash Receipt and MtPi systems do not prompt users to change passwords. These systems are used internally by the department for contract management and contract payment. Information from the systems is uploaded into the state's accounting system. Without proper password security, risk of unauthorized use of the system is increased, which affects control over the intentional or unintentional modification, destruction, disclosure or misuse of data and resources. Department personnel believes the security risk of these systems is low because access is password protected and all systems are internal computer systems. However, department personnel agree with the issue and indicate they have made the necessary changes.

RECOMMENDATION #5

We recommend the department comply with state password policy by strengthening user-level security.

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 Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Environmental Quality for each of the fiscal years ended June 30, 2014, and 2013, 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, 2014, and June 30, 2013, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund equity of the Department of Environmental Quality for each of the fiscal years ended June 30, 2014, and 2013, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

August 20, 2014

DEPARTMENT OF ENVIRONMENTAL QUALITY
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2013	<u>\$ (995,304)</u>	<u>\$ 288,895,439</u>	<u>\$ 4,568,089</u>	<u>\$ 2,975,557</u>	<u>\$ 4,812,521</u>	<u>\$ (484,713)</u>	<u>\$ 26,574,944</u>	<u>\$ 12,847,282</u>
ADDITIONS								
Budgeted Revenues & Transfers-In	64,563	17,150,604	35,940,307			7,083,754		
Nonbudgeted Revenues & Transfers-In	148,821	20,486,722	12,689,183	583,159		36,522	1,074,646	1,474,158
Prior Year Revenues & Transfers-In Adjustments	110	124,615	7,193			349		
Direct Entries to Fund Equity	5,410,546	17,272,264	(257,180)	1,477,722	(74,109)			
Total Additions	<u>5,624,040</u>	<u>55,034,205</u>	<u>48,379,503</u>	<u>2,060,881</u>	<u>(74,109)</u>	<u>7,120,625</u>	<u>1,074,646</u>	<u>1,474,158</u>
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	5,340,932	35,308,082	21,345,274			7,211,809		
Nonbudgeted Expenditures & Transfers-Out	657	26,338,254	19,572,932	2,423,025		195,040	727,239	
Prior Year Expenditures & Transfers-Out Adjustments	19	562,481	(62,244)	(154,423)		4,909		
Total Reductions	<u>5,341,608</u>	<u>62,208,817</u>	<u>40,855,962</u>	<u>2,268,604</u>	<u>0</u>	<u>7,411,758</u>	<u>727,239</u>	<u>0</u>
FUND EQUITY: June 30, 2014	<u>\$ (712,872)</u>	<u>\$ 281,720,827</u>	<u>\$ 12,091,630</u>	<u>\$ 2,767,834</u>	<u>\$ 4,738,412</u>	<u>\$ (775,846)</u>	<u>\$ 26,922,355</u>	<u>\$ 14,321,440</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 ENVIRONMENTAL QUALITY
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2012	\$ (1,065,193)	\$ 311,172,545	\$ (2,927,986)	\$ 3,211,245	\$ 1,711,417	\$ 75,657	\$ 26,665,993	\$ 11,667,815
ADDITIONS								
Budgeted Revenues & Transfers-In	16,726	18,867,270	37,995,231			6,506,747		
Nonbudgeted Revenues & Transfers-In	139,292	7,342,666	12,291,786	597,567	3,372,878	5,953	719,956	1,179,467
Prior Year Revenues & Transfers-In Adjustments		459,904	(10,392)			(507)		
Direct Entries to Fund Equity	5,028,012	8,814,502	7,622,630	1,769,097	(271,774)	(1,111)		
Total Additions	5,184,030	35,484,342	57,899,255	2,366,664	3,101,104	6,511,082	719,956	1,179,467
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	5,118,895	33,236,293	38,063,225			6,898,803		
Nonbudgeted Expenditures & Transfers-Out	(3,221)	24,421,796	12,455,840	2,602,352		170,669	811,005	
Prior Year Expenditures & Transfers-Out Adjustments	(1,533)	103,359	(115,885)			1,980		
Total Reductions	5,114,141	57,761,448	50,403,180	2,602,352	0	7,071,452	811,005	0
FUND EQUITY: June 30, 2013	\$ (995,304)	\$ 288,895,439	\$ 4,568,089	\$ 2,975,557	\$ 4,812,521	\$ (484,713)	\$ 26,574,944	\$ 12,847,282

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 ENVIRONMENTAL QUALITY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

TOTAL REVENUES & TRANSFERS-IN BY CLASS									
	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund	Total	
Licenses and Permits	\$ 8,625	\$ 10,392,023	\$			\$ 5,000		\$ 10,405,648	
Taxes	110	2,879,855	2,656					2,766	
Charges for Services		2,879,855						7,502,623	
Investment Earnings	2,608	9,522,519	123,568	209		29,470	274,158	9,952,532	
Fines and Forfeits	198,286	1,246,957						1,445,243	
Monetary Settlements		5,480,940						5,480,940	
Sale of Documents, Merchandise and Property		6,717	6,502					13,219	
Rentals, Leases and Royalties		7,325	2,764					10,089	
Grants, Contracts, and Donations		1,357,033	8,842					2,406,051	
Transfers-in		5,926,124	6,900,000	396,544	33,883	1,040,176	1,200,000	14,456,551	
Capital Asset Sale Proceeds	3,480	962	1,958					6,400	
Non-monetary Settlements		222,820						222,820	
Loan Proceeds		168,975						168,975	
Federal Indirect Cost Recoveries								2,461,335	
Miscellaneous	385	549,691		186,406	2,639			739,121	
Federal			41,590,393					41,590,393	
Total Revenues & Transfers-In	213,494	37,761,941	48,636,683	583,159	7,120,625	1,074,646	1,474,158	96,884,706	
Less: Nonbudgeted Revenues & Transfers-In	148,821	20,486,722	12,689,183	583,159	36,522	1,074,646	1,474,158	36,493,211	
Prior Year Revenues & Transfers-In Adjustments	110	124,615	7,193					132,267	
Actual Budgeted Revenues & Transfers-In	64,563	17,150,604	35,940,307	0	7,083,754	0	0	60,239,228	
Estimated Revenues & Transfers-In	364,832	32,592,029	45,989,714		8,168,300			87,114,875	
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (300,269)</u>	<u>\$ (15,441,425)</u>	<u>\$ (10,049,407)</u>	<u>\$ 0</u>	<u>\$ (1,084,546)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (26,875,647)</u>	
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS									
Licenses and Permits	\$ (1,873)	\$ (1,290,086)						\$ (1,291,959)	
Taxes	(1)		(766)					(766)	
Charges for Services	(51,292)	(8,178,709)						(9,107,233)	
Investment Earnings	(18,393)	(534,135)	(2,450)		(877,232)			(554,978)	
Fines and Forfeits	(228,711)	(702,974)						(931,685)	
Monetary Settlements		(16)						(16)	
Capital Contributions		(2,812,559)						(2,812,559)	
Sale of Documents, Merchandise and Property		(1,000)	(7,236)					(1,000)	
Rentals, Leases and Royalties		(1)						(1)	
Contributions and Premiums		(975,122)						(975,122)	
Grants, Contracts, and Donations		(875,253)	(21,608)		(500)			(996,730)	
Transfers-in								(875,253)	
Bond Proceeds									
Loan Proceeds		108,975						108,975	
Federal Indirect Cost Recoveries								(206,814)	
Miscellaneous		(180,077)						(180,077)	
Federal		(468)	(10,017,347)					(10,017,815)	
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (300,269)</u>	<u>\$ (15,441,425)</u>	<u>\$ (10,049,407)</u>	<u>\$ 0</u>	<u>\$ (1,084,546)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (26,875,647)</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 ENVIRONMENTAL QUALITY
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	Debt Service Fund	Capital Projects Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund	Total
Licenses and Permits	\$ 1,500	\$ 10,938,374	\$						\$ 10,939,874
Taxes			4,008						4,008
Charges for Services		4,300,176	7,025			\$ 4,116,721			8,423,922
Investment Earnings	3,476	3,646,213		354			51,493	(20,533)	3,748,115
Fines and Forfeits	149,847	1,148,470							1,298,317
Monetary Settlements		715,941							715,941
Sale of Documents, Merchandise and Property		27,336	2,550						29,886
Rentals, Leases and Royalties		3,922	9,463						13,385
Grants, Contracts, and Donations		893,958	38,472				668,448		1,600,878
Transfers-in		3,788,193	105,017	369,245	3,372,878		15	1,200,000	8,835,348
Capital Asset Sale Proceeds		1,900	710						2,610
Non-monetary Settlements		159,695							159,695
Loan Proceeds		291,189				2,389,519			2,389,519
Federal Indirect Cost Recoveries						5,953			5,953
Miscellaneous									
Federal	1,195	754,473		227,968					989,589
Total Revenues & Transfers-In			50,042,268						50,042,268
Less: Nonbudgeted Revenues & Transfers-In	156,018	26,669,840	50,276,625	597,567	3,372,878	6,512,193	719,956	1,179,467	89,484,544
Prior Year Revenues & Transfers-In Adjustments	139,292	7,342,666	12,291,786	597,567	3,372,878	5,953	719,956	1,179,467	25,649,565
Actual Budgeted Revenues & Transfers-In		459,904	(10,392)			(507)			449,005
Estimated Revenues & Transfers-In	16,726	18,867,270	37,985,231	0	0	6,506,747	0	0	63,385,974
Budgeted Revenues & Transfers-In Over (Under) Estimated	145,703	25,666,676	42,369,795		3,500,000	6,666,247			78,348,421
	\$ (128,977)	\$ (6,799,406)	\$ (4,374,564)	\$ 0	\$ (3,500,000)	\$ (159,500)	\$ 0	\$ 0	\$ (14,962,447)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS									
Licenses and Permits	\$ (8,998)	\$ (1,034,554)						\$ (1,043,552)	
Taxes	(809)	(14)	(6)					(829)	
Charges for Services	(86,394)	(4,465,090)				\$ (149,826)		(4,681,310)	
Investment Earnings	(16,525)	(528,093)	99,077					(445,541)	
Fines and Forfeits	(36,251)	(201,875)						(238,126)	
Monetary Settlements		(2,916)						(2,916)	
Sale of Documents, Merchandise and Property		(16,084)						(16,084)	
Rentals, Leases and Royalties		(5,500)	6,573					1,073	
Contributions and Premiums									
Grants, Contracts, and Donations		(599,293)	(53,704)			(12,000)		(652,997)	
Transfers-in		159,405		\$ (3,500,000)				(3,340,595)	
Bond Proceeds		(101)						(101)	
Loan Proceeds		(1)						(1)	
Federal Indirect Cost Recoveries									
Miscellaneous		205,178						2,326	
Federal		(310,468)	(4,426,504)					205,178	
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (128,977)	\$ (6,799,406)	\$ (4,374,564)	\$ 0	\$ (3,500,000)	\$ (159,500)	\$ 0	\$ (4,736,972)	
									\$ (14,962,447)

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 ENVIRONMENTAL QUALITY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Central Management Program	Enforcement Division	Permitting & Compliance Division	Petro Tank Release Compliance Board	Planning Prevention & Assistance Division	Remediation Division	Total
Personal Services							
Salaries	\$ 3,791,634	\$ 709,343	\$ 10,476,035	\$ 277,813	\$ 4,705,360	\$ 3,962,105	\$ 23,922,290
Hourly Wages	34						34
Employee Benefits	1,167,335	241,835	3,471,963	100,811	1,483,187	1,294,276	7,759,407
Personal Services-Other	17,547						17,547
Total	<u>4,976,550</u>	<u>951,178</u>	<u>13,947,998</u>	<u>378,624</u>	<u>6,188,547</u>	<u>5,256,381</u>	<u>31,699,278</u>
Operating Expenses							
Other Services	2,041,431	40,662	5,312,177	132,914	2,457,219	31,922,917	41,907,320
Supplies & Materials	232,003	51,166	426,874	4,417	249,374	248,281	1,212,115
Communications	252,287	14,140	248,353	9,099	79,866	119,536	723,281
Travel	35,573	16,511	296,228	3,787	162,085	128,782	642,966
Rent	1,186,836	11,215	123,013		34,048	35,813	1,390,925
Utilities	4,524		12,102		24	35,982	52,632
Repair & Maintenance	99,776	1,148	16,636	465	8,413	6,974	133,412
Other Expenses	406,646	344,028	3,503,610	100,126	1,643,489	1,696,101	7,694,000
Total	<u>4,259,076</u>	<u>478,871</u>	<u>9,938,993</u>	<u>250,807</u>	<u>4,634,517</u>	<u>34,194,387</u>	<u>53,756,651</u>
Equipment & Intangible Assets							
Equipment	15,074	15,140	465,239		10,920	41,000	547,373
Intangible Assets	74,812		66,257			76,583	217,652
Total	<u>89,886</u>	<u>15,140</u>	<u>531,496</u>		<u>10,920</u>	<u>117,583</u>	<u>765,025</u>
Grants							
From State Sources			1,114,024				1,114,024
Total			<u>1,114,024</u>				<u>1,114,024</u>
Benefits & Claims							
From State Sources				6,138,649			6,138,649
Total				<u>6,138,649</u>			<u>6,138,649</u>
From Other Sources							
Distrib from Priv Purp Trusts			727,239				727,239
Total			<u>727,239</u>				<u>727,239</u>
Transfers-out							
Fund transfers	25,633	106,410	1,092,494	92,610	12,750,169	9,113,773	23,181,089
Total	<u>25,633</u>	<u>106,410</u>	<u>1,092,494</u>	<u>92,610</u>	<u>12,750,169</u>	<u>9,113,773</u>	<u>23,181,089</u>
Debt Service							
Bonds			186,805		786,613	269,375	1,242,793
Total			<u>186,805</u>		<u>786,613</u>	<u>269,375</u>	<u>1,242,793</u>
Other Post Employment Benefits							
Other Post Employment Benefits	189,242						189,242
Total	<u>189,242</u>						<u>189,242</u>
Total Expenditures & Transfers-Out	\$ <u>9,540,387</u>	\$ <u>1,551,598</u>	\$ <u>27,539,049</u>	\$ <u>6,860,691</u>	\$ <u>24,370,767</u>	\$ <u>48,951,498</u>	\$ <u>118,813,990</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 290,742	\$ 521,188	\$ 1,863,418	\$	2,666,260	\$	5,341,608
State Special Revenue Fund	1,212,186	677,567	16,818,727	6,860,691	2,945,644	33,694,002	62,208,817
Federal Special Revenue Fund	626,729	352,548	6,923,314		17,965,749	14,987,622	40,855,962
Debt Service Fund			1,205,616		793,113	269,875	2,268,604
Internal Service Fund	7,410,730	295	733				7,411,758
Private Purpose Trust Fund			727,239				727,239
Total Expenditures & Transfers-Out	9,540,387	1,551,598	27,539,047	6,860,691	24,370,766	48,951,499	118,813,988
Less: Nonbudgeted Expenditures & Transfers-Out	219,328	222,648	2,286,303	(238)	13,569,688	32,959,418	49,257,147
Prior Year Expenditures & Transfers-Out Adjustments	4,417		(175,769)	5,619	(47,132)	563,609	350,745
Actual Budgeted Expenditures & Transfers-Out	9,316,642	1,328,950	25,428,513	6,855,310	10,848,210	15,428,472	69,206,097
Budget Authority	14,185,062	1,380,054	31,091,084	7,381,837	15,461,445	43,304,660	112,804,142
Unspent Budget Authority	\$ <u>4,868,420</u>	\$ <u>51,104</u>	\$ <u>5,662,571</u>	\$ <u>526,527</u>	\$ <u>4,613,235</u>	\$ <u>27,876,188</u>	\$ <u>43,598,045</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 97,352	\$ 12,723	\$ 12,031	\$	3,099	\$	125,205
State Special Revenue Fund	2,499,970	19,384	5,060,917	526,527	426,647	7,147,601	15,681,046
Federal Special Revenue Fund	1,783,587	18,996	589,622		1,597,489	20,028,587	24,018,281
Capital Projects Fund					2,586,000	700,000	3,286,000
Internal Service Fund	487,512						487,512
Unspent Budget Authority	\$ <u>4,868,421</u>	\$ <u>51,103</u>	\$ <u>5,662,570</u>	\$ <u>526,527</u>	\$ <u>4,613,235</u>	\$ <u>27,876,188</u>	\$ <u>43,598,044</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 ENVIRONMENTAL QUALITY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Central Management Program	Enforcement Division	Permitting & Compliance Division	Petro Tank Release Comp. Board	Planning, Prevention & Assistance Division	Remediation Division	Total
Personal Services							
Salaries	\$ 3,769,949	\$ 742,630	\$ 10,102,445	\$ 279,630	\$ 4,643,124	\$ 4,244,448	\$ 23,782,226
Employee Benefits	1,091,480	240,799	3,243,843	94,839	1,402,378	1,357,583	7,430,922
Personal Services-Other	(36,555)						(36,555)
Total	<u>4,824,874</u>	<u>983,429</u>	<u>13,346,288</u>	<u>374,469</u>	<u>6,045,502</u>	<u>5,602,031</u>	<u>31,176,593</u>
Operating Expenses							
Other Services	2,215,726	29,145	6,043,676	41,401	2,674,939	39,459,659	50,464,546
Supplies & Materials	211,808	30,852	496,419	5,605	295,297	150,247	1,190,228
Communications	240,926	13,535	233,147	5,742	70,605	126,147	690,102
Travel	28,608	7,325	275,945	5,841	162,660	114,831	595,210
Rent	1,311,793	12,281	144,411		39,871	72,008	1,580,364
Utilities	4,539		11,213		28	50,449	66,229
Repair & Maintenance	73,950	696	17,471	465	4,230	15,138	111,950
Other Expenses	465,930	377,476	3,072,014	81,882	1,570,540	1,720,457	7,288,299
Total	<u>4,553,280</u>	<u>471,310</u>	<u>10,294,296</u>	<u>140,936</u>	<u>4,818,170</u>	<u>41,708,938</u>	<u>61,986,928</u>
Equipment & Intangible Assets							
Equipment			222,238		17,400	27,841	267,479
Total			<u>222,238</u>		<u>17,400</u>	<u>27,841</u>	<u>267,479</u>
Capital Outlay							
Land & Interest In Land						279,013	279,013
Total						<u>279,013</u>	<u>279,013</u>
Grants							
From State Sources			800,209				800,209
From Federal Sources					1,391,570		1,391,570
Total			<u>800,209</u>		<u>1,391,570</u>		<u>2,191,779</u>
Benefits & Claims							
From State Sources				5,066,770		1,500,000	6,566,770
Total				<u>5,066,770</u>		<u>1,500,000</u>	<u>6,566,770</u>
From Other Sources							
Distrib from Priv Purp Trusts			811,005				811,005
Total			<u>811,005</u>				<u>811,005</u>
Transfers-out							
Fund transfers	3,724		1,393,573	1,476	15,811,316	1,862,747	19,072,836
Total	<u>3,724</u>		<u>1,393,573</u>	<u>1,476</u>	<u>15,811,316</u>	<u>1,862,747</u>	<u>19,072,836</u>
Debt Service							
Bonds			186,301		784,830	266,300	1,237,431
Loans				4,753			4,753
Total			<u>186,301</u>	<u>4,753</u>	<u>784,830</u>	<u>266,300</u>	<u>1,242,184</u>
Other Post Employment Benefits							
Other Post Employment Benefits	168,991						168,991
Total	<u>168,991</u>						<u>168,991</u>
Total Expenditures & Transfers-Out	\$ <u>9,550,869</u>	\$ <u>1,454,739</u>	\$ <u>27,053,910</u>	\$ <u>5,588,404</u>	\$ <u>28,868,788</u>	\$ <u>51,246,868</u>	\$ <u>123,763,578</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 301,033	\$ 509,686	\$ 1,700,326		\$ 2,603,096		\$ 5,114,141
State Special Revenue Fund	1,782,988	597,518	13,749,515	5,588,404	5,741,063	30,301,960	57,761,448
Federal Special Revenue Fund	395,396	347,535	9,293,842		19,688,299	20,678,108	50,403,180
Debt Service Fund			1,499,222		836,330	266,800	2,602,352
Internal Service Fund	7,071,452						7,071,452
Private Purpose Trust Fund			811,005				811,005
Total Expenditures & Transfers-Out	9,550,869	1,454,739	27,053,910	5,588,404	28,868,788	51,246,868	123,763,578
Less: Nonbudgeted Expenditures & Transfers-Out	170,225	137,157	2,415,010	(3,338)	16,598,950	21,140,437	40,458,441
Prior Year Expenditures & Transfers-Out Adjustments	(9,370)	17,252	(42,315)	(1,204)	(71,554)	95,112	(12,079)
Actual Budgeted Expenditures & Transfers-Out	9,390,014	1,300,330	24,681,215	5,592,946	12,341,392	30,011,319	83,317,216
Budget Authority	12,841,514	1,388,217	31,144,663	6,360,423	15,060,521	52,593,390	119,388,728
Unspent Budget Authority	\$ <u>3,451,500</u>	\$ <u>87,887</u>	\$ <u>6,463,448</u>	\$ <u>767,477</u>	\$ <u>2,719,129</u>	\$ <u>22,582,071</u>	\$ <u>36,071,512</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 113,122	\$ 33,082	\$ 96,337		\$ 25,861		\$ 268,402
State Special Revenue Fund	1,353,759	30,615	5,375,342	767,477	604,905	9,677,663	17,809,761
Federal Special Revenue Fund	1,776,258	24,189	991,768		1,788,363	12,904,409	17,484,987
Capital Projects Fund					300,000		300,000
Internal Service Fund	208,361						208,361
Unspent Budget Authority	\$ <u>3,451,500</u>	\$ <u>87,886</u>	\$ <u>6,463,447</u>	\$ <u>767,477</u>	\$ <u>2,719,129</u>	\$ <u>22,582,072</u>	\$ <u>36,071,511</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 Environmental Quality

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2014

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Capital Projects, Debt Service, and Permanent). 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 (Internal Service) and Fiduciary (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 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 permitting and compliance activity for Air Quality Permits, Public Water Supply, Water and Waste Water Operator Certification, Subdivision Review, Montana Pollutant Discharge Elimination System (MPDES), Hard Rock, Coal, Uranium and Opencut Mining, Major Facility Siting, Asbestos Control, Hazardous Waste Management, Junk Vehicle Disposal, Septic Tank Pumper Certification and disposal site inspections, Solid Waste Management and Underground Storage Tanks. In addition to the permitting and compliance activities, the State Special Revenue Fund includes the department's Alternate Energy Loan Program and State Building Energy Conservation Program, Orphan Share, Petroleum Tank Release Cleanup, Hard Rock Mining Reclamation, Environmental Quality Protection Fund (State Superfund), and various reclamation bond forfeiture and settlement accounts including Upper Blackfoot Mining Complex, Streamside Tailings, Montana Post and Pole, and Clark Fork remedial action accounts.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include federal assistance programs such as the Water Pollution Control and Drinking Water State Revolving Funds, Performance Partnership Grants, Abandoned Mine Lands Reclamation Grant, as well as other federal grants and agreements.
- ♦ **Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses this fund to record debt service principal and interest payments for state Hard Rock Mining Reclamation Bonds, Energy Conservation Bonds, and Comprehensive Environmental Response, Compensation and Liability Bonds.
- ♦ **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund to account for resources recovered from state agencies and component units for repayment of State Buildings Energy Conservation Program projects that are legally committed for construction of future state Building Energy Conservation Projects.
- ♦ **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 legislature created a trust fund in fiscal year 2005-06 to cover the long-term costs of water treatment in the area of the Zortman-Landusky mines. The trust is financed from an annual transfer of \$1.2 million from the orphan share fund until fiscal year 2017-18 or until the balance reaches \$19.3 million.

Proprietary Fund Category

- ♦ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of

state government or to other governmental entities on a cost-reimbursement basis. Department Internal Service Funds include indirect charges assessed against all units of the department by the Central Management Program for providing department-wide support functions and services.

Fiduciary Fund Category

- ♦ **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. Department private-purpose trust funds include financial resources held in trust related to permitting activities.

2. General Fund Equity Balance

The negative fund equity 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 equity balances for each of the fiscal years ended June 30, 2013 and June 30, 2014.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General, State Special Revenue, Federal Special Revenue, Debt Service and Capital Projects funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

4. Non Budgeted Revenues & Transfers-In

In the Schedule of Total Revenues and Transfers-In, in the State Special Revenue Fund, the nonbudgeted revenues and transfers-in were \$20.5 million and \$7.3 million in fiscal year 2013-14 and 2012-13, respectively, an increase of \$13.2 million. The change is primarily attributed to a \$5.8 million increase in Board of Investment earnings in fiscal year 2013-14 over 2012-13, and receipt of \$5.2 million in settlement proceeds received in fiscal year 2013-14 related to the W.R. Grace & Co. bankruptcy.

5. Fund Transfers

The fund transfers in the Schedule of Expenditures and Transfers-Out in the Planning, Prevention and Assistance program contained transfers-out of federal funds in the amounts of \$12.6 million and \$12.3 million for the fiscal years 2013-14 and

2012-13, respectively, for the Federal Drinking and Clean Water State Revolving Fund programs. The transfers were made to the Department of Natural Resources and Conservation for disbursement to local governments for construction of water and wastewater system improvements. Additionally, the 2013-14 transfer-outs include a \$3.4 million biennial transfer from the Energy Conservation Repayment Account to the Energy Conservation Capital Projects Account in accordance with Montana Code Annotate 90-4-615.

6. Unspent Budget Authority

The unspent budget authority in the Federal Special Revenue Fund in the amount of \$20 million and \$12.9 million in fiscal years 2013-14 and 2012-13, respectfully, in the Schedule of Expenditures and Transfers-Out for the Remediation Division consist primarily of budget amendment authority (HB4) for multi-year Abandoned Mine Lands (AML) federal reclamation grants.

7. Loss Contingencies

There are two pending cases in which the department is the defendant and in which there is a “reasonable possibility,” as defined in GASB Statement 62, of monetary judgments against the department.

- ♦ Grimes v. DEQ et al., is an inverse condemnation action filed in state district court in Helena for alleged damages resulting from the department’s siting of a waste repository in the vicinity of the plaintiffs’ property. The department anticipates that a judgment against the department could include attorney fees. DEQ anticipates that the maximum amount of such a judgment could be as high as \$500,000 for damages and attorney fees.
- ♦ Silver Bow Creek Headwaters Coalition v. State of Montana is a declaratory judgment action filed in state district court in Silver Bow County in which the plaintiff has included a request for payment of attorney fees. A judgment for attorney fees could be entered only if the plaintiff prevails on the merits in the case and the judge determines that the plaintiff is entitled to attorney fees. We anticipate that a judgment for attorney fees could be as high as \$200,000.

DEPARTMENT OF
ENVIRONMENTAL QUALITY

DEPARTMENT RESPONSE



Montana Department of
ENVIRONMENTAL QUALITY

Steve Bullock, Governor
Tracy Stone-Manning, Director

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October 17, 2014

Ms. Tori Hunthausen, CPA
Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, MT 59620-1705

RECEIVED

OCT 20 2014

LEGISLATIVE AUDIT DIV.

RE: Financial-Compliance Audit #14-16

Dear Ms. Hunthausen:

Thank you for the opportunity to respond to the Financial-Compliance Audit #14-16 for the Department of Environmental Quality. We have reviewed the recommendations contained in the report and our responses are as follows:

Recommendation #1A

We recommend the department establish procedures to: Estimate and record an allowance for uncollectable accounts.

Response: Concur.

DEQ will establish an allowance for uncollectible accounts by October 2014.

Recommendation #1B

We recommend the department establish procedures to: Monitor and periodically adjust balances on the state's accounting system as required by state accounting policy.

Response: Concur.

DEQ will establish a procedure to comply with state accounting policy to periodically review, at least annually, the reasonable collectability of LUST receivable accounts.

Recommendation #2

We recommend the department improve its review process to ensure new funds are properly established on the accounting records by fiscal year-end.

Response: Concur.

DEQ is working with DOA to create a SABHRS query that will identify fund characteristics as created in the accounting system. This report will allow DEQ, and all other agencies, to verify the accuracy of fund attributes when created or modified. DOA determines the time table for this corrective action plan; however, DEQ will monitor and follow-up with DOA to accomplish this task before the next fiscal year-end closing cycle.

Recommendation #3

We recommend the department comply with the Federal Funding Accountability and Transparency Act by reporting loans distributed by the State Revolving Fund programs.

Response: Concur.

DEQ has consistently reported to the Environmental Protection Agency's Public Benefits Reporting system the information required by the Federal Fund Accountability and Transparency Act; however, during the audit DEQ discovered that the PBR system was not importing the data to the FFATA system as expected. DEQ worked with EPA to resolve the data incompatibility issues between the two federal reporting systems without success. At that time, DEQ decided to manually update the required data into the FFATA system. The Drinking Water SRF program is now current with FFATA reporting with data from 2011 to present. The Waste Water SRF program will also be manually entering into the FFATA system for all required data with a target date of June 2015.

Recommendation #4

We recommend the department comply with the requirements of its moving and relocation policy.

Response: Concur.

DEQ will revise our moving relocation policy and procedure by the end of the calendar year to reduce confusion and simplify the reimbursement process.

Recommendation #5

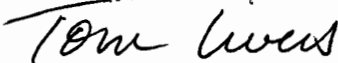
We recommend the department comply with state password policy by strengthening user-level security.

Response: Concur.

DEQ has already implemented an upgrade to our internal cash receipting, contract monitoring, and invoice import systems to require periodic password changes.

I want to thank you and your staff for your professionalism and fairness during the audit field work and conferences. We appreciate the willingness of the auditors to discuss recommendations and respond to our questions. We always look upon the audit process as an opportunity to improve the department's operations and performance.

Sincerely,



for Tracy Stone-Manning
Director
Department of Environmental Quality