



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

## *Department of Justice*

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

NOVEMBER 2014

LEGISLATIVE AUDIT  
DIVISION

14-18

**LEGISLATIVE AUDIT  
COMMITTEE**

**REPRESENTATIVES**

RANDY BRODEHL, CHAIR  
[Randybrodehl57@gmail.com](mailto:Randybrodehl57@gmail.com)

VIRGINIA COURT  
[vcourtforlegislature@yahoo.com](mailto:vcourtforlegislature@yahoo.com)

MIKE CUFFE  
[mcuffe@interbel.net](mailto:mcuffe@interbel.net)

MARY McNALLY  
[McNally4MTLeg@gmail.com](mailto:McNally4MTLeg@gmail.com)

RYAN OSMUNDSON  
[Ryanosmundson@gmail.com](mailto:Ryanosmundson@gmail.com)

J.P. POMNICHOWSKI  
[pomnicho@montanadsl.net](mailto:pomnicho@montanadsl.net)

**SENATORS**

DEE BROWN  
[repdee@yahoo.com](mailto:repdee@yahoo.com)

TAYLOR BROWN  
[taylor@northernbroadcasting.com](mailto:taylor@northernbroadcasting.com)

GREG JERGESON, VICE CHAIR  
[jergeson4senator@yahoo.com](mailto:jergeson4senator@yahoo.com)

SUE MALEK  
[senatormalek@gmail.com](mailto:senatormalek@gmail.com)

FREDRICK (ERIC) MOORE  
[mail@SenatorEricMoore.com](mailto:mail@SenatorEricMoore.com)

MITCH TROPILA  
[tropila@mt.net](mailto:tropila@mt.net)

MEMBERS SERVE UNTIL A  
MEMBER'S LEGISLATIVE TERM  
OF OFFICE ENDS OR UNTIL A  
SUCCESSOR IS APPOINTED,  
WHICHEVER OCCURS FIRST.

§5-13-202(2), MCA

FRAUD HOTLINE  
(STATEWIDE)  
1-800-222-4446  
(IN HELENA)  
444-4446  
[ladhotline@mt.gov](mailto:ladhotline@mt.gov)

**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  
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  
CHRIS G. DARRAGH  
JOHN FINE  
BRENT LAYMAN

AUBREY CURTIS  
JENNIFER ERDAHL  
BRENDA KEDISH  
DELSI OSMANSON

---

Reports can be found in electronic format at:  
<http://leg.mt.gov/audit>

# LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:  
Cindy Jorgenson  
Angus Maciver

November 2014

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Justice for the two fiscal years ended June 30, 2014. Included in this report are four recommendations related to payments made from the treasury without valid appropriations, internal control issue related to improper segregation of duties within the Central Services Division, pollution remediation liability error, and noncompliance with various state laws.

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 Attorney General and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA  
Legislative Auditor



## TABLE OF CONTENTS

Figures and Tables.....	ii
Elected, Appointed, and Administrative Officials.....	iii
Report Summary .....	S-1
<b>CHAPTER I – INTRODUCTION.....</b>	<b>1</b>
Introduction.....	1
Internal Control .....	1
Background.....	2
Boards, Councils, and Programs .....	4
Department Divisions.....	4
Prior Audit Recommendations.....	5
<b>CHAPTER II – FINDINGS AND RECOMMENDATIONS.....</b>	<b>7</b>
Delay in Charging Appropriations for Disbursements .....	7
Improper Segregation of Duties .....	8
Pollution Remediation Liability .....	9
Noncompliance With State Law .....	10
Inaccurate Distribution of Motor Vehicle Division Fees .....	10
Rules for Approval of Ignition Interlock Devices .....	10
Contradictory Statutory Requirements for Montana Highway Patrol Expenses .....	11
<b>INDEPENDENT AUDITOR’S REPORT AND DEPARTMENT FINANCIAL SCHEDULES</b>	
Independent Auditor’s Report .....	A-1
Schedule of Changes in Fund Equity & Property Held in Trust for the Fiscal Year Ended June 30, 2014.....	A-3
Schedule of Changes in Fund Equity & Property Held in Trust 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
<b>DEPARTMENT RESPONSE</b>	
Department of Justice .....	B-1

# FIGURES AND TABLES

## Figures

Figure 1	Department of Justice Organizational Chart .....	3
----------	--	---

## Tables

Table 1	Summary of Deficiencies in Internal Control .....	2
Table 2	Payments Made Without an Appropriation .....	8

## ELECTED, APPOINTED, AND ADMINISTRATIVE OFFICIALS

**Department of Justice** Tim Fox, Attorney General  
 Scott Darkenwald, Chief of Staff/Deputy Director  
 Mike Milburn, Deputy Chief of Staff

Division Administrators  
 Christi Jacobsen, Central Services  
 Joe Chapman, Information Technology Services  
 Phil Kinsey, Forensic Sciences  
 Colonel Tom Butler, Highway Patrol  
 Bryan Lockerby, Criminal Investigation  
 Sarah Garcia, Motor Vehicle  
 Rick Ask, Gambling Control  
 Mark Mattioli, Legal Services

### Montana Board of Crime Control

<u>Members</u>	<u>Representing</u>	<u>Term Expires</u>
Laura Obert, Chair	Local Government	1/1/17
Rick Kirn, Vice Chair	Tribal Government	1/1/15
Mike Batista	Law Enforcement	1/1/17
James Cashell	Public	1/1/17
Brenda Desmond	Judge/Judiciary	1/1/15
William Dial	Law Enforcement	1/1/17
Leo Dutton	Local Law Enforcement	1/1/17
Tim Fox	Attorney General	1/1/17
Bill Hooks	Criminal Justice Agency	1/1/15
Danna Jackson	Professional & Community Organizations	1/1/17
Tara Jensen	Public	1/1/15
Steve McArthur	Community Corrections	1/1/17

Kelly McIntosh	Public	1/1/17
Beth McLaughlin	Judge/Judiciary	1/1/15
Michelle Miller	Youth Justice Advisory Council	1/1/17
Nickolas Murnion	Law Enforcement	1/1/17
Angela Russell	Public	1/1/15
Godfrey Saunders	Educator	1/1/15
Don Merritt	Acting Executive Director	

**Montana Public Safety  
Officer Standards and  
Training Council**

<u>Members</u>	<u>Representing</u>	<u>Term Expires</u>
Tony Harbaugh, Chair	Sheriffs	1/1/17
Mike Batista	Department of Corrections	1/1/17
Laurel Bulson	Detention Centers	1/1/17
Kimberly Burdick	Public	1/1/17
James Cashell	MT Board of Crime Control	1/1/17
Gina Dahl	County Attorneys	1/1/15
William Dial	MT Board of Crime Control	1/1/15
Lewis Matthews	Tribal Law Enforcement	1/1/15
Tia Robbin	Public	1/1/15
Jesse Slaughter	Local Law Enforcement	1/1/15
James Smith	Chief of Police	1/1/15
John Strandell	State Government Law Enforcement	1/1/17
James Thomas	Public	1/1/17
Perry Johnson	Executive Director	

For additional information concerning the Department of Justice, contact:

Christi Jacobsen, Central Services Division Administrator  
P.O. Box 201404  
Helena, MT 59620-1404  
(406) 444-5842  
e-mail: CJacobsen@mt.gov





# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL-COMPLIANCE AUDIT

### Department of Justice

For the Two Fiscal Years Ended June 30, 2014

NOVEMBER 2014

14-18

REPORT SUMMARY

The Natural Resource Damage Program (NRDP) exists within the Department of Justice's Legal Services Division and was created in 1990 to prepare the state's lawsuit against the Atlantic Richfield Co. for injuries to the natural resources in the Upper Clark Fork River Basin (UCFRB). The program is responsible for administering approximately \$265 million resulting from settlement agreements occurring from 1999 through 2009. In December, 2012, a final UCFRB plan was adopted describing the State of Montana's proposed restoration actions for aquatic and terrestrial resources of the UCFRB. In fiscal year 2013, the department overestimated the associated pollution remediation liability.

### Context

The Attorney General is an elected official that heads the department, whose operations include the Montana Highway Patrol, the Montana Law Enforcement Academy, Agency Legal Services which provides legal services to other state agencies, the State Forensic Lab, driver and vehicle licensing and registration, and oversight of gambling within the state. Department operations provide revenues of approximately \$160 million to the General Fund and \$34 million to the State Special Revenue Fund for each fiscal year through their Motor Vehicle and Gambling Control Divisions. The department's program expenditures of approximately \$124 million per year, are primarily funded by the State Special Revenue Fund (60 percent) and the General Fund (30 percent).

Our Independent Auditor's Report is based on a combination of audit procedures including reviews of the department's internal control procedures, transaction testing, and analytical procedures over significant revenue and expenditure cycles as well as the larger account balances. Revenue testing focused

on the Motor Vehicle Division license and permits revenues and the Gambling Control Division tax revenues. Testing of expenditures included the personal services, operating, and grant expenditure cycles. The department is responsible for the management of large settlement agreements, so our audit also performed testing over the fund equity balances and investment revenues for those related funds as well as reviewing the department's compliance with selected state and federal laws and state policies.

### Results

There are four recommendations in this report. Our audit found the department paid out funds from the state treasury for the purchase of three vehicles without charging an appropriation which is contrary to the state constitution and state law. We identified an internal control deficiency related to segregation of duties. The pollution remediation liability recorded for fiscal year 2013 was in error. We also identified noncompliance with state laws governing

(continued on back)

distribution of fees collected by the Motor Vehicle Division, rules related to the approval of ignition interlock devices, and expenditures for the Montana Highway Patrol.

Recommendation Concurrence	
Concur	3
Partially Concur	1
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (14-18) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE  
Call toll-free 1-800-222-4446, or e-mail [ladhotline@mt.gov](mailto:ladhotline@mt.gov).

# Chapter I – Introduction

## **Introduction**

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

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

To achieve the objectives stated above, our audit employed a combination of tests including reviews of the department's internal control procedures, transaction testing, and analytical procedures over significant revenue and expenditure cycles as well as the larger account balances. The major revenue generators for the department are the Motor Vehicle Division license and permits revenues and the Gambling Control Division tax revenues. Personal services, operating, and grant expenditures were the focus of our expenditure testing. The department is responsible for the management of large settlement agreements, so our audit also performed testing over the fund equity balances and investment revenues for those related funds. Our audit also reviewed the department's compliance with selected state and federal laws as well as state policies.

As required by §17-8-101(6), MCA, we analyzed the fees and charges for services and fund equity in the department's Internal Service Fund. The department's only Internal Service Fund is for the Agency Legal Services Bureau. Our audit work indicates fund equity is reasonable and fees and charges are commensurate with costs for the operations in the fund for the two fiscal years ended June 30, 2014.

## **Internal Control**

Auditing standards require us to communicate, in writing, deficiencies in internal control we identified as a result of audit objective #1 above and considered to be significant or material. A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or detect and correct misstatements on a timely basis. A material weakness is one or more

deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A significant deficiency is one or more deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Table 1 <b><u>Summary of Deficiencies in Internal Control</u></b>		
Subject	Type of Deficiency	Page
Improper Segregation of Duties	Significant	8

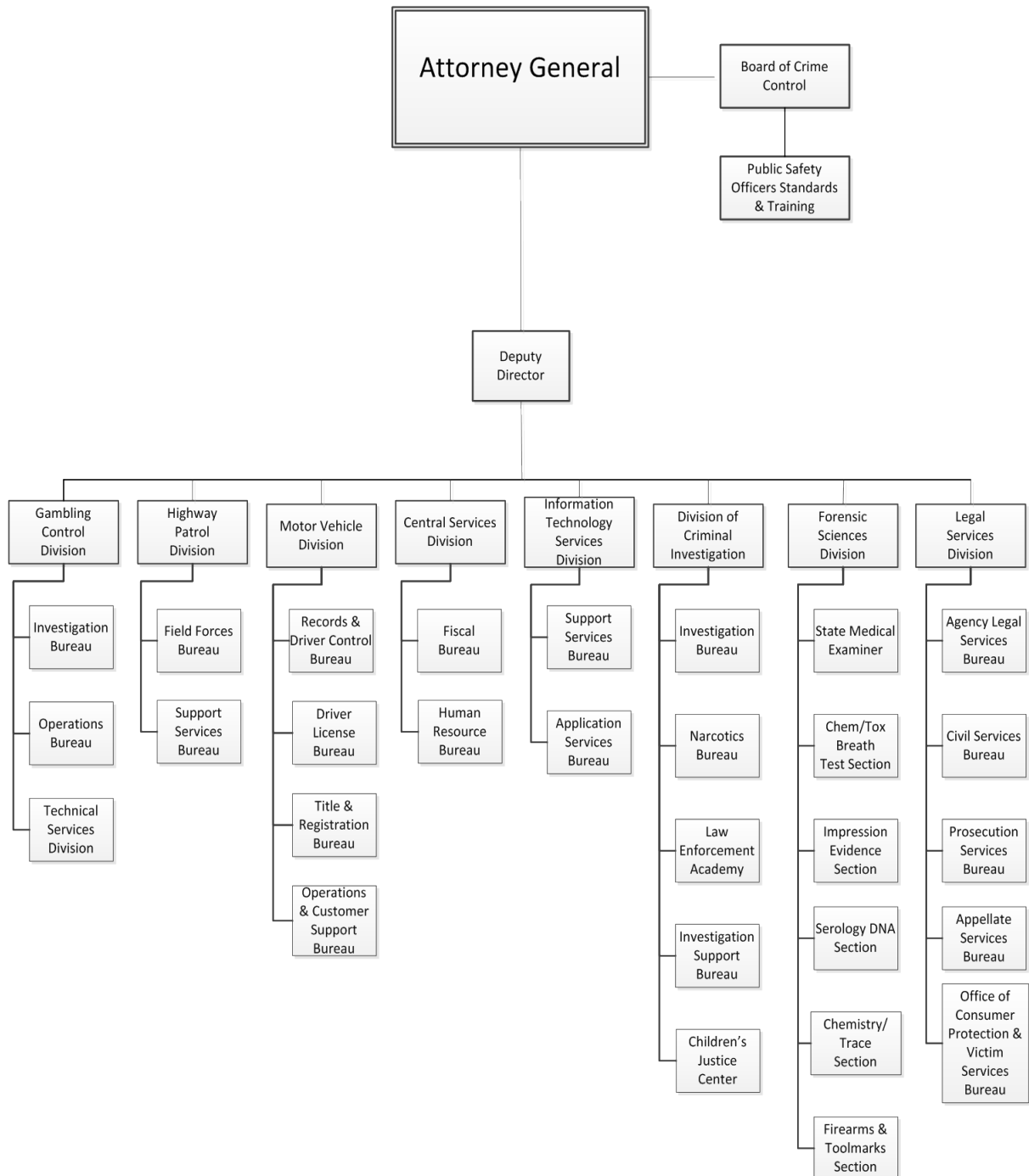
Our consideration of internal control was not for the purpose of expressing an opinion on the effectiveness of internal controls. Therefore, material weaknesses or significant deficiencies may exist that were not identified.

## **Background**

The Attorney General, who is elected to serve a four-year term, heads the department. The department's primary functions are to provide effective statewide law enforcement, provide legal services on behalf of the state, and improve public safety. The department is authorized a total of 817.8 full-time equivalent (FTE) employees, including the FTE of the Boards, Councils, and Programs allocated for administrative purposes.

Figure 1 on page 3 details the organizational structure for the Department of Justice.

Figure 1  
**Department of Justice Organizational Chart**



Source: Compiled by the Legislative Audit Division from Department of Justice records.

## **Boards, Councils, and Programs**

**The Board of Crime Control** (board) (17.5 FTE)—The board is composed of 18 members appointed by the Governor and confirmed by the Senate. The board's expenditure activity is presented in the department's financial schedules on pages A-7 and A-8 as the Justice System Support Service Program. The board prepares and implements an annual plan for strengthening Montana's criminal and juvenile justice systems. The board provides support services to criminal justice agencies including data collection and research. The board is also responsible for the administration of various state and federal programs to help reduce crime and provide victim assistance and support.

**Natural Resource Damage Program** (10.5 FTE)—The program exists within the department and is responsible for preparing natural resource damage assessments and lawsuits in order to recover damages to natural resources caused by releases of hazardous substances and developing and implementing restoration plans that guide the expenditures of settlement proceeds on restoration projects. The Natural Resource Damage Program operates within the Legal Services Division.

**The Public Safety Officer Standards and Training Council** (3 FTE)—The council is composed of 13 members appointed by the Governor. The council's expenditure activity is presented in the department's financial schedules on pages A-7 and A-8 within the Division of Criminal Investigation. The council is responsible for establishing basic and advanced qualification and training standards for employment of Montana's public safety officers. The council hires its own personnel and independently administers the conduct of its business.

## **Department Divisions**

**Legal Services** (83 FTE)—provides legal research and analysis for the Attorney General; legal counsel for state government and state officials, bureaus, and boards; legal assistance to local governments; legal assistance, training, and support for county prosecutors; assistance through the offices of Consumer Protection and Victim Services Bureau; and legal advice and support for all state agencies through the Agency Legal Services Bureau. The Office of Consumer Protection and Agency Legal Services expenditures are presented separately on the schedules of expenditures.

**Gambling Control** (47 FTE)—licenses and regulates gambling activities and enforces gambling laws in the state of Montana. The division collects license fees, gambling taxes, and investigates applications and complaints relating to alcoholic beverage licensing.

**Motor Vehicle** (158.75 FTE)—licenses individual and commercial drivers, administers all driver license records, and issues motor vehicle registrations and titles. The Motor Vehicle Division (MVD) includes the Title and Registration Bureau in Deer Lodge and 49 driver licensing offices located statewide.

**Montana Highway Patrol** (302 FTE)—enforces commercial vehicle regulations and general traffic laws, investigates accidents and auto thefts, inspects vehicles, provides motorist assistance, and recently introduced a drug interdiction program with a K-9 unit.

**Criminal Investigation** (102 FTE)—includes the administration, management, and coordination of criminal investigative services and training performed by the Investigations Bureau, the Narcotics Bureau, the Children's Justice Center, and the Law Enforcement Academy Bureau. The division maintains Montana's Sexual or Violent Offender Registry, the state reporting of criminal records and fingerprint information, and Montana's Criminal Justice Information Network.

**Central Services** (19 FTE)—provides centralized accounting, administrative, budgetary, human resources, payroll, and fiscal support for the department.

**Information Technology Service** (40.8 FTE)—provides a full range of services for the department and the criminal justice community. The division maintains several statewide criminal justice systems, including the state criminal history records system and the state criminal justice information network, that link law enforcement agencies in Montana with various state, regional, and national criminal justice databases. It also maintains several noncriminal justice computer systems, including the Montana Enhanced Registration and Licensing Information Network (MERLIN) and the Driver Control System.

**Forensic Sciences** (34.3 FTE)—performs scientific analyses of evidence submitted by law enforcement officials, coroners, and state agencies. The division promotes forensic science training, scientific criminal investigations, and manages a statewide system of death investigations.

## **Prior Audit Recommendations**

Our office performed the department's financial-compliance audit for the two fiscal years ended June 30, 2012. The report contained four recommendations. The department fully implemented three of the recommendations and partially implemented one recommendation. The recommendation partially implemented is related to the noncompliance with the requirement to adopt rules for the motor vehicle

division. Rules related to placing license plates on a five-year reissuance cycle have been adopted. The other required rules related to the verification of insurance before registering or renewing a vehicle registration and the automated mailing of license plates have been drafted, but the adoption process is not complete. We will not address this issue any further in this report.



## Chapter II – Findings and Recommendations

### Delay in Charging Appropriations for Disbursements

---

**The department purchased three vehicles in September of 2013 and did not charge the purchases against an appropriation as required by the constitution until March and June of 2014.**

---

The Montana State Constitution Article VIII, Section 14 states, “Except for interest on the public debt, no money shall be paid out of the treasury unless upon an appropriation made by law and a warrant drawn by the proper officer in pursuance thereof.” In addition, §17-8-101(1), MCA, states, “For purposes of complying with Article VIII, section 14, of the Montana constitution, money deposited in the general fund, special revenue fund ... may be paid out of the treasury only on appropriation made by law.” The law provides an exception to this requirement for refunds of money received by error or under circumstances where the state is not legally entitled to retain the money.

The legislature authorizes and limits spending by state agencies through appropriations, which are entered into the Statewide Accounting, Budgeting, and Human Resources System (SABHRS). The normal process for disbursing funds from the state treasury is to process an expenditure transaction on SABHRS, which reduces remaining appropriation authority and creates a payment. In September 2013, the department purchased three vehicles for the Montana Highway Patrol Division for a total purchase price of \$133,191. These vehicles are used by officers assigned to the Governor’s security detail. At the time of the purchases, an appropriation had not yet been entered on SABHRS, so the department used a liability account to issue the payments. Recording a transaction to a liability account does not charge an appropriation. The disbursements for the vehicles were not refunds, so an appropriation was required.

According to management, \$100,000 of the purchase price was authorized through a loss mitigation grant from the Department of Administration’s Risk Management and Tort Defense Bureau (RMTD). The remainder was to be paid from an appropriation for the Highways State Special Revenue Account. A grant from RMTD was approved in 2013 prior to the purchase of the vehicles, but the grant agreement did not include the purchase of vehicles. Department personnel indicated they received verbal approval from RMTD to purchase the vehicles, but the modification to the grant agreement was not completed until June 2014. Management said the timing of the purchase was necessary to meet the bulk-vehicle-purchase deadline established by the Department of Administration’s Procurement Bureau. Table 2 on page 8 summarizes the delay that occurred between the disbursement from the treasury and the date an appropriation was charged.

Table 2  
**Payments Made Without an Appropriation**

Purchase	Purchase Date	Purchase Amount	Date Charged to Valid Appropriation
Vehicle #1	Sept. 18, 2013	\$44,400	\$33,191 charged to State Special Highway account on March 7, 2014. Remainder charged to RMTD Grant on June 30, 2014.
Vehicle #2	Sept. 21, 2013	\$44,278	Charged to RMTD Grant on June 30, 2014.
Vehicle #3	Sept. 27, 2013	\$44,513	Charged to RMTD Grant on June 30, 2014.

**Source: Compiled by Legislative Audit Division from the Statewide Accounting, Budgeting and Human Resource System.**

By processing the payment using a liability account, the department disbursed state funds without charging an appropriation, which is contrary to the Montana State Constitution and state law. This increases the risk the department may exceed appropriation spending limits established by the legislature.

#### **RECOMMENDATION #1**

*We recommend the Department of Justice comply with the Montana State Constitution and state law, by charging expenditure transactions against an appropriation when acquiring purchased items.*

## **Improper Segregation of Duties**

**Department of Justice accounting technicians were authorized to both enter and approve transactions on the state's accounting system.**

The management of each agency is responsible for establishing internal control procedures for their agency. The Department of Justice adopted a policy established for the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) on granting access to the system. The department's policy states users should not be allowed to enter and approve the same transaction.

During this audit period, four employees were allowed to both enter and approve transactions. These access rights increase the risk of inappropriate journals or coding

errors being processed and paid through SABHRS without being detected. Once notified, the department modified the employee's access rights. Management stated the access rights were originally granted to allow the employees to review and approve each other's transactions. Department personnel believe there were adequate compensating controls in place through the review of SABHRS reports by their division's budget analyst and administrative officers to identify any inappropriate transactions processed on SABHRS. The access rights granted the employees is contrary to the department's internal control policy and resulted in an improper segregation of duties.

---

**RECOMMENDATION #2**

*We recommend the department assign employee access rights in accordance with its internal control policies.*

---

## **Pollution Remediation Liability**

---

### **The pollution remediation liability for fiscal year 2013 was recorded in error.**

---

The Department of Justice Natural Resource Damage Program (NRDP) is responsible for managing the settlement proceeds from lawsuits for the recovery of damages to natural resources caused by the release of hazardous substances and implementing restoration plans that guide the expenditures of the settlement proceeds on restoration projects. Historically, the department recorded a pollution remediation liability based on the total funds remaining from these settlements at fiscal year-end. For 2013, the department recorded \$53,625,000 and \$204,369,473 as the current and long-term portions of the pollution remediation liability, respectively.

Generally Accepted Accounting Principles require a pollution remediation liability be established for remediation and reclamation of polluted sites. The department's plan for the use of the settlement proceeds includes the purchase of replacement properties and water systems not directly associated with polluted sites. While these planned projects comply with terms of the settlement agreements, they do not meet the criteria for a pollution remediation liability. Our audit identified at least \$57 million of planned project expenditures that did not meet the criteria to be reported as a pollution remediation liability, indicating the liability was recorded in error at June 30, 2013. Based on this review we recommended the department base the fiscal year 2014 liability only on planned projects meeting this established criteria. For fiscal year 2014, the department recorded \$4,500,000 and \$26,000,000 as the current and long-term portions of the pollution remediation liability, which we determined to be reasonable.

Since the department's financial schedules do not include balance sheet accounts, these liabilities are not reported on the financial schedules included in this report, but are reported in the state's basic financial statements included in the Montana Comprehensive Annual Financial Report (CAFR). We will consider this error during our work over these statements.

---

**RECOMMENDATION #3**

*We recommend the department record the pollution remediation liability based only on planned projects meeting the criteria for pollution remediation.*

---

## **Noncompliance With State Law**

Through testing of various state laws, we identified three instances where compliance did not occur. The following paragraphs describe the noncompliance identified.

### **Inaccurate Distribution of Motor Vehicle Division Fees**

Section 61-3-204(1), MCA, requires a fee of \$10 be paid with an application for a replacement certificate of title. Of this, \$5 is to be deposited in the General Fund and the other \$5 is to be deposited in the Motor Vehicle Information Technology System account. Currently, the entire \$10 is deposited in the Information Technology System account. According to the department, this issue is the result of a programming error within the Montana Enhanced Registration & Licensing Information Network (MERLIN). The department is working on a system configuration fix which will take effect during the next patch release in October 2014. The department identified \$330,640 was recorded in the Motor Vehicle Information Technology System account in error as of October 15, 2014. This amount will continue to increase until the fix is released. When the final amount of the error is known, the department will return this amount to the General Fund.

### **Rules for Approval of Ignition Interlock Devices**

Section 61-8-441, MCA, requires the department to adopt rules providing for the approval of ignition interlock devices and the installation, calibration, repair, and removal of approved devices. Ignition interlock devices prevent a user from starting a vehicle if they have been drinking based on a breath analysis. This statute requires the rules be based on federal standards. To date, the department has not adopted these rules. According to department personnel, the standards developed by the National Highway Transportation and Safety Administration were updated in 2013 and the

changes are being evaluated as to the impact this will have in Montana. Department personnel also expect laws designed to reduce drinking and driving will be reviewed and possibly amended during the upcoming 2015 legislative session. Management indicated the department postponed adopting the rules, believing it will be more efficient to wait until any other issues have been addressed.

### **Contradictory Statutory Requirements for Montana Highway Patrol Expenses**

Section 44-1-501, MCA, requires the department pay all expenses of the Highway Patrol (HP) Program out of the Transportation Department State Special Revenue Fund account. Currently, approximately 75 percent of the HP expenses are paid from this account. Other sources of funding are used to pay the remainder of the expenses, including other State Special Revenue Fund accounts, Federal Special Revenue Fund accounts, and the General Fund. The other sources of funding for the HP Program are established in the following statutes:

- ◆ Section 19-6-410, MCA – Requires General Fund contributions to the Pension Trust Fund for supplemental retirement benefits.
- ◆ Section 44-1-504, MCA – Requires the HP salaries to be partially funded from a State Special Revenue Fund account. The department pays these costs from the Highway Patrol Pay and Retention account.
- ◆ Sections 44-12-205 and 44-12-206, MCA – Authorize proceeds from the sale of property from drug forfeitures to be used for enforcement of drug laws and to be paid from the Drug Forfeitures State Special Revenue account.
- ◆ Section 44-13-102, MCA – Authorizes property and money forfeited under federal law to be deposited to the Special Law Enforcement Assistance Federal Special Revenue Fund account for the support of state and local law enforcements programs.

Each of the statutes listed authorize payment of certain HP expenses from separate funding sources. Compliance with §44-1-501, MCA, is contrary to the other statutes by requiring “all” expenses of the HP Program to be paid out of the transportation account.

---

**RECOMMENDATION #4**

*We recommend the department comply with state law through:*

- A. Compliant distribution of the fee collected for a title replacement application to the appropriate accounts.*
  - B. Adoption of rules providing for the approval, installation, calibration, repair, and removal of ignition interlock devices.*
  - C. Seeking legislation to clarify the funding source for Montana Highway Patrol program expenses.*
-

# **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 & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Justice 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, or 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 and cash flows for the years then ended.

*Unmodified Opinions on Regulatory Basis of Accounting*

In our opinion, the Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, present fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Department of Justice 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

October 22, 2014

DEPARTMENT OF JUSTICE  
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund
FUND EQUITY: July 1, 2013	\$ 22,039,582	\$ 285,507,565	\$ 455,638	\$ 639,261	\$ 725,931	\$ (353,393)	\$ 0
PROPERTY HELD IN TRUST: July 1, 2013							0
ADDITIONS							
Budgeted Revenues & Transfers-In	170,368,744	44,658,023	9,773,987		612,442	1,139,366	275,597
Nonbudgeted Revenues & Transfers-In	5,155	13,594,632	3,779				40
Prior Year Revenues & Transfers-In Adjustments	292	(49,566)	15,926		35		(275,637)
Direct Entries to Fund Equity	(130,915,313)	15,277,677			1,179,202		
Additions to Property Held in Trust							8,350,158
Total Additions	39,458,878	73,480,767	9,793,692	0	1,791,679	1,139,366	8,350,158
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	37,447,397	57,530,944	9,872,529		1,896,633	1,150,447	
Nonbudgeted Expenditures & Transfers-Out	(41,252)	15,753,300	93,225		16,976	24,533	
Prior Year Expenditures & Transfers-Out Adjustments	(12,297)	18,061	(5,843)				
Reductions in Property Held in Trust							8,350,158
Total Reductions	37,393,848	73,302,304	9,959,912	0	1,913,609	1,174,980	8,350,158
FUND EQUITY: June 30, 2014	\$ 24,104,612	\$ 285,686,027	\$ 289,419	\$ 639,261	\$ 604,001	\$ (389,006)	\$ 0
PROPERTY HELD IN TRUST: June 30, 2014							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.

DEPARTMENT OF JUSTICE  
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund
<b>FUND EQUITY: July 1, 2012</b>	<b>\$ 22,788,986</b>	<b>\$ 300,949,010</b>	<b>\$ 636,211</b>	<b>\$ 639,261</b>	<b>\$ 440,044</b>	<b>\$ (336,952)</b>	<b>\$ 0</b>
<b>PROPERTY HELD IN TRUST: July 1, 2012</b>							<b>\$ 0</b>
<b>ADDITIONS</b>							
Budgeted Revenues & Transfers-In	168,626,611	43,250,658	10,129,548		616,350	1,270,772	
Nonbudgeted Revenues & Transfers-In	32,097	6,774,986	4,532				
Prior Year Revenues & Transfers-In Adjustments	9,797	1,293,188	(4,631)				
Direct Entries to Fund Equity	(134,945,443)	10,228,235	52		1,204,022		
Additions to Property Held in Trust							6,962,114
<b>Total Additions</b>	<b>33,723,063</b>	<b>61,547,067</b>	<b>10,129,501</b>	<b>0</b>	<b>1,820,372</b>	<b>1,270,772</b>	<b>6,962,114</b>
<b>REDUCTIONS</b>							
Budgeted Expenditures & Transfers-Out	34,459,739	55,936,376	10,305,526		1,835,480	1,255,005	
Nonbudgeted Expenditures & Transfers-Out	(1,183)	21,146,622	6,809		(300,971)	32,450	
Prior Year Expenditures & Transfers-Out Adjustments	13,911	(94,485)	(2,261)		(24)	(243)	
Reductions in Property Held in Trust							6,962,114
<b>Total Reductions</b>	<b>34,472,467</b>	<b>76,988,513</b>	<b>10,310,074</b>	<b>0</b>	<b>1,534,485</b>	<b>1,287,213</b>	<b>6,962,114</b>
<b>FUND EQUITY: June 30, 2013</b>	<b>\$ 22,039,582</b>	<b>\$ 285,507,565</b>	<b>\$ 455,638</b>	<b>\$ 639,261</b>	<b>\$ 725,931</b>	<b>\$ (353,393)</b>	<b>\$ 0</b>
<b>PROPERTY HELD IN TRUST: June 30, 2013</b>							<b>\$ 0</b>

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

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>							
Licenses and Permits							
Taxes	\$ 104,770,343	\$ 30,333,458		\$ 564,563			\$ 135,668,364
Charges for Services	57,147,940	4,206,702	3,400				61,358,042
Investment Earnings	4,270,932	5,518,317	836	46,252	\$ 1,139,366		10,975,703
Fines and Forfeits		10,764,265	2,837				10,767,102
Monetary Settlements	67,457	75,495					142,952
Capital Contributions	3,645,591	3,631,341					7,276,932
Sale of Documents, Merchandise and Property			26,875				26,875
Rentals, Leases and Royalties	380,271	11,631		1,214			393,116
Grants, Contracts, and Donations	3,694	4,082					4,082
Transfers-in		229,922					233,616
Capital Asset Sale Proceeds		2,879,474	2,365,634				5,245,108
Federal Indirect Cost Recoveries	2,262	100,943					103,204
Miscellaneous	81,462						81,462
Federal	4,240	447,374		413			452,028
Total Revenues & Transfers-In	170,374,191	85	7,394,109	35	1,139,366		7,394,229
Less: Nonbudgeted Revenues & Transfers-In						0	240,122,816
Prior Year Revenues & Transfers-In Adjustments	5,155	58,203,089	9,793,692	612,477		\$ 40	13,603,605
Actual Budgeted Revenues & Transfers-In	292	13,594,632	3,779			(275,637)	(308,949)
Estimated Revenues & Transfers-In	170,368,744	(49,566)	15,926	35	1,139,366	275,597	226,828,160
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ 44,658,023	\$ 9,773,987	\$ 612,442	\$ 0	\$ 275,597	\$ 231,811,259
		\$ 44,699,019	\$ 14,716,091	\$ 612,442	\$ 0	\$ 0	\$ (4,983,100)
		\$ (40,996)	\$ (4,942,104)	\$ 0	\$ 0	\$ 0	\$ (4,983,100)
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>							
Licenses and Permits		\$ (40,996)					\$ (40,996)
Investment Earnings			\$ (6,853)				(6,853)
Federal			(4,935,250)				(4,935,250)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ (40,996)	\$ (4,942,104)	\$ 0	\$ 0	\$ 0	\$ (4,983,100)

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 JUSTICE  
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	Internal Service Fund	Total
Licenses and Permits	\$ 103,419,947	\$ 29,450,721		\$ 553,919		\$ 133,424,587
Taxes	57,279,422	4,251,499	\$ 4,516			61,535,437
Charges for Services	4,121,491	5,563,776	5,470	43,968	1,270,772	11,005,475
Investment Earnings		3,657,932	6,195			3,664,127
Fines and Forfeits	82,042	105,933	200			188,175
Monetary Settlements	3,321,722	3,727,009				7,048,731
Sale of Documents, Merchandise and Property	277,561	16,189		1,939		295,689
Rentals, Leases and Royalties		4,082				4,082
Grants, Contracts, and Donations	4,790	263,031				267,821
Transfers-in	26,437	3,513,378	2,289,572			5,829,386
Capital Asset Sale Proceeds	2,637	136,479		16,500		155,616
Federal Indirect Cost Recoveries	123,083		17,337			140,420
Miscellaneous	9,040	621,007	1,014	25		631,085
Federal	334	7,797	7,805,147			7,813,277
Total Revenues & Transfers-In	168,668,506	51,318,833	10,129,449	616,350	1,270,772	232,003,909
Less: Nonbudgeted Revenues & Transfers-In						
Prior Year Revenues & Transfers-In Adjustments	32,097	6,774,986	4,532			6,811,615
Actual Budgeted Revenues & Transfers-In	9,797	1,293,188	(4,631)			1,298,355
Estimated Revenues & Transfers-In	168,626,611	43,250,658	10,129,548	616,350	1,270,772	223,893,939
Budgeted Revenues & Transfers-In Over (Under) Estimated	168,626,654	43,259,659	10,590,335	616,350	1,270,772	224,363,770
	\$ (43)	\$ (9,000)	\$ (460,787)	\$ 0	\$ 0	\$ (469,831)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	\$	\$ (9,000)			\$	\$ (9,000)
Investment Earnings			(688)			(688)
Miscellaneous	(43)					(43)
Federal			(460,099)			(460,099)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (43)	\$ (9,000)	\$ (460,787)	\$ 0	\$ 0	\$ (469,831)

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

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Agency Legal Services	Central Services Division	Division of Criminal Investigation	Forensic Science Division	Gambling Control Division	Information Technology Service	Legal Services Division	Montana Highway Patrol	Motor Vehicle Division	Office of Consumer Protection	Post Council	Justice System Support Service	Total
Personal Services													
Salaries	\$ 746,522	\$ 808,927	\$ 5,400,275	\$ 2,182,483	\$ 2,258,072	\$ 2,111,780	\$ 4,677,147	\$ 16,964,283	\$ 4,869,442	\$ 34,369	\$ 86,091	\$ 868,427	\$ 41,007,817
Other Compensation												3,400	3,400
Employee Benefits	218,491	277,864	2,010,299	660,302	819,732	699,810	1,442,570	9,527,670	2,213,781	14,962	31,658	300,742	18,217,880
Personal Services-Other	(10,895)				9,974				8,700				7,779
Total	954,118	1,086,790	7,410,573	2,842,785	3,087,777	2,811,590	6,119,717	26,491,952	7,091,923	49,331	117,749	1,172,569	59,236,876
Operating Expenses													
Other Services	65,894	112,000	1,722,353	218,008	146,740	134,903	11,285,782	1,769,785	7,284,441	1,227,357	114,501	387,382	24,469,146
Supplies & Materials	11,161	42,860	824,831	513,182	76,789	303,901	125,666	3,221,597	927,590	(537)	32,328	122,249	6,201,615
Communications	12,244	19,597	571,969	80,341	80,154	123,676	193,648	735,513	1,488,386	718	5,373	37,448	3,349,068
Travel	10,214	3,957	350,275	29,069	52,157	25,269	213,578	880,380	147,429	4,901	8,282	80,398	1,805,909
Rent	66,319	81,396	732,719	21,998	286,625	126,192	294,351	750,162	733,310		1,780	99,983	3,194,834
Utilities		890	102,433	122,679				23,781	18,507				268,291
Repair & Maintenance		48,228	461,523	183,816	17,280	478,053	51,542	932,183	135,920	7	165	5,650	2,314,367
Other Expenses	10,479	26,919	300,347	76,907	39,608	38,480	572,161	319,100	73,708	1,854	3,341	22,359	1,485,263
Total	176,311	335,846	5,066,450	1,246,001	699,352	1,230,474	12,736,729	8,632,501	10,809,291	1,234,300	165,770	755,469	43,088,493
Equipment & Intangible Assets													
Equipment			418,151	220,636	65,200	12,947	10,678	2,204,953	97,063			17,475	3,047,104
Livestock								66,350					66,350
Intangible Assets									694,144				694,144
Total			418,151	220,636	65,200	12,947	10,678	2,271,303	791,207			17,475	3,807,598
Local Assistance													
From State Sources		2,953,917			1,811,964		13,347						4,779,228
Total		2,953,917			1,811,964		13,347						4,779,228
Grants													
From State Sources												1,028,441	1,028,441
From Federal Sources			87,500									4,455,467	4,542,967
Grant To Governmental Entities										20,240			20,240
Grant To Non-Governmental Entities									53,500				53,500
Total			87,500						53,500	20,240		5,483,908	5,645,148
Benefits & Claims													
To Individuals							1,352,680						1,352,680
Total							1,352,680						1,352,680
Transfers-out													
Fund transfers			35,841		378,508		4,358,716		152,809			719,171	5,645,046
Nonmandatory Transfers							1,147						1,147
Total			35,841		378,508		4,359,863		152,809			719,171	5,646,193
Debt Service													
Loans				45,707					32,481				78,188
Capital Leases				69,501									69,501
Total				115,208					32,481				147,689
Other Post Employment Benefits													
Other Post Employment Benefits	36,869								3,879				40,748
Total	36,869								3,879				40,748
Total Expenditures & Transfers-Out	\$ 1,167,298	\$ 4,376,554	\$ 13,018,516	\$ 4,424,631	\$ 6,042,802	\$ 4,055,011	\$ 24,593,014	\$ 37,395,757	\$ 18,935,089	\$ 1,303,871	\$ 283,519	\$ 8,148,592	\$ 123,744,652
EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund		\$ 3,391,993	\$ 6,786,603	\$ 3,791,351		\$ 3,756,153	\$ 7,093,219	\$ 1,618,073	\$ 8,330,408		\$ 283,519	\$ 2,342,529	\$ 37,393,848
State Special Revenue Fund		957,672	4,688,883	350,569	\$ 4,898,378	281,350	16,678,642	34,336,942	9,673,320	\$ 1,303,871		132,677	73,302,304
Federal Special Revenue Fund			1,543,029	282,711		2,652	821,152	1,440,742	196,239			5,673,385	9,959,912
Enterprise Fund		26,888			1,144,424	7,174			735,122				1,913,609
Internal Service Fund	\$ 1,167,298					7,682							1,174,980
Total Expenditures & Transfers-Out	1,167,298	4,376,554	13,018,516	4,424,631	6,042,802	4,055,011	24,593,014	37,395,757	18,935,089	1,303,871	283,519	8,148,592	123,744,652
Less: Nonbudgeted Expenditures & Transfers-Out	24,533	(1,709)	414,170	(6,062)	(11,556)	50,539	15,054,026	147,660	159,991		(93)	15,282	15,846,782
Prior Year Expenditures & Transfers-Out Adjustments		(25)	874	2,238	(886)	(136)	1,488	15,717	(18,787)	(562)			(79)
Actual Budgeted Expenditures & Transfers-Out	1,142,765	4,378,288	12,603,472	4,428,455	6,055,244	4,004,608	9,537,500	37,232,380	18,793,885	1,304,432	283,611	8,133,310	107,897,950
Budget Authority	1,623,905	5,104,787	14,086,639	4,783,910	6,894,763	4,009,096	10,673,138	39,643,012	25,049,751	3,965,012	283,628	12,667,581	128,785,222
Unspent Budget Authority	\$ 481,140	\$ 726,499	\$ 1,483,167	\$ 355,455	\$ 839,519	\$ 4,488	\$ 1,135,637	\$ 2,410,632	\$ 6,255,866	\$ 2,660,580	\$ 17	\$ 4,534,272	\$ 20,887,272
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund		\$ 107,946	\$ 89,177	\$ 54,842		\$ 4,403	\$ 26,871	\$ 51,619	\$ 5,026		\$ 17	\$ 95,279	\$ 435,179
State Special Revenue Fund		502,441	361,825		\$ 810,503	85	548,435	1,179,091	413,108	\$ 2,660,580		123,571	6,599,639
Federal Special Revenue Fund		27,700	1,032,165	300,614			560,332	1,179,922	71,201			4,315,422	7,487,354
Capital Projects Fund									5,657,890				5,657,890
Enterprise Fund		88,412			29,017				108,641				226,069
Internal Service Fund	\$ 481,140												481,140
Unspent Budget Authority	\$ 481,140	\$ 726,499	\$ 1,483,167	\$ 355,455	\$ 839,519	\$ 4,488	\$ 1,135,637	\$ 2,410,632	\$ 6,255,866	\$ 2,660,580	\$ 17	\$ 4,534,272	\$ 20,887,272

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 JUSTICE  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Agency Legal Services	Central Services Division	Division of Criminal Investigation	Forensic Science Division	Gambling Control Division	Information Technology Service	Legal Services Division	Montana Highway Patrol	Motor Vehicle Division	Office of Consumer Protection	Justice System Support Service	TOTAL
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT												
Personal Services												
Salaries	\$ 846,308	\$ 910,847	\$ 5,038,547	\$ 2,035,115	\$ 2,178,299	\$ 1,973,389	\$ 3,800,686	\$ 15,945,895	\$ 4,355,848	\$ 440,981	\$ 834,410	\$ 38,360,325
Other Compensation											4,000	4,000
Employee Benefits	241,301	302,039	1,919,110	605,486	777,765	648,087	1,160,222	8,919,232	1,985,216	142,697	280,804	16,981,959
Personal Services-Other	(6,384)				(17,917)							(24,301)
Total	<u>1,081,225</u>	<u>1,212,886</u>	<u>6,957,657</u>	<u>2,640,601</u>	<u>2,938,147</u>	<u>2,621,476</u>	<u>4,960,909</u>	<u>24,865,127</u>	<u>6,341,064</u>	<u>583,678</u>	<u>1,119,214</u>	<u>55,321,982</u>
Operating Expenses												
Other Services	50,665	48,121	1,997,692	213,437	193,976	95,041	11,565,365	1,576,330	6,413,448	1,726,603	285,908	24,166,588
Supplies & Materials	13,964	30,296	603,734	500,254	86,554	557,790	99,697	3,273,542	719,841	18,452	76,289	5,980,413
Communications	12,713	15,022	630,144	59,873	89,573	129,417	133,842	775,210	930,159	22,995	36,238	2,835,187
Travel	5,656	5,437	305,697	52,894	44,999	15,144	156,707	800,677	144,328	37,250	69,720	1,638,509
Rent	65,899	82,489	710,976	38,680	284,161	126,576	224,246	679,983	698,456	57,181	98,193	3,066,842
Utilities			90,435	119,319				21,579	19,812			251,145
Repair & Maintenance	319	57,297	394,537	258,973	16,406	303,381	35,197	819,736	109,318	545	4,627	2,000,336
Other Expenses	10,656	13,367	284,674	24,949	40,653	56,728	126,741	270,927	52,191	15,176	92,768	988,829
Total	<u>159,872</u>	<u>252,029</u>	<u>5,017,889</u>	<u>1,268,378</u>	<u>756,322</u>	<u>1,284,077</u>	<u>12,341,795</u>	<u>8,217,986</u>	<u>9,087,554</u>	<u>1,878,202</u>	<u>663,744</u>	<u>40,927,848</u>
Equipment & Intangible Assets												
Equipment			202,176	318,529	38,500	352,294	28,392	2,048,788	(148,293)		14,038	2,854,424
Intangible Assets									180,373			180,373
Total			<u>202,176</u>	<u>318,529</u>	<u>38,500</u>	<u>352,294</u>	<u>28,392</u>	<u>2,048,788</u>	<u>32,080</u>		<u>14,038</u>	<u>3,034,797</u>
Local Assistance												
From State Sources		<u>2,841,930</u>			<u>1,844,961</u>							<u>4,686,891</u>
Total		<u>2,841,930</u>			<u>1,844,961</u>							<u>4,686,891</u>
Grants												
From State Sources										301,109	1,017,748	1,318,858
From Federal Sources											3,685,352	3,685,352
From Other Sources										2,023,701	20,178	2,043,879
Grant To Governmental Entities										76,877		76,877
Grant To Non-Governmental Entities										<u>5,688,378</u>		<u>5,688,378</u>
Total										<u>8,090,065</u>	<u>4,723,278</u>	<u>12,813,343</u>
Benefits & Claims												
To Individuals							<u>1,303,868</u>					<u>1,303,868</u>
Total							<u>1,303,868</u>					<u>1,303,868</u>
Transfers-out												
Fund transfers			<u>11,295</u>		<u>250,000</u>		<u>274,001</u>		<u>1,735,000</u>	<u>2,965,565</u>	<u>1,000,258</u>	<u>6,236,119</u>
Total			<u>11,295</u>		<u>250,000</u>		<u>274,001</u>		<u>1,735,000</u>	<u>2,965,565</u>	<u>1,000,258</u>	<u>6,236,119</u>
Debt Service												
Loans				45,707					118,941			164,648
Installment Purchases				<u>64,389</u>								<u>64,389</u>
Total				<u>110,096</u>					<u>118,941</u>			<u>229,037</u>
Other Post Employment Benefits												
Other Post Employment Benefits	<u>38,865</u>											<u>38,865</u>
Total	<u>38,865</u>											<u>38,865</u>
Total Expenditures & Transfers-Out	<u>\$ 1,279,962</u>	<u>\$ 4,306,845</u>	<u>\$ 12,189,017</u>	<u>\$ 4,337,604</u>	<u>\$ 5,827,930</u>	<u>\$ 4,257,847</u>	<u>\$ 18,908,965</u>	<u>\$ 35,131,901</u>	<u>\$ 17,314,639</u>	<u>\$ 13,517,510</u>	<u>\$ 7,520,532</u>	<u>\$ 124,592,751</u>
EXPENDITURES & TRANSFERS-OUT BY FUND												
General Fund		\$ 3,423,045	\$ 6,308,486	\$ 3,792,839		\$ 3,827,708	\$ 6,602,753	\$ 1,559,569	\$ 6,841,428		\$ 2,116,638	\$ 34,472,467
State Special Revenue Fund		846,214	4,166,224	327,687	\$ 4,686,726	375,159	11,403,775	32,293,106	9,252,411	\$ 13,517,510	\$ 119,702	\$ 76,988,513
Federal Special Revenue Fund			1,714,307	217,078		40,169	902,437	1,279,226	872,666		5,284,192	10,310,074
Enterprise Fund		37,586			1,141,204	7,560			348,135			1,534,485
Internal Service Fund	\$ 1,279,962					7,251						<u>1,287,213</u>
Total Expenditures & Transfers-Out	<u>1,279,962</u>	<u>4,306,845</u>	<u>12,189,017</u>	<u>4,337,604</u>	<u>5,827,930</u>	<u>4,257,847</u>	<u>18,908,965</u>	<u>35,131,901</u>	<u>17,314,639</u>	<u>13,517,510</u>	<u>7,520,532</u>	<u>124,592,751</u>
Less: Nonbudgeted Expenditures & Transfers-Out	32,450	(34)	345,634	(61)	(19,387)	38,801	10,776,974	685,554	1,408,717	7,594,884	20,194	20,883,727
Prior Year Expenditures & Transfers-Out Adjustments	(243)		(924)	25,361	(17,188)	(0)	191	(935)	(13,658)	(75,593)	(112)	(83,102)
Actual Budgeted Expenditures & Transfers-Out	<u>1,247,754</u>	<u>4,306,879</u>	<u>11,844,307</u>	<u>4,312,304</u>	<u>5,864,504</u>	<u>4,219,045</u>	<u>8,131,800</u>	<u>34,447,281</u>	<u>15,919,580</u>	<u>5,998,219</u>	<u>7,500,451</u>	<u>103,792,126</u>
Budget Authority	<u>1,564,566</u>	<u>5,130,806</u>	<u>13,172,353</u>	<u>4,526,684</u>	<u>6,138,094</u>	<u>4,254,507</u>	<u>8,971,036</u>	<u>35,715,582</u>	<u>26,885,737</u>	<u>10,343,213</u>	<u>15,752,043</u>	<u>132,454,621</u>
Unspent Budget Authority	<u>\$ 316,812</u>	<u>\$ 823,927</u>	<u>\$ 1,328,045</u>	<u>\$ 214,380</u>	<u>\$ 273,590</u>	<u>\$ 35,462</u>	<u>\$ 839,236</u>	<u>\$ 1,268,301</u>	<u>\$ 10,966,157</u>	<u>\$ 4,344,994</u>	<u>\$ 8,251,592</u>	<u>\$ 28,662,495</u>
UNSPENT BUDGET AUTHORITY BY FUND												
General Fund		\$ 92,347	\$ 1,502	\$ 16,983		\$ 35,252	\$ 30,928	\$ 309,364	\$ 105,809		\$ 207,088	\$ 799,273
State Special Revenue Fund		662,324	511,737		\$ 161,089		603	195,287	4,892,655	\$ 4,344,994	89,058	10,857,747
Federal Special Revenue Fund		20,500	814,807	197,397		210	807,705	763,650	267,440		7,955,446	10,827,154
Capital Projects Fund									5,657,890			5,657,890
Enterprise Fund		48,755			112,502				42,362			203,619
Internal Service Fund	<u>\$ 316,812</u>											<u>316,812</u>
Unspent Budget Authority	<u>\$ 316,812</u>	<u>\$ 823,927</u>	<u>\$ 1,328,045</u>	<u>\$ 214,380</u>	<u>\$ 273,590</u>	<u>\$ 35,462</u>	<u>\$ 839,236</u>	<u>\$ 1,268,301</u>	<u>\$ 10,966,157</u>	<u>\$ 4,344,994</u>	<u>\$ 8,251,592</u>	<u>\$ 28,662,495</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 Justice

## 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, and Capital Projects). 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 Internal Service) and Fiduciary (Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

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

### **Basis of Presentation**

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment. In order to reflect the total operations of the department, the administratively attached Board of Crime Control is combined on the financial schedules with the Department of Justice.

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. Significant General Fund activity for the department includes motor vehicle, gambling, and legal services.
- ♦ **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 Highway Patrol operations, collections of gambling license revenues, Montana Law Enforcement Academy operations, Natural Resources Damage Litigation Program, Consumer Protection Program, Motor Vehicle Information Technology System, and the Montana Mental Health Settlement Trust account. All funds for the Montana Mental Health Settlement Trust account were granted out of the state special revenue fund on June 11, 2013 to Montana Mental Health Trust, a tax exempt charitable trust, and it is no longer administered by the Department of Justice.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include Federal Crime Victims Benefits, Medicaid Fraud Control Unit, Juvenile Justice, Juvenile Assistance, and Violence against Women.
- ♦ **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 the costs related to developing the information technology system related to the production and maintenance of motor vehicle title and registration records and driver's license records. In FY13 and FY14 there was enough funds in the Motor Vehicle Division's State Special Revenue Fund to cover the costs therefore there wasn't a need to draw on the capital project fund. These funds are expected to be used in the future.

## Proprietary Fund Category

- ♦ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The Department Internal Service Fund is for the Agency Legal Services Bureau, which provided requested legal services to other state agencies.
- ♦ **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 MVD State Information Portal, MVD Electronic Commerce, and

the Liquor Division, which is used to fund part of the Gambling Division's operations, and is administered by the Department of Revenue.

### **Fiduciary Fund Category**

- ♦ **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal to the State clearing account activity but these must have a zero balance at fiscal year-end. The department agency fund includes activity for county and sponsor organization license plate fee collections.

## **2. General Fund Balance**

The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department's total assets placed in the fund exceed outstanding liabilities, resulting in positive ending General Fund balances for each of the fiscal years ended June 30, 2013, and June 30, 2014. These balances reflect the results of the activity of the department and not the fund balance of the statewide General Fund.

## **3. Direct Entries to Fund Balance**

Direct entries to fund balances in the General, State Special Revenue, Federal Special Revenue Fund and Enterprise funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

## **4. Agency Fund**

The department records fees collected for counties and specialty plate donations collected for sponsor organizations in the Agency Fund. Due to the programming of the Motor Vehicle Divisions' licensing system, revenues are recorded in error when the fees and donations are collected and reversed when those revenues are returned to the counties and sponsoring organizations. The Budgeted, Non-Budgeted, and Prior Year Revenues reported in the Agency Fund are those collections that span fiscal years.

## **5. POST Council**

In Fiscal Year 2014, the Public Safety Officer Standards & Training (POST) Division was fiscally separated out to clearly separate their budget and expenditures from the Criminal Investigation Division.

## **6. Unspent Budget Authority for the Motor Vehicle Division**

In fiscal year 2013 there was unspent budget authority of 10,966,157 and in fiscal year 2014, there was 6,255,866 for the Motor Vehicle Division. This was due to delayed

implementations due to competing projects and limited MVD/JITSD staff resulted in:

- ♦ Costs for implementation of the Montana Insurance Verification System started in March 2012
- ♦ Rolling re-issue of license plates started in April 2014
- ♦ The design activities for conversion of the legacy driver system started in July 2012.

The final phase of the Montana Enhanced Registration and Licensing Information Network (MERLIN), Phase 3, Driver Modernization, is ongoing and will convert the legacy driver system into MERLIN. Upon completion of Phase 3, MERLIN will be a fully-integrated solution to manage all Motor Vehicle Division services

## **7. Transfers**

The transfers in the Legal Services Division are for payments made by the Natural Resources Damage Program (NRDP) to other state agencies such as Fish Wildlife and Park (FWP) and Department of Environmental Quality (DEQ) per Montana Operations Manual policy #345. The transfers in FY14 included a 2 million dollar transfer within NRDP from one state special fund to another. Also in FY14, a new project, the Clark Fork River project, required a 1.6 million transfer from NRDP to DEQ.

DEPARTMENT OF JUSTICE

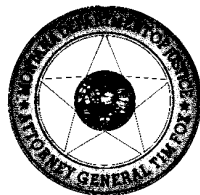
DEPARTMENT RESPONSE



# ATTORNEY GENERAL

## STATE OF MONTANA

Tim Fox  
Attorney General



Joseph P. Mazurek Building  
215 North Sanders  
P.O. Box 201401  
Helena, MT 59620-1401

November 5, 2014

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

RECEIVED  
NOV 05 2014  
LEGISLATIVE AUDIT DIV.

Dear Ms. Hunthausen:

The Department of Justice and the Crime Control Division thank you and your audit team for the professionalism displayed while conducting this financial compliance audit. The audit provides valuable and timely information for us to evaluate our programs and accounting processes.

Please accept the following as my response to the audit recommendations presented in the report for the two fiscal years ended June 30, 2014.

### Recommendation #1

**We recommend the department comply with the Montana Constitution and state law, by charging expenditure transactions against an appropriation when acquiring purchased items.**

Concur. The department will only charge expenditure transactions against an appropriation.

### Recommendation #2

**We recommend the department assign employee access rights in accordance with its internal control policies.**

Concur. The department modified employee access rights and will continue to adhere to the internal control policy.

Recommendation #3

**We recommend the department record the pollution remediation liability based only on planned projects meeting the criteria for pollution remediation.**

Concur. The department accountants corrected the liability calculation in fiscal year 2014 and will continue to make every effort to ensure that proper accounting procedures will be used to account for pollution remediation liabilities in accordance with state and accounting policies.

Recommendation #4

**We recommend the department comply with state law by:**

**A. Compliant distribution of the fee collected for a title replacement application to the appropriate accounts.**

Concur. The department is currently making the programming changes in MERLIN and will make the necessary adjustment as soon as the programming is complete.

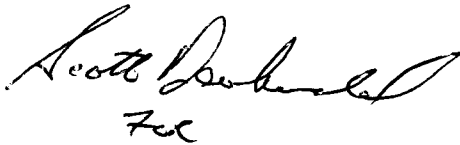
**B. Adopting of rules providing for the approval, installation, calibration, repair, and removal of ignition interlock devices.**

Partially concur. The department will adopt rules when legislation is passed that clarifies intent for all stakeholders (Mothers Against Drunk Driving, National Highway Transportation Safety Administration, and the Montana Department of Transportation).

**C. Seeking legislation to clarify the funding source for Montana Highway Patrol program expenses.**

Concur. The Legislative priorities were already determined prior to the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott DeBenedictis".

TIM FOX  
Attorney General