



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

LEGISLATIVE AUDIT  
DIVISION

15-21

FINANCIAL-COMPLIANCE AUDIT

## *Department of Agriculture*

*For the Two Fiscal Years Ended  
June 30, 2015*

APRIL 2016

## FINANCIAL-COMPLIANCE AUDITS

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§5-13-202(2), MCA

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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.

The Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by Government Auditing Standards. 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, 2015, was issued March 29, 2016. The Single Audit Report for the two fiscal years ended June 30, 2017, will be issued by March 31, 2018. 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

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Room 160, State Capitol  
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Helena, MT 59620-1705

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# LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:  
Cindy Jorgenson  
Angus Maciver

April 2016

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Agriculture for the two fiscal years ended June 30, 2015. Included in this report are three recommendations related to the misclassification of hail insurance assets and liabilities, an internal control deficiency regarding revenue transfers, and noncompliance with state law.

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

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA  
Legislative Auditor



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## APPOINTED AND ADMINISTRATIVE OFFICIALS

### Department of Agriculture

Ron de Yong, Director

Libbi Lovshin, Administrator, Central Services Division

Gregory H. Ames, Administrator, Agricultural Sciences Division

Kim Falcon, Administrator, Agricultural Development Division

### Councils, Committees, and Board

Agriculture Development Council

Board of Hail Insurance

Montana Alfalfa Seed Committee

Organic Commodity Advisory Council

Potato Advisory Committee

Pulse Advisory Committee

Noxious Weed Seed Free Forage Advisory Council

Wheat and Barley Committee

Cherry Advisory Committee

Noxious Weed Management Advisory Council

For additional information concerning the Department of Agriculture,  
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# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL-COMPLIANCE AUDIT

### Department of Agriculture

For the Two Fiscal Years Ended June 30, 2015

APRIL 2016

15-21

REPORT SUMMARY

In fiscal year 2014, the Department of Agriculture paid over \$14 million in insurance claims for the 2013 hail year, resulting in an 88 percent decrease in the department's hail insurance reserves. As a result, the department entered into a reinsurance agreement as allowed by state law, which transfers a portion of the liability risk to a third party.

### Context

The Department of Agriculture (department) has approximately 120 employees and is organized under three divisions: Agricultural Sciences Division, Agricultural Development Division, and Central Services Division. The department operates more than 30 programs relating to the protection of producers, consumers, and the agricultural environment. The department also promotes growth in Montana's agriculture by fostering development and marketing programs. Revenues totaled approximately \$24.5 million and \$25 million for fiscal years 2015 and 2014, respectively. These revenues are derived mainly from hail insurance premiums, crop assessments for agricultural crops sold in Montana, and the sale of pesticide-related licenses and permits.

The Hail Insurance Program recorded in the Enterprise Fund accounts for a material portion of the department's expenditures. While the fiscal year 2015 hail expenditures were about half of those recorded in fiscal year 2014, they still accounted for approximately 27 percent of the department's expenditures.

### Results

The prior audit contained no recommendations. During the current audit, we focused our audit effort on charges for services, licenses and permits, taxes, and transfers-in revenue. We also completed testing over grant expenditures and personal services. In addition, a significant portion of our audit focused on hail insurance and the reinsurance agreement the department entered into due to the significant loss incurred from the 2013 hail season.

The audit effort discussed above resulted in three recommendations to the department. These recommendations pertained to the misclassification of hail insurance assets and liabilities, an internal control deficiency regarding the transfer of revenue to the department, and noncompliance with a state law related to industrial hemp.

Recommendation Concurrence	
Concur	2
Partially Concur	1
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (15-21) 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>

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# Chapter I – Introduction

## **Introduction**

We performed a financial-compliance audit of the Department of Agriculture (department) for the two fiscal years ended June 30, 2015. The objectives of the audit were to:

- ◆ Obtain an understanding of the department's internal controls to the extent necessary to support our audit of the financial schedules and, if necessary, make recommendations for improvement.
- ◆ Determine whether the department's financial schedules present fairly the results of its operations and changes in fund equity for each of the two fiscal years ended June 30, 2015.
- ◆ Determine whether the department complied with selected laws and regulations.

We addressed these objectives by focusing our audit effort on various revenue and expenditure transactions and the reasonableness and accuracy of these transactions. In addition, we completed testing over the Hail Insurance program and the department's implementation of the new reinsurance agreement. We also reviewed and tested selected control systems and determined compliance with various state laws and regulations.

## **Background**

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

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

The department is organized under the following divisions:

**Agricultural Development Division** (38.75 FTE): assists Montana's agricultural industry by providing services including market and agribusiness development, Growth Through Agriculture grants and loans, wheat and barley research and marketing, agriculture loans including beginning farmer/rancher loans, hail insurance, grain grading and inspection, agriculture education and outreach, agriculture literacy, and administration of agricultural commodity research and market development programs. The division provides support to the Montana Alfalfa Seed Committee, the Wheat and Barley Committee, the Agricultural Development Council, the Board of Hail Insurance, and advisory committees for cherries, potatoes, and pulse crops.

**Agricultural Sciences Division** (65.78 FTE): administers agricultural programs relating to the production, manufacturing, certification, and marketing of commodities exported from or distributed in the state. The division administers the Montana Pesticides Act, Crop Insect Detection Act, Vertebrate Pest Management Act, Agricultural Chemical Groundwater Protection Act, Noxious Weed Management Trust Fund Act, Commercial Feed and Fertilizer laws, Organic Certification program, and the department's Chemical Analytical Laboratory. Division personnel provide technical and consultant services to consumers and agricultural producers.

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

## Chapter II – Findings and Recommendations

### Hail Insurance Misclassification

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**The department misclassified the portion of hail insurance ceded to its reinsurer.**

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The Department of Agriculture (department) administers the Montana State Hail Insurance Program which provides basic hail insurance coverage on any crop grown in Montana. Due to the large number of claims paid in fiscal year 2014 from the 2013 hail season, the department entered into a new reinsurance agreement in fiscal year 2015 to better reduce the liability risk to the department. Per the reinsurance agreement, the department is liable for 5 percent of the losses and the reinsurer is liable for 95 percent of the losses due to hail damage. In return, the reinsurer receives 95 percent of the premium revenue from the policies sold.

State law directs state agencies to input all necessary transactions to the accounting system in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles (GAAP).

At fiscal year-end 2015, the department calculated the amount it owed the reinsurer based on the total premium revenue collected as of June 30, 2015. It recorded this liability as property held in trust, but because this is not a fiduciary relationship as defined in state accounting policy, the department should have recorded the liability as an accounts payable. This resulted in a classification error of approximately \$6.6 million on the state's accounting records.

In addition, even though the reinsurance agreement is only applicable to premium revenues collected, the department considered a portion of its accounts receivable as belonging to the reinsurer and reclassified \$3.5 million of the hail insurance accounts receivable as property held in trust. This resulted in the department's receivables being understated by \$3.5 million at fiscal year-end 2015.

Department personnel stated they recorded the transactions as property held in trust because the money belonged to the reinsurer and they wanted to make sure the accounting records reflected this ownership. After further review, the department agreed other methods existed that would allow them to correctly record these transactions in accordance with GAAP and also show the reinsurer's portion.

The department's financial schedules do not reflect these classification errors, as the errors only affect asset and liability balances, which are not reflected in the financial schedules presented in this report. However, the classification error did require an adjustment to the state's 2015 Basic Financial Statements because that report does present asset and liability information.

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**RECOMMENDATION #1**

*We recommend the Department of Agriculture record the assets and liabilities related to its reinsurance agreement in accordance with state law and accounting policy.*

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## **Revenue Transfers Internal Control Deficiency**

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**The department does not have adequate controls in place to ensure revenue transferred to it from another state agency is complete and accurate.**

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Per state law, the department's noxious weed state special revenue account receives 1.5 percent of the motor vehicle revenue deposited in the state general fund each fiscal year. Compliance with this law is accomplished by the Department of Administration completing a monthly transfer of revenue to the Department of Agriculture. In fiscal years 2014 and 2015, these transfers totaled approximately \$1.5 million.

State accounting policy requires state agencies implement internal controls to ensure all transactions necessary for compliance with GAAP are recorded in the Statewide Accounting, Budgeting, and Human Resource System (SABHRS) before fiscal year-end. This policy encompasses the department's responsibility to ensure its revenue is complete. In addition, state policy also requires each agency perform a monthly reconciliation of the revenue collected by the third-party, in this case the Department of Administration, to what is reported on SABHRS. During the audit, we determined the department was not performing procedures to ensure the amount transferred from the Department of Administration was complete or accurate. Per department personnel, the department relied on the Department of Administration to ensure the revenue amounts were correct instead of developing its own internal control procedures.

In order to confirm the completeness and accuracy of this revenue, we contacted the Department of Administration and reviewed its supporting documentation for the transfers occurring during our audit period. While we determined the revenue

from the transfers was complete and accurate, if the department does not implement controls, it will be at risk of not receiving revenue owed to it in future periods.

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**RECOMMENDATION #2**

*We recommend the Department of Agriculture implement internal controls to ensure funds received from motor vehicle revenue transfers are complete and accurate.*

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## **Noncompliance With Industrial Hemp Law**

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### **The department is not following state law regarding administrative rules for industrial hemp production.**

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Pursuant to §80-18-107, MCA, the department shall establish rules regarding the testing and supervision of industrial hemp grown in the state of Montana. State laws regarding industrial hemp have been in place since 2001, yet the department has not established the rules required by state law. Per department personnel, industrial hemp is not an active crop in the state of Montana, and the department will not adopt rules related to industrial hemp, because industrial hemp is considered illegal by the federal Drug Enforcement Administration.

The federal Agricultural Act of 2014, Section 7606, authorizes the growth or cultivation of industrial hemp if it is for purposes of research conducted under an agricultural pilot program or other agricultural or academic research; and the growing or cultivating of industrial hemp is allowed under the laws of the state in which such research occurs. Pursuant to §80-18-102, MCA, the growth of industrial hemp is allowed in the state of Montana as long it does not exceed .3 percent tetrahydrocannabinol (THC). This means producers in the state of Montana could grow industrial hemp as long as it was for purposes outlined by the federal government and the crops did not exceed the THC levels established by state law. By adopting the rules required by state law, the department would be able to provide guidance to Montana producers for growing industrial hemp and help ensure compliance with federal and state laws.

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**RECOMMENDATION #3**

*We recommend the Department of Agriculture establish the rules required by state law regarding industrial hemp growth in the state of Montana.*

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# **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 Agriculture for each of the fiscal years ended June 30, 2015, and 2014, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2015, and June 30, 2014, or changes in financial position or cash flows for the years then ended.

***Unmodified Opinions on Regulatory Basis of Accounting***

In our opinion, the Schedules of Changes in Fund Equity, 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 of the Department of Agriculture for each of the fiscal years ended June 30, 2015, and 2014, in conformity with the basis of accounting described in Note 1.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2016, on our consideration of the Department of Agriculture's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

February 8, 2016

MONTANA DEPARTMENT OF AGRICULTURE  
SCHEDULE OF CHANGES IN FUND EQUITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Private Purpose Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2014	\$ (521,412)	\$ 12,689,844	\$ (207,657)	\$ 3,271,245	\$ 1,208,177	\$ 10,984,772
ADDITIONS						
Budgeted Revenues & Transfers-In	16	15,741,455	1,570,616	6,279,321		
Nonbudgeted Revenues & Transfers-In		213,701		6,235	349,000	348,618
Prior Year Revenues & Transfers-In Adjustments		579		(0)		
Direct Entries to Fund Equity	1,619,568	434,637	12,117	(250,099)		
Total Additions	1,619,584	16,390,372	1,582,733	6,035,457	349,000	348,618
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	1,615,236	13,322,399	1,541,941	8,306,802		
Nonbudgeted Expenditures & Transfers-Out	(1,590)	910,621	(590)	(9,176)	883,000	407,017
Prior Year Expenditures & Transfers-Out Adjustments	(1,071)	(343,162)				
Total Reductions	1,612,575	13,889,858	1,541,351	8,297,626	883,000	407,017
FUND EQUITY: June 30, 2015	\$ (514,403)	\$ 15,190,358	\$ (166,275)	\$ 1,009,075	\$ 674,177	\$ 10,926,373

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

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

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Private Purpose Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2013	\$ (435,918)	\$ 12,728,097	\$ (374,429)	\$ 10,461,391	\$ 1,204,220	\$ 10,788,425
ADDITIONS						
Budgeted Revenues & Transfers-In		14,646,539	1,438,159	8,044,656		
Nonbudgeted Revenues & Transfers-In		239,537		6	22,500	617,100
Prior Year Revenues & Transfers-In Adjustments		1,522				
Direct Entries to Fund Equity	1,543,357	497,726	33,921			
Total Additions	1,543,357	15,385,324	1,472,080	8,044,661	22,500	617,100
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	1,663,849	14,839,718	1,305,308	15,208,686		
Nonbudgeted Expenditures & Transfers-Out	(4,458)	600,123		26,121	18,543	420,753
Prior Year Expenditures & Transfers-Out Adjustments	(30,539)	(16,264)				
Total Reductions	1,628,851	15,423,577	1,305,308	15,234,807	18,543	420,753
FUND EQUITY: June 30, 2014	\$ (521,412)	\$ 12,689,844	\$ (207,657)	\$ 3,271,245	\$ 1,208,177	\$ 10,984,772

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA DEPARTMENT OF AGRICULTURE  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Private Purpose Trust Fund	Permanent Fund	Total
Licenses and Permits							
Taxes		\$ 3,588,173					\$ 3,588,173
Charges for Services		7,335,180					7,335,180
Investment Earnings		2,297,785		\$ 6,259,921			8,557,707
Fines and Forfeits		211,757		1,266		\$ 348,618	561,641
Monetary Settlements		27,886		18,137			46,023
Sale of Documents, Merchandise and Property		30					30
Grants, Contracts, and Donations		12,064					12,064
Transfers-in		80,216					80,216
Capital Asset Sale Proceeds		2,384,061		6,231	\$ 349,000		435,447
Federal Indirect Cost Recoveries		9,703					9,703
Miscellaneous			\$ 108,090				108,090
Federal	\$ 16	8,880					8,880
Total Revenues & Transfers-In	16	15,955,735	1,462,525	6,285,556	349,000	348,618	24,509,540
Less: Nonbudgeted Revenues & Transfers-In		213,701	1,570,616	6,235	349,000	348,618	917,554
Prior Year Revenues & Transfers-In Adjustments		579		(0)			579
Actual Budgeted Revenues & Transfers-In	16	15,741,455	1,570,616	6,279,321	0	0	23,591,408
Estimated Revenues & Transfers-In	100	15,832,483	1,605,724	6,340,022	0	0	23,778,329
Budgeted Revenues & Transfers-In Over (Under) Estimated	(84)	(91,028)	(35,108)	(60,701)	0	0	(186,921)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Licenses and Permits							
Taxes		\$ 383					\$ 383
Charges for Services		505					505
Investment Earnings		(8,941)		\$ (60,098)			(69,039)
Fines and Forfeits		(9,063)	(50)	(740)			(9,853)
Monetary Settlements		(54,639)		137			(54,502)
Sale of Documents, Merchandise and Property		(70)					(70)
Grants, Contracts, and Donations		(336)	(106)				(442)
Transfers-in		(10,750)					(10,750)
Capital Asset Sale Proceeds		961					961
Federal Indirect Cost Recoveries		(8,794)					(8,794)
Miscellaneous			(10)				(10)
Federal	\$ (84)	(284)	(34,943)				(34,943)
Budgeted Revenues & Transfers-In Over (Under) Estimated	(84)	(91,028)	(35,108)	(60,701)	0	0	(186,921)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-9.

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

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Private Purpose Trust Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Licenses and Permits							
Taxes	\$	3,444,075					\$ 3,444,075
Charges for Services		6,466,146	1,144				6,467,289
Investment Earnings		1,675,251		\$ 8,028,978			9,704,229
Fines and Forfeits		216,863		4,901		\$ 617,100	838,864
Sale of Documents, Merchandise and Property		18,183		10,781			28,964
Grants, Contracts, and Donations		18,210					18,210
Transfers-in		33,564			\$ 22,500		56,064
Intra-entity Revenue		2,483,859					2,483,859
Capital Asset Sale Proceeds		486,579					486,579
Federal Indirect Cost Recoveries		7,612	118,459				126,071
Miscellaneous							
Federal		37,257					37,257
Total Revenues & Transfers-In	0	14,887,598	1,318,556	8,044,661	22,500	617,100	25,070,018
Less: Prior Year Revenues & Transfers-In		239,537	1,438,159	6	22,500	617,100	879,142
Actual Budgeted Revenues & Transfers-In		1,522					1,522
Estimated Revenues & Transfers-In	0	14,646,539	1,438,159	8,044,656	0	0	24,129,354
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 100	\$ 14,649,817	\$ 1,438,719	\$ 8,044,655	\$ 0	\$ 0	\$ 24,133,291
	\$ (100)	\$ (3,278)	\$ (560)	\$ 1	\$ 0	\$ 0	\$ (3,937)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Licenses and Permits							
Taxes	\$	(1,142)					\$ (1,142)
Charges for Services		292	(7)				285
Investment Earnings		449					447
Fines and Forfeits		(2,623)	(50)	(2)			(2,672)
Sale of Documents, Merchandise and Property		(1,029)		2			(1,029)
Grants, Contracts, and Donations		(120)		0			(120)
Transfers-in		(411)					(411)
Intra-entity Revenue		1					1
Capital Asset Sale Proceeds		1,115					1,115
Federal Indirect Cost Recoveries		426	(1)				426
Miscellaneous							
Federal	\$ (100)	(235)	(1)				(335)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (100)	\$ (3,278)	\$ (503)	\$ 1	\$ 0	\$ 0	\$ (503)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA DEPARTMENT OF AGRICULTURE  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Agricultural Development Division	Agricultural Sciences Division	Central Management Division	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT				
Personal Services				
Salaries	\$ 1,614,123	\$ 2,807,647	\$ 852,526	\$ 5,274,297
Hourly Wages	114,537	82,577		197,114
Other Compensation	14,700	3,400		18,100
Employee Benefits	550,808	1,038,727	275,006	1,864,541
Personal Services-Other	(12,869)			(12,869)
Total	<u>2,281,299</u>	<u>3,932,351</u>	<u>1,127,532</u>	<u>7,341,183</u>
Operating Expenses				
Other Services	1,143,857	346,940	43,546	1,534,343
Supplies & Materials	195,523	370,192	53,418	619,133
Communications	88,110	120,830	21,217	230,158
Travel	311,992	171,013	14,922	497,927
Rent	84,523	174,961	47,622	307,106
Utilities	11,152	42,582		53,734
Repair & Maintenance	47,850	102,736	13,883	164,470
Other Expenses	906,883	142,260	14,958	1,064,101
Total	<u>2,789,891</u>	<u>1,471,514</u>	<u>209,566</u>	<u>4,470,971</u>
Equipment & Intangible Assets				
Equipment		81,543	9,766	91,309
Total		<u>81,543</u>	<u>9,766</u>	<u>91,309</u>
Grants				
From State Sources	2,794,263	1,973,212		4,767,475
From Federal Sources	324,867	289,158		614,025
Total	<u>3,119,130</u>	<u>2,262,370</u>		<u>5,381,500</u>
Benefits & Claims				
From State Sources	7,173,471			7,173,471
From Other Sources		883,000		883,000
Total	<u>7,173,471</u>	<u>883,000</u>		<u>8,056,471</u>
Transfers-out				
Fund transfers	83,146	466,162	157	549,465
Intra-Entity Expense		710,621		710,621
Total	<u>83,146</u>	<u>1,176,783</u>	<u>157</u>	<u>1,260,086</u>
Post Employment Benefits				
Other Post Employment Benefits	12,035			12,035
Employer Pension Expense	17,872			17,872
Total	<u>29,907</u>			<u>29,907</u>
Total Expenditures & Transfers-Out	<u>\$ 15,476,844</u>	<u>\$ 9,807,561</u>	<u>\$ 1,347,022</u>	<u>\$ 26,631,427</u>
EXPENDITURES & TRANSFERS-OUT BY FUND				
General Fund	\$ 1,241,178	\$ 239,071	\$ 132,327	\$ 1,612,575
State Special Revenue Fund	5,669,283	7,262,066	958,509	13,889,858
Federal Special Revenue Fund	417,684	1,016,408	107,259	1,541,351
Enterprise Fund	8,148,699		148,927	8,297,626
Private Purpose Trust Fund		883,000		883,000
Permanent Fund		407,017		407,017
Total Expenditures & Transfers-Out	<u>15,476,844</u>	<u>9,807,561</u>	<u>1,347,022</u>	<u>26,631,427</u>
Less: Nonbudgeted Expenditures & Transfers-Out	146,189	2,043,546	(454)	2,189,281
Prior Year Expenditures & Transfers-Out Adjustments	(342,708)	(1,525)		(344,232)
Actual Budgeted Expenditures & Transfers-Out	<u>15,673,362</u>	<u>7,765,540</u>	<u>1,347,476</u>	<u>24,786,378</u>
Budget Authority	21,451,937	9,613,725	1,434,095	32,499,757
Unspent Budget Authority	<u>\$ 5,778,575</u>	<u>\$ 1,848,185</u>	<u>\$ 86,619</u>	<u>\$ 7,713,379</u>
UNSPENT BUDGET AUTHORITY BY FUND				
General Fund	\$ 39,611	\$ 60,963	\$ 3,303	\$ 103,878
State Special Revenue Fund	1,814,995	923,908	8,115	2,747,018
Federal Special Revenue Fund	1,178,036	863,314	75,201	2,116,551
Enterprise Fund	2,745,932			2,745,932
Unspent Budget Authority	<u>\$ 5,778,575</u>	<u>\$ 1,848,185</u>	<u>\$ 86,619</u>	<u>\$ 7,713,379</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

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

	Agricultural Development Division	Agricultural Sciences Division	Central Management Division	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT				
Personal Services				
Salaries	\$ 1,489,168	\$ 2,827,016	\$ 884,687	\$ 5,200,871
Hourly Wages	101,656	87,719		189,376
Other Compensation	11,975	2,150		14,125
Employee Benefits	548,852	981,377	282,398	1,812,627
Personal Services-Other	779			779
Total	<u>2,152,430</u>	<u>3,898,262</u>	<u>1,167,085</u>	<u>7,217,777</u>
Operating Expenses				
Other Services	1,051,318	331,656	50,229	1,433,203
Supplies & Materials	121,610	298,443	26,183	446,236
Communications	79,314	117,659	19,280	216,253
Travel	305,567	167,661	21,189	494,417
Rent	85,428	169,591	45,108	300,127
Utilities	10,644	43,902		54,545
Repair & Maintenance	20,635	101,576	5,460	127,672
Other Expenses	879,754	103,470	14,264	997,488
Total	<u>2,554,269</u>	<u>1,333,957</u>	<u>181,713</u>	<u>4,069,939</u>
Equipment & Intangible Assets				
Equipment	135,780	435,933	12,783	584,496
Total	<u>135,780</u>	<u>435,933</u>	<u>12,783</u>	<u>584,496</u>
Grants				
From State Sources	4,258,144	1,848,488		6,106,631
From Federal Sources	287,884	201,539		489,424
Total	<u>4,546,028</u>	<u>2,050,027</u>		<u>6,596,055</u>
Benefits & Claims				
From State Sources	14,202,099			14,202,099
From Other Sources		18,543		18,543
Total	<u>14,202,099</u>	<u>18,543</u>		<u>14,220,642</u>
Transfers-out				
Fund transfers	328,882	456,486		785,369
Intra-Entity Expense		539,557		539,557
Total	<u>328,882</u>	<u>996,043</u>		<u>1,324,925</u>
Other Post Employment Benefits				
Other Post Employment Benefits	18,004			18,004
Total	<u>18,004</u>			<u>18,004</u>
Total Expenditures & Transfers-Out	<u>\$ 23,937,493</u>	<u>\$ 8,732,765</u>	<u>\$ 1,361,581</u>	<u>\$ 34,031,839</u>
EXPENDITURES & TRANSFERS-OUT BY FUND				
General Fund	\$ 1,177,715	\$ 288,616	\$ 162,520	\$ 1,628,851
State Special Revenue Fund	7,331,589	7,202,730	889,258	15,423,577
Federal Special Revenue Fund	336,338	802,123	166,847	1,305,308
Enterprise Fund	15,091,851		142,956	15,234,807
Private Purpose Trust Fund		18,543		18,543
Permanent Fund		420,753		420,753
Total Expenditures & Transfers-Out	<u>23,937,493</u>	<u>8,732,765</u>	<u>1,361,581</u>	<u>34,031,839</u>
Less: Nonbudgeted Expenditures & Transfers-Out	60,514	1,000,907	(340)	1,061,081
Prior Year Expenditures & Transfers-Out Adjustments	(45,917)	(887)		(46,803)
Actual Budgeted Expenditures & Transfers-Out	<u>23,922,895</u>	<u>7,732,745</u>	<u>1,361,921</u>	<u>33,017,561</u>
Budget Authority	25,192,341	9,394,734	1,425,345	36,012,420
Unspent Budget Authority	<u>\$ 1,269,445</u>	<u>\$ 1,661,989</u>	<u>\$ 63,425</u>	<u>\$ 2,994,859</u>
UNSPENT BUDGET AUTHORITY BY FUND				
General Fund	\$ 46,236	\$ 5,881	\$ 19,423	\$ 71,539
State Special Revenue Fund	201,811	550,282	40,001	792,094
Federal Special Revenue Fund	568,197	1,105,827	4,001	1,678,024
Enterprise Fund	453,202			453,202
Unspent Budget Authority	<u>\$ 1,269,445</u>	<u>\$ 1,661,989</u>	<u>\$ 63,425</u>	<u>\$ 2,994,859</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.



## Department of Agriculture Notes to the Financial Schedules For the Two Fiscal Years Ended June 30, 2015

### 1. Summary of Significant Accounting Policies

#### **Basis of Accounting**

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

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

The department uses accrual basis accounting for its Proprietary (Enterprise) and Fiduciary (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 accounts for research and market development of agricultural commodities such as wheat, barley, and pulse crops; registration of products or licensure of dealers, applicators, or manufacturers and associated inspection or enforcement related to pesticides, commercial fertilizer, animal feed, produce, nurseries, organic operations, and seed; noxious weed management; grain testing and inspection; and economic development assistance, grants, and loans.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include pass-through weed grants, pest surveys, feed inspections, review of private farm applicator restricted use pesticide application records, marketing, specialty crop block grants, and negotiated indirect costs.
- ♦ **Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's programs. The department uses this fund to account for the Noxious Weed Management Trust activity.

### **Proprietary Fund Category**

- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Department Enterprise Funds include the Hail Insurance and Beginning Farm Loan Programs.

### **Fiduciary Fund Category**

- ♦ **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. The department uses this fund to record commercial pesticide applicator certificates of deposit.

## **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, 2014 and June 30, 2015.

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

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

Direct entries to fund equity in the Enterprise fund also include: retroactive change mandated by the GASB 68 in conjunction with the implementation of a new pronouncement.

### **4. Other**

Benefits & Claims From State Sources is approximately \$7 million less in fiscal year 2015 than in fiscal year 2014. This is because the hail insurance program experienced a catastrophic loss year in fiscal year 2014 due to significant weather events. Losses were closer to average in fiscal year 2015.

In order to reduce exposure to large losses, the hail insurance program entered into a quota-share reinsurance agreement. As a result of this agreement, both Charges for Services and Benefits & Claims From State Sources will reflect a percentage of the premiums received and the total losses paid in relation to the percentage of premiums and risk ceded to the reinsurer. This will potentially create a material difference to these accounts between the fiscal year 2015 and fiscal year 2016 financial schedules.



# **Report on Internal Control and Compliance**



# LEGISLATIVE AUDIT DIVISION

B-1

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



Deputy Legislative Auditors:  
Cindy Jorgenson  
Angus Maciver

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Agriculture for each of the fiscal years ended June 30, 2015, and 2014, and the related notes to the financial schedules, and have issued our report thereon dated February 8, 2016.

### *Internal Control Over Financial Reporting*

In planning and performing our audit of the financial schedules, we considered the Department of Agriculture's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the Department of Agriculture's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department of Agriculture's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of 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 a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify

any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the Department of Agriculture's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

*Purpose of this Report*

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

February 8, 2016

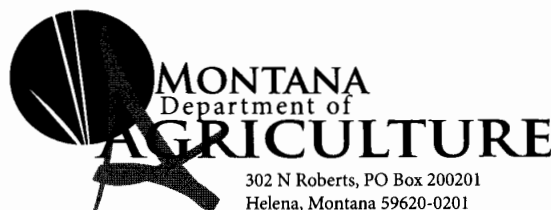


DEPARTMENT OF  
AGRICULTURE

DEPARTMENT RESPONSE



Steve Bullock  
Governor



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

Ron de Yong  
Director

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April 19, 2016

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

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LEGISLATIVE AUDIT DIV.

Dear Ms. Hunthausen:

Thank you for the opportunity to review and comment on the financial compliance audit of the Montana Department of Agriculture for the two fiscal years ended June 30, 2015.

The financial compliance audit includes three recommendations. Our responses to the recommendations are provided below:

**Recommendation #1**

*We recommend the Department of Agriculture record the assets and liabilities related to its reinsurance agreement in accordance with state law and accounting policy.*

**Response:**

Concur. The department of agriculture first purchased excess of loss reinsurance in FY2014 – an arrangement in which the department paid for a reinsurance policy that would provide coverage once the loss ratio reached 110% of premiums. In this arrangement, both the premiums and the risk are the responsibility of the department until the specified loss percentage is reached. In FY2015, the department and the reinsurer changed the format and entered into a quota-share reinsurance agreement, in which a portion of the premiums and the risk (losses) are shared by both the department and the reinsurer from the beginning. Specifically, the department ceded to the reinsurer 95% of each policy written, indicating that the department was formally relinquishing ownership of the premium revenue. The department interpreted fiduciary duty as defined in the state accounting policy to cover this arrangement, thus requiring the department to record the amounts ceded to the reinsurer in the property held in trust account.

Based on the recommendations of the Legislative Audit staff, the department will no longer record the ceded portion of the policies and their related accounts receivable to the property held in trust account.

**Recommendation #2**

*We recommend the Department of Agriculture implement internal controls to ensure funds received from motor vehicle revenue transfers are complete and accurate.*

Response:

Concur. The department immediately developed, tested, and implemented a procedure to recalculate that the amounts received from motor vehicle revenue transfers are complete and accurate. A review of past and current monthly transfers indicated no discrepancies. Reconciliations are being performed monthly.

**Recommendation #3**

*We recommend the Department of Agriculture establish the rules required by state law regarding industrial hemp growth in the state of Montana.*

Response:

Partially concur. Due to potential for violation of federal law, barriers existed to implementation of the Montana industrial hemp statutes until the Farm Bill was passed in February 2014 and USDA parameters for section 7606 were subsequently completed. The department has been working with the Drug Enforcement Administration to ensure all requirements are met. Once all factors are in place, the department will adopt rules as specified in 80-18-107, MCA.

The audit is always a helpful time to review our processes. The professionalism displayed by your audit staff while conducting the audit is greatly appreciated. I am available to answer questions or provide further information that you or the Legislative Audit Committee may require.

Sincerely,

  
Ron de Yong  
Director