



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Livestock

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

APRIL 2016

LEGISLATIVE AUDIT
DIVISION

15-22

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
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LEGISLATIVE AUDIT DIVISION

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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 Livestock (department) for the two fiscal years ended June 30, 2015. The report contains three recommendations to the department concerning compliance with state law and accounting policies. Recommendations address the use of per capita fee revenue for a personal services settlement, properly calculating unearned revenue and recording the correct balance, and recording of revenues related to stray animals in the correct fund.

The department's written response to the audit recommendations are included in the audit report beginning at page C-1. We have considered the non-concurring response to Recommendation #1 on page five. The response notes that the arrangement "...was a salary-based settlement and the executive officer salary is paid using per capita fees." While salary was a guide to calculating a settlement amount, by definition, salary is a fixed amount of money or compensation paid to an employee by an employer in return for work performed. We questioned the use of per capita fees for the \$84,260 portion of the settlement requiring no further work performed on the part of a former employee. We do not question the use of per capita fee for the salary of the executive officer in connection with work performed to enforce livestock laws. We maintain our position as reported.

While the Board concurs with Recommendation #2 on page seven, regarding the proper recording of unearned revenue, the response indicates the department has applied its practice of recognizing 10% of the re-record fees since 1921. We take issue with the full 10% being recognized in the first year because the January per capita fee remittance date leaves only 6 months to the fiscal year-end. In April 2006, an update to state accounting policy was implemented, retro-active to July 1, 2004, to address the topic of multi-year licenses. Audit emphasis has been placed on unearned revenues since that time, and other multiple revenue recognition recommendations have been addressed to the agency.

The department's written response to the audit recommendations are included in the audit report beginning at page C-1. We thank the Board of Livestock and its 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

			Industry Represented	Term Expires March 1
Board of Livestock	John H. Lehfeldt, Chair	Lavina	Sheep	2019
	John Scully, Vice Chair	Ennis	Cattle	2019
	Nina Baucus	Wolf Creek	Cattle	2017
	Brett DeBruycker	Dutton	Cattle	2021
	Lila Taylor	Busby	Cattle	2021
	Ed Waldner	Chester	Swine	2017
	Susan Brown	Belgrade	Dairy/Poultry	2017

Department of Livestock

Mike Honeycutt, Executive Officer (effective February 2016)

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

Evaleen Starkel, Alternative Livestock Program

Centralized Services Division

George H. Harris, Administrator

Chad Lee, Bureau Chief, Milk Control Bureau

George Edwards, Executive Secretary, Livestock Loss Board

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

Leslie Doely, Administrator, Brands Enforcement Division and Coordinator,
Livestock Crimestoppers Commission (effective January 2016)

Dan Turcotte, Bureau Chief, Milk and Egg Inspection Bureau

Gary Hamel, Bureau Chief, Meat and Poultry Inspection Bureau

For additional information concerning the Department of Livestock programs,
contact:

George H. Harris, Administrator, Centralized Services Division

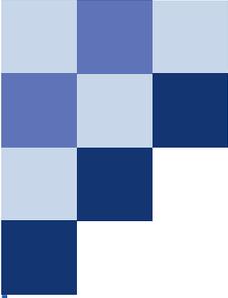
Department of Livestock

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Department of Livestock

For the Two Fiscal Years Ended June 30, 2015

APRIL 2016

15-22

REPORT SUMMARY

The audit identified three instances of noncompliance with state law and accounting policy related to the proper recording of a termination settlement, unearned revenue, and moneys related to estray animals.

Context

State law tasks the Department of Livestock (department) with controlling and eradicating animal diseases, preventing the transmission of such diseases to humans, protecting livestock from predatory animals, regulating pricing of milk, and performing meat, milk, and egg inspections.

The department's operations are funded primarily by collections made in the state special revenue fund, including brand license fees, per capita livestock fees, and various charges for services. The department also receives federal grant awards and general fund appropriations. The department expended approximately \$17.4 million through the state special revenue fund, \$3.8 million through the federal special revenue fund, and \$3.2 million through the general fund during fiscal years 2015 and 2014.

During our audit we focused our audit efforts on the department's activity related to Personal Services, Other Services, Taxes and Charges for Services. Our audit procedures include gaining an understanding of the department's internal control policies and procedures related to but not limited to, furloughs and settlements,

brand rerecord revenue recognition, new brands and transfers and per capita fees. We also tested compliance with selected state laws and federal regulations.

Results

The report contains three recommendations to the department related to compliance with state law and accounting policies. Recommendations relate to recording transactions related to a personal services settlement, properly calculating deferred revenue and recording the correct balance, and recording of revenues related to estray animals in the correct fund.

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

For a complete copy of the report (15-22) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>
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Call toll-free 1-800-222-4446, or e-mail ladhotline@mt.gov.

Chapter I – Introduction

Introduction

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

1. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules, and if appropriate, make recommendations for improvement in the internal and management controls of the department.
2. Determine whether the department complied with selected applicable laws and regulations.
3. Determine whether the department's financial schedules fairly present the results of operations and changes in fund equity and property held in trust for each of the two fiscal years ended June 30, 2015, and June 30, 2014.
4. Determine the implementation status of prior audit recommendations.

During our audit we focused our audit efforts on the department's activity related to Personal Services, Other Services, Taxes and Charges for Services. Our audit procedures included, but were not limited to, the following:

- ◆ Understanding the department's internal control policies and procedures
- ◆ Analysis of expenditures and revenues at the fund and account level, by month, with a focus on proper recording of activities related to:
 - ◇ Furloughs and settlements
 - ◇ Lab fees
 - ◇ Brand rerecord revenue recognition
 - ◇ New brands and transfers
 - ◇ Market inspection fees
 - ◇ Security interest fees
 - ◇ Per capita livestock fees
- ◆ Review of procard use
- ◆ Review of transfers and abatement activity

We also reviewed and tested compliance with selected state laws and federal regulations. Laws that were tested during the audit were related to the Board of Livestock composition, Board of Milk Control membership, assignment of stock inspectors to districts, beef promotion and marketing, and expenditure of nongeneral fund money first, to name a few.

This report contains three recommendations to the department where the department can improve compliance with state laws and accounting policies. Recommendations address the use of per capita fee revenue for a personal services settlement, properly calculating unearned revenue and recording the correct balance, and recording revenues related to stray animals in the correct fund.

Background

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

The department is governed by the Board of Livestock (board). The board is comprised of seven members, appointed by the Governor and confirmed by the senate to serve six-year terms. The board, as the department head, hires an executive officer who is responsible for the operations of the department and ensuring board policies, directives, and rules are carried out. The department is organized into four divisions and two bureaus that correspond to the program expenditures in the department's Schedules of Total Expenditures & Transfers-Out on pages A-7 and A-8.

Animal Health Division (15.50 FTE): responsible for the control and eradication of animal diseases and the prevention of transmission of animal diseases to humans.

Brands Enforcement Division (57.71 FTE): includes the Inspection and Control Program, which is responsible for brand inspections, recording livestock brands, market dealer licensing, and livestock theft investigations. This program has employees in 13 market centers and 18 districts throughout the state. The state livestock inspectors in these districts are department employees. The fees charged for inspections by state livestock inspectors are department revenues. There are approximately 550 deputy state livestock inspectors. These inspectors are not department employees. They retain their inspection fees, and their permits and inspection reports are processed by the division. The Livestock Crimestoppers Commission is allocated to the department for administrative purposes. This commission provides a reward program for information used in the detection of livestock-related crimes.

Centralized Services Division (18.50 FTE): provides budgeting, accounting, payroll, legal, purchasing, and data processing services to the department. This division also includes the Milk Control Bureau, Milk Control Board, Predator Control Program, and Livestock Loss Board. The Milk Control Board is responsible for the regulation

of milk producer pricing. The Predator Control Program contracts with the U.S. Department of Agriculture to control predators that injure or kill domestic livestock. The Livestock Loss Board, also allocated to the department for administrative purposes, provides financial reimbursement to producers for losses caused by wolves or grizzly bear and works to decrease the risk of wolf- or grizzly bear-caused losses.

Diagnostic Laboratory (21.76 FTE): provides laboratory support for the Disease Control Program, Milk and Egg Program, veterinarians, and livestock producers. The Diagnostic Laboratory operates on the Bozeman campus of Montana State University. A performance audit (15P-04) of the Diagnostic Lab can be found under separate cover at www.leg.mt.gov.

Meat and Poultry Inspection Bureau (21.50 FTE): ensures meat, poultry, meat products, and poultry products slaughtered, processed, and/or stored in the state meet state and federal requirements.

Milk and Egg Inspection Bureau (6.50 FTE): ensures eggs, milk, and milk products sold or manufactured in the state are fit for human consumption.

Prior Audit Recommendations

The prior financial-compliance audit for the two fiscal years ending June 30, 2013, contained five recommendations to the department. Two of the recommendations were related to the Board of Horseracing, which were addressed in the most recent Department of Commerce financial-compliance audit (15-16). The department fully implemented the remaining three recommendations related to unconstitutional payments from the treasury, per capita livestock fee setting, and use of unearned revenue (previously called deferred revenue).

Chapter II – Findings and Recommendations

Settlement Agreement

During fiscal year 2016, the department inappropriately used per capita fee revenue for a termination settlement payment.

The Department of Livestock (department) entered into a termination settlement agreement with an employee in September 2015. The agreement requires the department to make one payment in fiscal year 2016 and one payment in fiscal year 2017, each equivalent to one year of the employee's salary, \$84,260. The 2016 lump sum payment made in September 2015 also included a payout for accumulated personal leave and a negotiated transition period payment of \$21,000 for services through December 2015, for a total of \$120,034.

The department levies a per capita fee on all livestock in the state yearly, and pursuant to §15-24-921, MCA, "...the fee is in addition to appropriations and is to help pay the salaries and all expenses connected with the enforcement of the livestock laws of the state." While per capita fees were used to fund the \$120,034 payment, we question whether use of this fee revenue for the \$84,260 settlement portion of the payment was compliant with state law. Enforcement of livestock law includes, in part: inspection of livestock that are intended for sale, removal, shipment or slaughter; investigating diseases and other means of prevention and control of disease; and the recording of marks and brands. A termination settlement payment is not an expense incurred as a result of the enforcement of livestock laws.

Department personnel said they had no other options for paying the settlement. However, we believe there were options including the use of the department's \$2,419,439 unspent general fund appropriation authority available at September 3, 2015; applying for personal services contingency funds from the Governor's office; or seeking an inter-entity loan to make the settlement payment. The department should consider these, or other viable options, to comply with state law, when making the fiscal year 2017 settlement payment.

RECOMMENDATION #1

We recommend the Department of Livestock comply with state law related to the use of per capita fees.

Unearned Revenue

The department accounting records continue to contain Unearned Revenue errors related to multi-year licenses and permits.

The department received an audit recommendation related to unearned revenue in the last four audit reports. The recommendations are different in each report, but all relate to unearned revenue related to the multi-year licenses. The department has several multi-year licenses and permits: brand rerecord, new brands and transfers, and security interests on branded livestock. State policy requires the revenue from these multi-year licenses and permits be recognized evenly over the life of the license or permit. The unrecognized portion of these licenses and permits is recorded in an unearned revenue account.

Each of the multi-year licenses and permits has its own revenue account on the state accounting system (SABHRS). However, the department records all of the unearned revenue in one account, commingling the various revenue sources. Due to the way revenue entries are being recorded by the department, the multi-year licenses and permits and adjusting entries to unearned revenues are not easily identified within the primary accounting system. The department has recorded an unearned revenue balance of \$3,615,823 in fiscal year 2015 and \$3,936,218 in fiscal year 2014. We determined these balances are understated by approximately \$177,000 in fiscal year 2015 and \$146,000 in fiscal year 2014.

Based on our review, a significant portion of the understatement is related to how the department recognizes revenue in the first year of the rerecord period. Calendar year 2011 was the most recent brand rerecord year. The brands are valid from January 1, 2012, to December 31, 2021, ten years. The rerecord period is based on a calendar year and the accounting for the unearned revenue is based on a fiscal year, resulting in a six-month period for the first year of recognizing unearned revenue and six months at the end of the rerecord period. The department recognized a full year of revenue in year one.

The unearned revenue balance currently recorded on the primary accounting records is incorrect so should not be relied on by the department when paying current year operating expenses.

RECOMMENDATION #2

We recommend the Department of Livestock:

- A. *Comply with state accounting policy by recording the correct unearned revenue balance, and*
 - B. *Follow the accounting structure established on SABHRS.*
-

Estray Animals Fund

The department records estray animal funds belonging to individuals outside of the department in a state special revenue account.

When a livestock animal is found wandering anywhere in the state and the owner is not readily identifiable by the brand on the livestock, the animal becomes an estray. The department takes charge of estray animals found in the state, incurs expenses to care for them, and then sells them through the livestock markets located throughout the state. State law states that the proceeds from sales of the estray animals, net of any expenses incurred by the department, are held in the state treasury while the department publishes notices and attempts to find the original owner of the animal. If the original owner is found or comes forward within two years of the sale, the net proceeds are returned to the owner. If the original owner is not found, the proceeds become available for use by the department. The department accounts for all proceeds from sales of estray animals in a state special revenue account as property held in trust. As recorded, the activity only impacts the State Special Revenue Fund, fund equity on the Schedule of Changes in Fund Equity & Property Held in Trust for fiscal years 2015 and 2014.

Under state accounting policy, resources held in custody for others should be recorded in an agency fund. As the proceeds from the sale of estray animals belong to the original owner of the animal for a period of two years before reverting to the department, the funds should be recorded in an agency fund as property held in trust, not a state special revenue account, until available for department use. Property held in trust in the Agency fund is understated by approximately \$120,000 and \$137,000 on the Schedule of Changes in Fund Equity & Property Held in Trust for fiscal years 2015 and 2014, respectively.

RECOMMENDATION #3

We recommend the Department of Livestock comply with accounting policy by recording the estray animal net proceeds in an agency fund until those proceeds become available for department use.

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 Livestock 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. 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, and liabilities.

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 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 Livestock 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 5, 2016, on our consideration of the Department of Livestock'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 5, 2016

DEPARTMENT OF LIVESTOCK
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

FUND EQUITY: July 1, 2014					
PROPERTY HELD IN TRUST: July 1, 2014					
	\$	\$	\$	\$	\$
	<u>(34,727)</u>	<u>1,384,821</u>	<u>30,609</u>	<u>0</u>	<u>81,093</u>
ADDITIONS					
Budgeted Revenues & Transfers-In	4,322	9,826,255	2,018,714		
Nonbudgeted Revenues & Transfers-In		120,945	8,999		
Prior Year Revenues & Transfers-In Adjustments	16	(27,464)	783		
Direct Entries to Fund Equity	1,571,035	117,928			
Additions to Property Held in Trust					1,796,580
Total Additions	<u>1,575,373</u>	<u>10,037,663</u>	<u>2,028,495</u>		<u>1,796,580</u>
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	1,625,753	8,215,534	2,011,263		
Nonbudgeted Expenditures & Transfers-Out	(326)	396,837	(22)		
Prior Year Expenditures & Transfers-Out Adjustments	(1,024)				
Reductions in Property Held in Trust					1,848,771
Total Reductions	<u>1,624,403</u>	<u>8,612,371</u>	<u>2,011,241</u>		<u>1,848,771</u>
FUND EQUITY: June 30, 2015	\$	\$	\$	\$	\$
PROPERTY HELD IN TRUST: June 30, 2015	<u>(83,758)</u>	<u>2,810,113</u>	<u>47,863</u>	<u>0</u>	<u>28,902</u>

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

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

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Agency Fund</u>
	\$	\$	\$	\$
FUND EQUITY: July 1, 2013	(82,398)	751,693	33,170	0
PROPERTY HELD IN TRUST: July 1, 2013				<u>52,574</u>
ADDITIONS				
Budgeted Revenues & Transfers-In	3,999	8,958,388	1,777,181	
Nonbudgeted Revenues & Transfers-In		116,294	2,219	
Prior Year Revenues & Transfers-In Adjustments		(104,745)	7,928	
Direct Entries to Fund Equity	1,624,316	457,136		
Additions to Property Held in Trust				409,120
Total Additions	<u>1,628,315</u>	<u>9,427,073</u>	<u>1,787,327</u>	<u>409,120</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	1,581,826	8,350,713	1,790,692	
Nonbudgeted Expenditures & Transfers-Out	(1,182)	449,348	(1,196)	
Prior Year Expenditures & Transfers-Out Adjustments		(6,115)	393	
Reductions in Property Held in Trust				380,601
Total Reductions	<u>1,580,644</u>	<u>8,793,945</u>	<u>1,789,889</u>	<u>380,601</u>
FUND EQUITY: June 30, 2014	\$	\$	\$	\$
PROPERTY HELD IN TRUST: June 30, 2014	<u>(34,727)</u>	<u>1,384,821</u>	<u>30,609</u>	<u>0</u>
				<u>81,093</u>

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

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

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Licenses and Permits	\$ 4,338	\$ 790,795		\$ 795,133
Taxes		5,078,786	783	5,079,569
Charges for Services		2,850,488		2,850,488
Investment Earnings		5,184		5,184
Fines and Forfeits		1,465		1,465
Sale of Documents, Merchandise and Property		43,329		43,329
Grants, Contracts, and Donations		60,964		60,964
Transfers-in		852,497	74,585	927,082
Capital Asset Sale Proceeds		8,622	1,778	10,400
Federal Indirect Cost Recoveries		194,537		194,537
Miscellaneous		33,068		33,068
Federal			7,221	7,221
Total Revenues & Transfers-In	<u>4,338</u>	<u>9,919,735</u>	<u>1,944,129</u>	<u>11,944,129</u>
Less: Nonbudgeted Revenues & Transfers-In		120,945		120,945
Prior Year Revenues & Transfers-In Adjustments	16	(27,464)	783	(26,666)
Actual Budgeted Revenues & Transfers-In	<u>4,322</u>	<u>9,826,255</u>	<u>2,018,714</u>	<u>11,849,291</u>
Estimated Revenues & Transfers-In	<u>7,125</u>	<u>9,223,219</u>	<u>2,192,000</u>	<u>11,422,344</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u><u>(2,803)</u></u>	<u><u>603,036</u></u>	<u><u>(173,286)</u></u>	<u><u>\$ 426,947</u></u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Licenses and Permits	\$ (28)	\$ (160,576)		\$ (160,604)
Taxes		67,026		67,026
Charges for Services		674,145		674,145
Investment Earnings		(85,582)		(85,582)
Fines and Forfeits	(2,525)	(31,295)		(33,820)
Sale of Documents, Merchandise and Property		24,764		24,764
Grants, Contracts, and Donations		(10,000)		(10,250)
Transfers-in			(87,415)	(87,415)
Federal Indirect Cost Recoveries		94,537		94,537
Miscellaneous		30,017		30,017
Federal			(85,871)	(85,871)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u><u>(2,803)</u></u>	<u><u>603,036</u></u>	<u><u>(173,286)</u></u>	<u><u>\$ 426,947</u></u>

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

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

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Licenses and Permits	\$ 3,999	\$ 513,915		\$ 517,914
Taxes		4,815,778	568	4,816,346
Charges for Services		2,605,105		2,605,105
Investment Earnings		6,623		6,623
Fines and Forfeits		3,214		3,214
Sale of Documents, Merchandise and Property		21,141		21,141
Grants, Contracts, and Donations		72,361		72,361
Transfers-in		755,570	3	755,573
Capital Asset Sale Proceeds		4,949	802	5,751
Inception of Lease/Installment Contract		58,923		58,923
Federal Indirect Cost Recoveries		112,012		112,012
Miscellaneous		347	1,417	1,764
Federal			1,784,537	1,784,537
Total Revenues & Transfers-In	<u>3,999</u>	<u>8,969,937</u>	<u>1,787,327</u>	<u>10,761,263</u>
Less: Nonbudgeted Revenues & Transfers-In		116,294	2,219	118,513
Prior Year Revenues & Transfers-In Adjustments		(104,745)	7,928	(96,818)
Actual Budgeted Revenues & Transfers-In	<u>3,999</u>	<u>8,958,388</u>	<u>1,777,181</u>	<u>10,739,568</u>
Estimated Revenues & Transfers-In	7,125	10,034,842	2,162,000	12,203,967
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u><u>\$ (3,126)</u></u>	<u><u>(1,076,454)</u></u>	<u><u>(384,819)</u></u>	<u><u>\$ (1,464,399)</u></u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Licenses and Permits	\$ (351)	\$ (287,246)		\$ (287,597)
Taxes		(589,758)		(589,758)
Charges for Services		(83,044)		(83,044)
Investment Earnings		(84,136)		(84,136)
Fines and Forfeits	(2,525)	(29,586)		(32,111)
Sale of Documents, Merchandise and Property		(11,644)		(11,644)
Grants, Contracts, and Donations	(250)			(250)
Transfers-in			(169,356)	(169,356)
Federal Indirect Cost Recoveries		12,012		12,012
Miscellaneous		(3,051)		(3,051)
Federal			(215,463)	(215,463)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u><u>\$ (3,126)</u></u>	<u><u>(1,076,454)</u></u>	<u><u>(384,819)</u></u>	<u><u>\$ (1,464,399)</u></u>

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

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

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Animal Health Division	Brands Enforcement Division	Centralized Services Division	Diagnostic Laboratory Division	Meat/Poultry Inspection	Milk & Egg Program	Total
Personal Services							
Salaries	\$ 686,423	\$ 1,863,323	\$ 780,098	\$ 884,144	\$ 727,592	\$ 244,910	\$ 5,186,491
Other Compensation			5,950				5,950
Employee Benefits	271,479	870,369	304,680	382,054	345,649	97,561	2,271,792
Total	<u>957,902</u>	<u>2,733,693</u>	<u>1,090,729</u>	<u>1,266,199</u>	<u>1,073,241</u>	<u>342,470</u>	<u>7,464,233</u>
Operating Expenses							
Other Services	850,313	64,185	505,966	132,308	31,900	24,400	1,609,071
Supplies & Materials	201,891	124,135	39,387	491,967	10,476	10,841	878,697
Communications	49,197	74,869	31,564	30,934	9,824	5,403	201,791
Travel	24,054	23,630	32,795	3,396	32,877	12,567	129,318
Rent	75,509	23,292	141,893	13,690	110,188	6,622	371,193
Utilities		11,700		41,386			53,086
Repair & Maintenance	27,728	23,873	1,800	72,170	15,280	2,751	143,603
Other Expenses	87,459	60,464	16,542	125,872	93,694	9,744	393,774
Total	<u>1,316,152</u>	<u>406,147</u>	<u>769,946</u>	<u>911,722</u>	<u>304,239</u>	<u>72,328</u>	<u>3,780,534</u>
Equipment & Intangible Assets							
Equipment	9,564			9,494			19,058
Total	<u>9,564</u>			<u>9,494</u>			<u>19,058</u>
Grants							
From Federal Sources			43,166				43,166
Total			<u>43,166</u>				<u>43,166</u>
Benefits & Claims							
From State Sources			190,047				190,047
Total			<u>190,047</u>				<u>190,047</u>
Transfers-out							
Fund transfers	240,000	52,497	439,549				732,046
Total	<u>240,000</u>	<u>52,497</u>	<u>439,549</u>				<u>732,046</u>
Debt Service							
Capital Leases				18,931			18,931
Total				<u>18,931</u>			<u>18,931</u>
Total Expenditures & Transfers-Out	<u>\$ 2,523,617</u>	<u>\$ 3,192,337</u>	<u>\$ 2,533,436</u>	<u>\$ 2,206,346</u>	<u>\$ 1,377,480</u>	<u>\$ 414,799</u>	<u>\$ 12,248,016</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 519,369		\$ 85,356	\$ 323,877	\$ 695,802		\$ 1,624,403
State Special Revenue Fund	912,900	\$ 3,192,337	2,353,060	1,741,805	5,717	\$ 406,552	8,612,371
Federal Special Revenue Fund	1,091,349		95,020	140,664	675,961	8,247	2,011,241
Total Expenditures & Transfers-Out	2,523,617	3,192,337	2,533,436	2,206,346	1,377,480	414,799	12,248,016
Less: Nonbudgeted Expenditures & Transfers-Out	(313)	51,288	346,459	(550)	(225)	(170)	396,489
Prior Year Expenditures & Transfers-Out Adjustments	(1,024)						(1,024)
Actual Budgeted Expenditures & Transfers-Out	2,524,954	3,141,050	2,186,978	2,206,896	1,377,704	414,969	11,852,551
Budget Authority	2,772,229	3,472,750	2,528,784	2,402,747	1,394,803	474,217	13,045,530
Unspent Budget Authority	<u>\$ 247,276</u>	<u>\$ 331,700</u>	<u>\$ 341,807</u>	<u>\$ 195,850</u>	<u>\$ 17,098</u>	<u>\$ 59,248</u>	<u>\$ 1,192,979</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 1,764	\$ 50	\$ 1,938	\$ 4,857	\$ 7,981		\$ 16,591
State Special Revenue Fund	87,713	331,650	214,089	32,119		\$ 32,083	697,654
Federal Special Revenue Fund	157,798		125,780	158,874	9,118	27,165	478,734
Unspent Budget Authority	<u>\$ 247,276</u>	<u>\$ 331,700</u>	<u>\$ 341,807</u>	<u>\$ 195,850</u>	<u>\$ 17,098</u>	<u>\$ 59,248</u>	<u>\$ 1,192,979</u>

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

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

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Animal Health Division	Brands Enforcement Division	Centralized Services Division	Diagnostic Laboratory Division	Meat/Poultry Inspection	Milk & Egg Program	Total
Personal Services							
Salaries	\$ 678,934	\$ 1,876,870	\$ 798,702	\$ 919,187	\$ 681,767	\$ 253,189	\$ 5,208,648
Other Compensation			5,600				5,600
Employee Benefits	248,728	831,110	290,813	380,312	312,972	106,995	2,170,931
Total	<u>927,662</u>	<u>2,707,981</u>	<u>1,095,114</u>	<u>1,299,499</u>	<u>994,739</u>	<u>360,184</u>	<u>7,385,179</u>
Operating Expenses							
Other Services	758,867	65,767	555,898	101,844	28,205	28,271	1,538,852
Supplies & Materials	121,375	175,245	70,606	539,747	18,197	18,586	943,756
Communications	50,332	75,100	33,404	32,822	9,660	5,081	206,399
Travel	22,292	30,689	31,578	8,924	50,478	10,007	153,968
Rent	74,152	4,407	144,356	13,889	99,795	333	336,932
Utilities		11,700		32,376			44,076
Repair & Maintenance	52,350	49,119	8,944	74,672	20,310	3,186	208,580
Other Expenses	81,101	67,571	16,342	117,572	94,899	9,404	386,889
Total	<u>1,160,468</u>	<u>479,599</u>	<u>861,128</u>	<u>921,847</u>	<u>321,543</u>	<u>74,868</u>	<u>3,819,453</u>
Equipment & Intangible Assets							
Equipment	61,689						61,689
Capital leases - equipment				58,923			58,923
Total	<u>61,689</u>			<u>58,923</u>			<u>120,612</u>
Grants							
From Federal Sources			99,200				99,200
Total			<u>99,200</u>				<u>99,200</u>
Benefits & Claims							
From State Sources			70,443				70,443
Total			<u>70,443</u>				<u>70,443</u>
Transfers-out							
Fund transfers	6,573	205,570	437,481				649,624
Total	<u>6,573</u>	<u>205,570</u>	<u>437,481</u>				<u>649,624</u>
Debt Service							
Capital Leases				19,967			19,967
Total				<u>19,967</u>			<u>19,967</u>
Total Expenditures & Transfers-Out	<u>\$ 2,156,393</u>	<u>\$ 3,393,149</u>	<u>\$ 2,563,366</u>	<u>\$ 2,300,236</u>	<u>\$ 1,316,283</u>	<u>\$ 435,051</u>	<u>\$ 12,164,478</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 531,795		\$ 93,314	\$ 287,565	\$ 667,970		\$ 1,580,644
State Special Revenue Fund	654,573	\$ 3,393,149	2,370,851	1,955,903	5,718	\$ 413,750	8,793,945
Federal Special Revenue Fund	970,025		99,200	56,768	642,595	21,301	1,789,889
Total Expenditures & Transfers-Out	2,156,393	3,393,149	2,563,366	2,300,236	1,316,283	435,051	12,164,478
Less: Nonbudgeted Expenditures & Transfers-Out	(1,623)	48,219	345,499	56,982	(1,508)	(599)	446,970
Prior Year Expenditures & Transfers-Out Adjustments	393		(6,115)				(5,722)
Actual Budgeted Expenditures & Transfers-Out	2,157,623	3,344,930	2,223,982	2,243,254	1,317,791	435,650	11,723,230
Budget Authority	2,449,486	3,352,710	2,512,905	2,531,443	1,352,728	459,899	12,659,171
Unspent Budget Authority	<u>\$ 291,863</u>	<u>\$ 7,780</u>	<u>\$ 288,923</u>	<u>\$ 288,188</u>	<u>\$ 34,937</u>	<u>\$ 24,249</u>	<u>\$ 935,940</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 66,728	\$ 883	\$ 5,110		\$ 13,894		\$ 86,615
State Special Revenue Fund	29,848	6,897	213,013	\$ 43,651		\$ 12,300	\$ 305,709
Federal Special Revenue Fund	195,286		70,800	244,538	21,043	11,948	543,616
Unspent Budget Authority	<u>\$ 291,863</u>	<u>\$ 7,780</u>	<u>\$ 288,923</u>	<u>\$ 288,188</u>	<u>\$ 34,937</u>	<u>\$ 24,249</u>	<u>\$ 935,940</u>

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

**Department of Livestock
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 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, and Federal Special Revenue). In applying the modified accrual basis, the department records:

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

The department uses accrual basis accounting for its Fiduciary (Agency) fund category. 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. Consequently, these schedules do not agree in all cases to final state accounting system summary reports.

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 that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include the Diagnostic Laboratory, Brand Inspection and Control, Animal Health, Milk and Egg, Milk Control, Predatory Animal, LLB Restricted and Per Capita, which funds the department operations.

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

Fiduciary Fund Category

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

2. General Fund 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, and Federal Special Revenue Funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

Direct entries to fund equity in the General, State Special Revenue, and Federal Special Revenue Funds also include: correction of an error from a previous period that occurred at least two fiscal years prior.

4. Unearned Revenues

Revenues are recognized when they are realizable, measurable, earned, and available. Brands rerecord occurs every ten years. The latest rerecord occurred in 2011 and is amortized over the ten-year period. Gross receipts in 2011 were \$4,647,042, of which \$464,704 was recognized in fiscal year 2014 and 2015. Unearned revenue is the balance of the rerecord fees collected in 2011 that has not been earned and is unavailable. The balance of unearned revenue for rerecord fees as of June 30, 2015 is \$2,788,225.

New brands and transfer revenues are amortized over the period remaining until the next brands rerecord which will be in 2021. New brands and transfer receipts were \$256,050 and \$294,298 for fiscal year 2014 and 2015, respectively. Recognized revenue

for the fiscal year 2014 and 2015 revenue was \$32,006 and \$42,085, respectively. The remaining receipts will be recognized in subsequent years until 2021 when the next brands rerecord cycle begins. The balance of unearned revenue for new brands and transfers as of June 30, 2015 is \$735,403.

Mortgage renewal revenues are amortized over the period remaining until the next mortgage renewal period which will be in 2018. Mortgage renewal receipts were \$26,070 and \$18,375 for fiscal year 2014 and 2015, respectively. Recognized revenue for the fiscal year 2014 and 2015 revenue was \$6,518 and \$6,125, respectively. The remaining receipts will be recognized in subsequent years until 2018 when the next mortgage renewal cycle begins. The balance of deferred revenue for mortgage renewals as of June 30, 2015 is \$92,195.

5. Subsequent Events

The executive officer resigned in September 2015. A termination settlement was agreed to in the amount of \$189,520 to be paid in two payments. A payment to the executive officer was made in September 2015 in the amount of \$105,260, the second to be paid in July 2016 in the amount of \$84,260.

Several long term employees terminated employment from July 1, 2015, to January 27, 2016. Significant payouts for accrued personal leave and required payroll tax expense was approximately \$154,000.

Report on Internal Control and Compliance

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 & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Livestock (department) 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 5, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the department'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the department'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'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 5, 2016

DEPARTMENT OF
LIVESTOCK

DEPARTMENT RESPONSE

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



3
BRANDS ENFORCEMENT DIVISION (406) 444-2045
CENTRALIZED SERVICES DIVISION (406) 444-4994
EXECUTIVE OFFICE/BOARD OF LIVESTOCK (406) 444-9321
MEAT & POULTRY INSPECTION DIVISION (406) 444-5202
MILK & EGG BUREAU (406) 444-9761

April 14, 2016

Tori Hunthausen, Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, Montana 59620

RECEIVED
APR 15 2016
LEGISLATIVE AUDIT DIV.

Dear Ms. Hunthausen,

Thank you for the work compiled by your team of auditors as they worked with the Department of Livestock this year. From reports I received the auditors exhibited a high level of professionalism as they interacted with our staff during the course of the audit. We believe the audit process is crucial to gathering feedback and working to continually improve the financial management of our department. The following information conveys our thoughts and plans in regard to the findings and recommendations made by your team following their visit:

Recommendation #1 – We recommend the Department of Livestock comply with state law related to the use of per capita fees.

Department Response: Do Not Concur

The Department of Livestock does not concur with the statement that we did not comply with law in the handling of the employment settlement paid to the former executive officer using per capita fees. The auditors cited MCA 15-24-921 as the source for this finding. The statute states that "...the fee is in addition to appropriations and is to help pay the salaries and all expenses **connected** with the enforcement of livestock laws of the state." The findings of the auditors state that they believe a termination settlement is not an expense incurred as a **result** of the enforcement of livestock laws. While it may be true the settlement is not a result of enforcing livestock laws the board and their counsel at the time believed this action to be connected with the enforcement of livestock laws. Dysfunction created within the department by issues stemming from the executive office that ultimately resulted in layoffs, furloughs and increased turnover threatened the future ability of the department to carry out its duties effectively and efficiently. A settlement was the best way for the board and their executive officer to amicably agree to a separation that would allow the department to deal with these issues and set a direction toward more effective management. The belief of the department is that the leadership change contributes to our ability to better enforce the livestock laws of the state. Another important point to note as this action was a salary based settlement and the executive officer salary is paid using per capita fees. Given the concern over using this particular fund for payment the department is exploring other options for paying the second installment of the settlement due in the next fiscal year.

STATE OF MONTANA

STEVE BULLOCK, GOVERNOR

Recommendation #2 – We recommend the Department of livestock:

- A. Comply with state accounting policy by recording the correct unearned revenue balance, and
- B. Follow the accounting structure on SABHRS

Department Response: Concur

- A. While this recommendation is related to unearned revenue, it is not related to prior audit recommendations. The Department of Livestock has corrected all prior recommendations regarding unearned revenue as they were communicated to the department. The department believes that since 1921, 10% of the re-record fees were recognized in the first fiscal year of the 10 year period and each fiscal year thereafter. This has been the standard practice of the department without any known prior legislative audit recommendations. This audit finding has brought to our attention that the past practice causes too much revenue to be taken in the first year of the re-record period and exhausts the unearned revenue account before the end of the re-record period. Understanding this situation better the department sees that we need to refund our unearned revenue account in the amount of \$232,352 from other cash sources of revenue related to brands, such as inspection fees, to make sure the funds in the account are available for the entire 120 months of the current re-record period. To establish a new operating procedure that is in line with this audit finding we believe we should begin taking disbursement of this revenue on a monthly basis broken out over the 120 month re-record period as opposed to annual disbursements. This will set the department up to have this revenue last through December 31, 2021 as intended. In the next re-record period which will begin on January 1, 2022 a standard operating procedure of taking the 10% of revenue on a calendar year basis broken out on a monthly basis will decrease the likelihood of the department taking more than it should in the first year.
- B. The department has and will continue to follow the accounting structure on SABHRS.

Recommendation # 3 – We recommend the Department of Livestock comply with accounting policy by recording the stray animal net proceeds in an agency fund until those proceeds become available for department use.

Department Response: Concur

The department concurs with this finding. The department had misinterpreted the type of fund that needed to be used to hold these funds the required two years. The department had understood that recording this in an agency fund would mean it needed to be zeroed out each year. Now the department understands that is not a concern and this recommendation will be fully implemented by fiscal year end 2016.

Sincerely,



John Lehfeldt
Chairman
Board of Livestock



Mike Honeycutt
Executive Officer
Board of Livestock