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Chapter III – Natural Resources and Transportation

Disclosure Issues

In addition to the recommendations included in audit reports for state agencies, audit reports may also include disclosure issues. Disclosure issues are items of which the Legislative Auditor believes the legislature should, but may not be, aware. They include situations where the law may not directly address the issue, where spending by state agencies might be inconsistent with what appears to be the intent of the legislature or where amounts on the state's accounting records might not be accurate. The disclosure issues listed below are included in reports for the agencies addressed in this section.

Department of Transportation #13-17

Montana Legislative Audit Division

Financial-Compliance Audit
Department of Agriculture
For the Two Fiscal Years Ended June 30, 2013

March 2014 | 13-21 | Report Summary

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

Context

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

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

Results

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

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

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

Financial-Compliance Audit
Department of Environmental Quality
For the Two Fiscal Years Ended June 30, 2014

October 2014 14-16 Report Summary

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

Context

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

Results

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

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

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

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Financial Audit

Montana Water Pollution Control and Drinking Water State Revolving Fund Programs

For the Fiscal Year Ended June 30, 2012

February 2013 | 11-25B | Report Summary

As of June 30, 2012, the Water Pollution Control State Revolving Fund (WPCSRF) and the Drinking Water State Revolving Fund (DWSRF) programs had authorized loans to public entities of the State of Montana that in the aggregate exceeded $350.8 and $198.7 million, respectively. The net outstanding balance of these loans are approximately $192 million (WPCSRF) and $109.5 million (DWSRF).

Context

The State Revolving Fund includes the WPCSRF and the DWSRF which provide low interest loans for the planning, design, and construction of water pollution control and drinking water projects. The programs are jointly administered by the Department of Natural Resources and Conservation and the Department of Environmental Quality. The Department of Natural Resources and Conservation has requested an annual financial audit as required by the Federal Environmental Protection Agency (EPA).

The WPCSRF program works to maintain, restore, and enhance the chemical, physical, and biological integrity of the state's waters for the benefit of the overall environment and the protection of public health. The Water Pollution Control program is funded 83.33 percent by Federal EPA capitalization grants and 16.67 percent by state match.

The DWSRF program provides financial and technical assistance to help public water supplies achieve and maintain compliance with federal and state drinking water laws and standards for the protection and enhancement of Montana's public drinking water. The Drinking Water program is approximately funded 80 percent by Federal EPA capitalization grants and 20 percent by state match.

The State of Montana has issued General Obligation (GO) bonds, Revenue Anticipation Notes (RANs), and Bond Anticipation Notes (BANs) totaling approximately $33.6 million for use as state matching funds for the WPCSRF program and $22.6 million for the DWSRF program since the inception of the programs.

Results

This report contains no recommendations and an unqualified opinion. Financial statement users can rely on the information in the financial statements and notes. We would like to commend the departments for this accomplishment.

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

Montana Legislative Audit Division

Financial Audit

Montana Water Pollution Control and Drinking Water State Revolving Fund Programs

For the Fiscal Year Ended June 30, 2013

March 2014 13-25A Report Summary

State Revolving Fund capitalization grants provide Montana with a long term source of financing for drinking water infrastructure and water quality management activities. The grants, received from the Environmental Protection Agency, are loaned to local Montana communities for eligible projects, and loan repayments are used to make new loans. The Environmental Protection Agency requires an annual audit of the programs.

Context

The State Revolving Fund programs include the Water Pollution Control State Revolving Fund (WPCSRF) and the Drinking Water State Revolving Fund (DWSRF). These programs provide low interest loans for the planning, design, and construction of water pollution control and drinking water projects. The programs are jointly administered by the Department of Environmental Quality (DEQ) and the Department of Natural Resources and Conservation (DNRC).

Through June 30, 2013, the WPCSRF and the DWSRF programs authorized loans to public entities, in the aggregate, in excess of $374.2 million and $216.2 million, respectively. At June 30, 2013, the net outstanding loan balances were approximately $184.5 million in the WPCSRF and $123.6 million in the DWSRF.

The WPCSRF program works to maintain, restore, and enhance the chemical, physical, and biological integrity of the state's waters for the benefit of the overall environment and the protection of public health. The WPCSRF program is funded 83.33 percent by federal Environmental Protection Agency (EPA) capitalization grants and 16.67 percent by state match.

The DWSRF program provides financial and technical assistance to help public water supplies achieve and maintain compliance with federal and state drinking water laws and standards for the protection and enhancement of Montana's public drinking water. The DWSRF program is funded 80 percent by federal EPA capitalization grants and 20 percent by state match.

Results

We focused our audit effort on reviewing the financial statements and notes. This included reviewing the financial statement preparation process, comparing the activity on the financial statements to previous years, and reviewing the notes for consistency with the financial statements and supporting documentation. We confirmed selected loan balances with loan recipients and reviewed documentation

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related to the Revenue Anticipation Note issuance. We also verified program financial information reconciled to statements provided by the program's trustee bank and determined program compliance with selected, applicable state and federal laws and regulations. Our audit did not result in any recommendations. We issued an unmodified opinion on the financial statements and notes.

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

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Montana Legislative Audit Division

Financial-Compliance Audit
Department of Fish, Wildlife & Parks
For the Two Fiscal Years Ended June 30, 2013

December 2013 | 13-18 | Report Summary

The Department of Fish, Wildlife & Parks defines its mission as providing for the stewardship of the fish, wildlife, parks, and recreational resources of Montana, while contributing to the quality of life for present and future generations. The main sources of funding for department activities are licenses, permits, and federal awards. Historically, the department does not receive General Fund appropriations. However, in fiscal years 2012 and 2013, the department received approximately $200,000 in General Fund appropriations each year to combat aquatic invasive species.

Context

The Department of Fish, Wildlife & Parks (department) controls 336 fishing access sites and 54 state parks; issues hunting and fishing licenses; and oversees fish and wildlife preservation programs, enforcement activities, land acquisitions, and community education programs. The five-member Fish, Wildlife and Parks Commission sets fish and wildlife regulations, approves property acquisitions, and approves certain rules and activities of the department as provided by statute. Commission members are appointed by the Governor and confirmed by the Senate. There are seven regional offices throughout the state. The department's headquarters is in Helena. The department's organization chart appears on page iv of the report.

In the 2012 license year the department issued licenses listed below:

- Resident Fishing - 147,310
- Nonresident Fishing - 168,909
- Resident Hunting – 393,949
- Nonresident Hunting – 21,687
- Resident Hunting Combo – 48,034
- Nonresident Hunting Combo – 25,635

For selected licenses we performed testing to gain assurance that the issuance of certain licenses and subsequent allocations of funds were in accordance with state law.

Results

Recommendations in the report relate to unrecorded liabilities at fiscal year-end for construction projects, and overstated revenue estimate in the Federal Special Revenue Fund in fiscal year 2013.

The department implemented the five recommendations contained in our prior audit report.

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

For a complete copy of the report (13-18) 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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Montana Legislative Audit Division

Performance Audit
Block Management Program
Department of Fish, Wildlife & Parks

October 2013 13P-04 Report Summary

Between 2001 and 2012, the Block Management program provided almost $2 million in compensation for public hunting access to private lands where such access already exists through department conservation easements. The program contains some Block Management Areas (BMAs) that do not allow public hunting access to adjacent federal and state trust lands. Significant control weaknesses exist for enrolling property in the program and for calculating payments to enrolled landowners.

Context

The Block Management program (program) facilitates public hunting access to private lands and isolated state and federal lands through voluntary contracts between the Department of Fish, Wildlife & Parks (FWP) and private landowners. FWP administers the program from Helena, while Regional Hunting Access Enhancement Coordinators in six of FWP's seven regional offices manage the program on the ground. Properties enrolled in the program are known as BMAs and participating landowners are known as cooperators. For the 2012 hunting season, the program consisted of 858 BMAs providing access to more than 8.16 million enrolled acres. According to FWP, the program is one of the most successful hunting access programs in the West.

The process and decisions to enroll and re-enroll properties in the program are conducted at the regional level, with involvement from field biologists, game wardens, and regional management. Regional staff is also responsible for establishing contracts with cooperators. Hunters access BMAs by completing self-administered sign-in cards or rosters (Type I BMAs) or obtaining permission slips from cooperators or FWP (Type II BMAs). At the end of the hunting season, regional staff collects and tabulates completed hunter permission documents for all BMAs in their regions in order to track hunter use. The hunter day totals gathered through regional counts are the bases for cooperator payments. Cooperators can receive up to $11 per hunter day in compensation. By statute, a cooperator may receive no more than $12,000 per year from the program. In 2012, FWP paid $4.95 million to cooperators in compensation.

Results

Audit work found the program does not consistently review properties for participation in the program against established criteria. The program also does not have a system that ensures accurate payments to cooperators. As a result, audit recommendations address the need for FWP to explore a different method to compensate cooperators and develop policies and procedures to define and establish consistency in program operations. Audit work also identified the need for FWP to address program funding shortfalls, coordinate with state and federal land management agencies, and not use program funds to compensate landowners for private properties where public hunting access already exists through FWP conservation easements.

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Recommendation Concurrence	
Concur	1
Partially Concur	3
Do Not Concur	3
Source: Agency audit response included in final report.	

Montana Legislative Audit Division

Financial-Compliance Audit
Department of Livestock
For the Two Fiscal Years Ended June 30, 2013

May 2014 13-22 Report Summary

The audit identified a conflict of interest at the Board of Horse Racing, as well as a material weakness in internal controls over simulcast revenues. Chapter 402, Laws of 2013, transferred the Board of Horse Racing from the Department of Livestock to the Department of Commerce, effective July 1, 2013. This report contains recommendations to both departments related to these issues.

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 producer pricing of the milk industry, 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 taxes, and various charges for services. The department also receives federal grant awards and general fund appropriations. The department expended approximately $18.23 million through the state special revenue fund, $3.58 million through the federal special revenue fund, and $2.25 million through the general fund, during fiscal years 2012 and 2013 combined.

Results

The report contains two recommendations to the Department of Livestock and the Department of Commerce, related to a conflict of interest at the Board of Horse Racing and a material weakness in internal controls over verification of simulcast wagering information for the Board of Horse Racing. As a result of these issues, we were unable to obtain sufficient, appropriate audit evidence on the accuracy and completeness of simulcast revenues during the audit period, which resulted in modified opinions on four of the six financial schedules included in this report.

The report also contains three recommendations to the Department of Livestock concerning compliance with state laws related to issuing payments only upon an appropriation made by law, setting livestock per capita fees, and using deferred revenues to fund current year operations.

Recommendation Concurrence	
Concur	4
Partially Concur	1
Do Not Concur	0
Source: Agency audit response included in final report.	

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Montana Legislative Audit Division

Financial-Compliance Audit

Department of Natural Resources and Conservation
For the Two Fiscal Years Ended June 30, 2014

October 2014 14-17 Report Summary

Our audit identified areas where the Department of Natural Resources and Conservation can improve compliance with state accounting policy for expenditure abatements.

Context

For fiscal years 2013-14 and 2012-13, the Department of Natural Resources and Conservation (department) generated distributable revenues of $130,088,600 through its management of state lands for 12 separate land trusts, of which $117,452,368 benefited the Common Schools Trust.

We tested 75 laws related to department operations, statutes authorizing the issuance of renewable resource bonds, and selected laws governing the State Revolving Fund programs.

We focused audit effort on personal services; other expenses; transfers-out; transfers-in; investment earnings; rentals; leases and royalties; timber sales; and federal revenue to support our opinion on the financial schedules.

The department has $20,437,142 in accounts receivable from federal agencies at June 30, 2014, for fire-fighting costs incurred in previous years. In the Fire Suppression account in the state special revenue fund, the department had a fund equity balance of $42,502,103 at June 30, 2014.

Results

The current report contains a recommendation concerning improper reductions in expenditures when receipts occur rather than recording revenue as required by state policy.

The readers can rely on the financial schedules presented for fiscal years 2013-14 and 2012-13.

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

Recommendation Concurrence	
Concur	1
Partially Concur	0
Do Not Concur	0

Source: Agency audit response included in final report.

For a complete copy of the report (14-17) 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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Montana Legislative Audit Division

Performance Audit

Management of Oil and Gas and Commercial Leasing on State Trust Lands

Department of Natural Resources and Conservation

October 2013 13P-03 Report Summary

The Montana Department of Natural Resources and Conservation's (department) controls over the oil and gas bid process ensures that information is secure and not used to inappropriately influence the price of oil and gas leases at public auction. However, the department should more proactively identify commercial leasing opportunities on state trust land to maximize revenue for beneficiaries.

Context

The department generated over $20 million in gross revenue from approximately 6,100 oil and gas leases in fiscal year 2013. As for commercial leasing, state law outlines the various requirements of the department for commercial leasing on state trust land, including maximizing the long-term revenue accruing to the beneficiaries by issuing commercial leases on land where the chief value exists in its use for commercial purposes. Commercial leases generated approximately $5 million in gross revenue in fiscal year 2012. As of March 2013, there are 133 active commercial lease agreements on state trust land.

Audit work determined that the department has controls in place to ensure that oil and gas lease bid information is not used to inappropriately influence sale process at public auction. However, during our review, we determined the department should strengthen commercial leasing activities on state trust land by proactively identifying potential commercial leases, complying with appraisal and request for proposal (RFP) requirements, implementing policies and procedures for RFPs and lease monitoring, and documenting commercial leasing activities.

Results

Audit recommendations address the need for the department to proactively identify commercial leases on state trust land and strengthen the identification, issuance, and monitoring of commercial leasing activities on state trust land. Conclusions and recommendations include:

- Controls over the bid process for oil and gas leases protect the integrity of the lease bidding process.
- Proactively identify and develop commercial leases on state trust land.
- Set annual rates for commercial leases based on an appraised value of the land, or seek authority for alternative valuation methodologies.
- Review and approve land appraisals and document appraisal reviews for commercial lease land appraisals.
- Issue commercial leases to the highest and best bidder responding to department request for proposals.
- Develop and implement policies and procedures for request for proposals, including scope, scoring, and selection.

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- Develop and implement policies and procedures for the physical and financial monitoring of commercial leases.
- Develop and implement policies and procedures for documenting commercial leasing activities.

Recommendation Concurrence	
Concur	5
Conditionally Concur	2
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (13P-03) 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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Montana Legislative Audit Division

Financial-Compliance Audit
Montana Department of Transportation
For the Two Fiscal Years Ended June 30, 2013

October 2013 13-17 Report Summary

The Montana Department of Transportation (department) spent over $300 million each fiscal year for planning, designing, constructing, and maintaining approximately 25,000 lane miles of roadways. The department is one of the largest employing agencies in state government with 2,242 authorized employees in fiscal year 2012-13. In addition to areas for improvement, the report contains a disclosure issue related to changes in employee position numbers when no change in job duties occurred.

Context

The department's primary funding sources are federal highway planning and construction funds and state motor fuel tax revenues. In fiscal year 2012-13, the department received approximately $782 million in total revenues. Federal special revenues accounted for over $435 million, or 55 percent of department revenues, while state special revenues exceeded $294 million, or 37 percent of department revenues.

Expenditures in the Highways & Engineering and Maintenance programs accounted for over $486 million and $134 million, respectively, in fiscal year 2012-13. The department spent approximately $370 million on highway construction and improvement projects during this time.

Results

The current audit report contains seven recommendations. Three recommendations relate to ways the department can improve internal controls, and four recommendations relate to compliance with state law and department and state policies.

One internal control weakness resulted in infrastructure re-allocation errors totaling $213.7 and $25.9 million in fiscal years 2012-13 and 2011-12, respectively. These errors resulted in a qualified opinion on the department's financial schedules for fiscal year 2012-13.

The audit report for the two fiscal years ended June 30, 2011, contained ten recommendations. The department implemented eight recommendations and did not implement two recommendations. The two recommendations not implemented are discussed in the current report.

Recommendation Concurrence	
Concur	6
Partially Concur	1
Do Not Concur	0

Source: Agency audit response included in final report.

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