



# FINANCIAL-COMPLIANCE AUDIT

## Department of Natural Resources and Conservation

NOVEMBER 2016

16-17

REPORT SUMMARY

Our audit identified areas where the Department of Natural Resources and Conservation can strengthen controls related to trust land revenues, hydro-electric leases, review of accounting transactions, physical inventory of capital assets, and timeliness of the water permit process. We also recommended the department confirm all hydro-electric leases and improve documentation related to cash-like awards.

### Context

For fiscal years 2015-16 and 2014-15, the Department of Natural Resources and Conservation (department) generated distributable revenues through its management of state lands for 14 separate land trusts. The rentals, leases, and royalties decreased from \$75.6 million in fiscal year 2014 to \$65.8 million in fiscal year 2015 to \$59.5 million in fiscal year 2016. Most of the decrease relates to oil and gas activity as well as agricultural rentals. The decrease in oil and gas activity is related to low oil and gas prices. Grazing rentals and investment earnings increased.

During the audit we focused on personal services; revenues, transfers-in and transfers-out in the land grant trusts; activity in the State Revolving Fund programs; and investment earnings to support our opinion on the financial schedules. We also visited various land and regional offices responsible for trust lands, water resources, and oil and gas activities.

We tested laws related to department activity, including laws related to the Water Resource Division and state lands.

The department had \$19 million in accounts receivable from federal agencies at June 30,

2016, for fire-fighting costs incurred in previous years. Accounts receivables go back as far as calendar year 2012 due to the complexity of fire funding. The Fire Suppression account in the State Special Revenue Fund had a fund equity balance of \$73.7 million at June 30, 2016.

### Results

The current report contains eight recommendations related to:

- ◆ Improving internal controls over timber sales on trust lands.
- ◆ Entry and approval of accounting entries by the same person.
- ◆ Confirmation of hydro-electric revenue.
- ◆ Documentation of employee receipt of gift cards given as awards and documentation of related tax liability.
- ◆ Taking physical inventory of capital assets.
- ◆ Compliance with time frames in the water permitting process set by law.

We determined the schedules fairly present the activity of the department in all material

respects. Therefore, the readers can rely on the financial schedules presented for fiscal years 2015-16 and 2014-15.

The department fully implemented the recommendation from the prior audit related to expenditure abatements.

Recommendation Concurrence	
Concur	5
Partially Concur	1
Conditionally Concur	2
Do Not Concur	0

**Source:** Agency audit response included in final report.

For a complete copy of the report (16-17) 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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