

Department of Natural Resources and Conservation

Summary of Audit Work in Support of Statewide and Single Audits
Audit Periods Ending June 30, 2023

To: Legislative Audit Committee

From: Delsi Osmanson, Financial-Compliance Audit Supervisor

Cc: Amanda Kaster, Director
Erin Weisgerber, Deputy Director
Meaghan Bjerke, Chief Financial Officer

Date: September 2024


Re: Single Audit and Statewide Audit Support Work: Montana Department of Natural Resources and Conservation

Introduction

The Montana Department of Natural Resources and Conservations (department) is headed by a director appointed by the governor and confirmed by the senate. The department is comprised of four divisions: Forestry and Trust Lands, Water Resources, Conservation and Resource Development, and Oil and Gas Conservation. Together these divisions offer a variety of programs and services and carry out mandated regulatory and land management responsibilities.

Summary of Audit Work in Support of Single Audit

We audited one federal program administered by the department related to the State and Local Fiscal Recovery Funds. The following describes the purpose of the federal program and depicts the Covid-related expenditures for the audit period.

Federal Program	Federal Expenditures		Purpose	% COVID-related
	FY2022	FY2023		
Coronavirus State Local Fiscal Recovery Funds reference: ALN 21.027	\$8M	\$66M	Provide relief in response to the COVID-19 health emergency and its negative economic impacts.	

We identified one issue related to the department's administration of this federal program.

AUDITOR'S OPINION – QUALIFIED



No Questioned Costs

Finding 2023-015

Material Weakness in Internal Control and Material Non-Compliance

The department did not have sufficient controls to ensure every subrecipient receiving State and Local Fiscal Recovery Funds grant funds was evaluated for risk of noncompliance or reviewed for the applicability of single audit requirements, as required by federal regulations.

Department response: Partially Concur

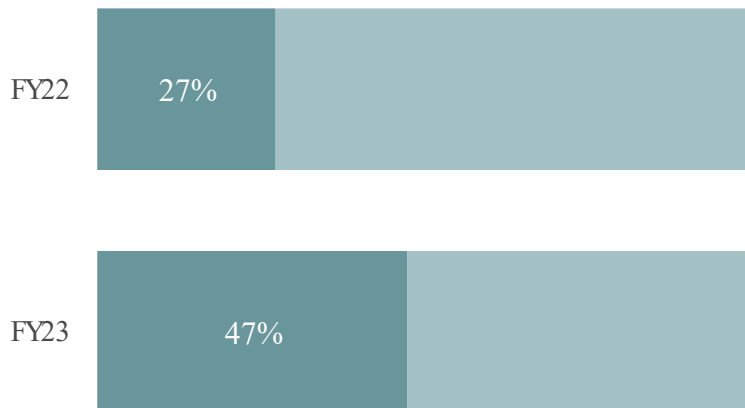
Note: A portion of this program was administered and audited at the Department of Commerce as well.

Summary of Audit Work in Support of Statewide Audit

For fiscal years 2022 and 2023, our audit work at DNRC focused primarily on the State Revolving Fund, State Trust Lands grant activity, leases, and fire suppression activity. Auditing these areas involved testing multiple accounts and transactions including cash and fund equity, investments, loans, transfers, lease values, as well as land grant revenues and expenditures.

The figure below illustrates the impact of the department’s leases on the state’s governmental activities. Deferred inflows, in the context of leases, represent the value of the lease receivable to the state, for leases of state-owned property.

DNRC's leases accounted for a quarter of the state's deferred inflows in FY22 and nearly half in FY23



We audited the following financial activity of the department in support of our audit of the state’s Annual Comprehensive Financial Report (ACFR):

Department of Natural Resources and Conservation

Financial Activity Audited in Support of the State's ACFR

ACFR Opinion Unit	Activity Audited	FY22	FY23
State Special Revenue Fund	Cash & Cash Equivalents	\$252M	\$416M
	State Revolving Fund Loans	\$486M	\$470M
	State Revolving Fund Restricted Balances	\$548M	\$563M
	Transfers-In	\$82M	\$201M
	Accounts Payable	\$81M	-
	Current Expenditures	\$47M	-
Land Grants	Cash and Cash Equivalents	\$42M	\$53M
	Revenues	\$49M	\$114M
	Transfers-Out	\$38M	\$78M
	Transfers-In	\$19M	\$2M
	Lease Receivable	\$373M	\$466M
	Deferred Inflows from Leases	\$373M	\$466M
	Equity in Pooled Investments	\$844M	\$892M
	Permanent Trust Fund Equity	\$876M	\$932M
Governmental Activities	Cash & Cash Equivalents	\$293M	\$416M
	Equity in Pooled Investments	\$832M	\$877M
	Restricted Net Assets	\$1.55B	\$1.62B
	Deferred Inflows from Leases	\$373M	\$466M
	Long Terms Loans	-	\$936M

Prior Audit Recommendations

Our prior Financial-Compliance audit of the department (#22-17) contained one recommendation. We determined the implementation status of this recommendation as follows:

Fully Implemented: 0
Partially Implemented: 1
Not Implemented: 0

DEPARTMENT OF NATURAL RESOURCES
AND CONSERVATION



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July 23, 2024

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RECEIVED
July 24, 2024
LEGISLATIVE AUDIT DIV.

RE: Recommendation #2023-015 – Montana Department of Natural Resources & Conservation Legislative Audit Division Single Audit Coronavirus State and Local Fiscal Recovery Fund finding Fiscal Year 2022 and 2023.

The Department of Natural Resources and Conservation (the Department) has reviewed the Legislative Audit Division's Single Audit finding associated with the work over the State and Local Fiscal Recovery Fund grant program for fiscal years 2022 and 2023. Regarding the finding and recommendations reported, the response is as follows:

Recommendation:

We recommend the Department of Natural Resources and Conservation:

- A. Enhance internal controls to ensure every subrecipient is evaluated for risk of noncompliance and reviewed for applicability of single audit requirements.
- B. Perform all subrecipient monitoring activities as required by federal regulations.

Response: The Department partially concurs with the recommendation.

The Department concurs that every subrecipient is to be evaluated for risk of noncompliance, reviewed for applicability of single audit requirements and that subrecipient monitoring activities should be conducted to be in compliance with federal regulations. However, the Department does not concur with the interpretation that these activities must occur within a specified time period as implied by Context, Effect and Cause of Legislative Audit Division's recommendation.

Federal regulation, 2 CFR 200.332 requires pass-through entities to evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and condition of the subaward for purposes of determining appropriate monitoring. The Department did this when a survey was sent to each subrecipient. As part of the program guidelines subrecipients were automatically assigned as a medium risk until further evaluation could be completed. Therefore,

the Department disagrees with the assertion that the risk assessment process remained incomplete.

In addition, 2 CFR 200.332 (f) requires the pass-through entity to verify that every subrecipient meets the single audit requirements when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceed the threshold set forth in 2 CFR 200.501. Due to the timing of the awards to subrecipients by the Department, single audit compliance monitoring is ongoing until September 2024.

Finally, the Department is actively monitoring subrecipients as required by 2 CFR 200.332. As noted earlier, there is no specified timelines in the federal regulations for when subrecipient monitoring must be conducted during the grant period.

While the Department agrees that internal controls are necessary to ensure subrecipients are evaluated for risk, single audits are reviewed and subrecipient monitoring must take place when receiving federal funding, the Department disagrees that this wasn't in place for this program.

The Department has attached the grant program's risk assessment and subrecipient monitoring guidance as updated in July 2024. The Department added clarifying language to address subrecipients that do not return a risk assessment survey, although they will still be assigned medium risk, and added a section to address the ongoing single audit compliance monitoring.

We thank you for your work on this audit and appreciate the opportunity to add further comment on the audit findings.

Sincerely,



Amanda Kaster
Director

Attachment: ARPA Risk Assessment and Subrecipient Monitoring Guidance