



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Department of
Agriculture*

*For the Two Fiscal Years Ended
June 30, 2019*

MAY 2020

LEGISLATIVE AUDIT
DIVISION

19-21

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if 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 and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 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, 2019, was issued March 30, 2020. The Single Audit Report for the two fiscal years ended June 30, 2021, will be issued by March 31, 2022.

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LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

May 2020

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance report on the Department of Agriculture for the two fiscal years ended June 30, 2019. Our audit work included analyzing the financial schedules and note disclosures and analyzing the underlying financial activity such as, Charges for Services, Licenses and Permits, Taxes, Federal Revenue, and Grants.

The report contains no recommendations and we issued unmodified opinions on the financial schedules for fiscal years 2018 and 2019. An unmodified opinion on the financial schedules means that the information presented within them can be relied upon for decision-making purposes.

We thank the Director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

Department of Agriculture

Benjamin Thomas, Director

Kim Mangold, Deputy Director, Administrator, Agricultural Development Division (through February of 2020)

Christy Clark, Deputy Director, Administrator, Agricultural Development Division (March 2020 – Present), Administrator, Agricultural Sciences Division (June 2019 – March 2020)

Dr. Mark Nechodon, Administrator, Agricultural Sciences Division (through May 2019)

Cindy Trimp, Administrator, Central Services Division

Councils, Committees, and Board

Board of Hail Insurance
Montana Agricultural Development Council
Montana Alfalfa Seed Committee
Montana Hemp Advisory Committee
Montana Noxious Weed Management Advisory Council
Montana Weed Seed Free Forage Advisory Council
Montana Organic Commodity Advisory Council
Montana Potato Advisory Committee
Montana Pulse Crops Advisory Committee
Montana Wheat and Barley Committee

For additional information concerning the Department of Agriculture, contact:

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FINANCIAL-COMPLIANCE AUDIT

Department of Agriculture

For the Two Fiscal Years Ended June 30, 2019

MAY 2020

19-21

REPORT SUMMARY

During the Audit Period, the Department of Agriculture (department) started the Montana State Hemp program for the growing, processing, and licensing of Industrial Hemp. The department is still entered into a quota-share reinsurance agreement for Hail Insurance expenses reducing the exposure of large hail losses to the department. The department's total revenue totaled \$21 million and \$20 million for fiscal years 2019 and 2018, respectively. The department expended approximately \$23 million and \$21 million for fiscal years 2019 and 2018, respectively.

Context

The department is organized under three divisions: Agricultural Development Division, Agricultural Sciences Division, and Central Services Division.

The Agricultural Development Division administers programs that promote, enhance, expand, and diversify Montana's agricultural economy, through services which include agricultural commodity research and market development programs, hail insurance, and various agricultural loans.

In the Hail Insurance program, the fiscal year 2019 Schedule of Revenues & Transfers-In reflects a classification error between current revenue and prior year revenue in the Enterprise Fund. Because Total Revenues & Transfers-In of \$1,075,699 in the Enterprise Fund is correct, we made no audit recommendation and our opinion is not modified.

The Agricultural Sciences Division provides agricultural, public, and environmental services

and protection through the administration of the Montana laws and rules in the areas of pesticides, groundwater monitoring, noxious weed control, feeds, fertilizers, seed, and other services including organic certification, pest management consulting, laboratory analysis, pest surveys, export certification, and quarantines.

The Central Services Division includes the director's office and supports the programs within the department by performing accounting, fiscal management, budgeting, human resources, and legal support services.

Results

The report contains no recommendations and we issued unmodified opinions on the financial schedules of the department for each of the two fiscal years ended June 30, 2019. An unmodified opinion means the reader may rely on the fairness of the information presented in all material respects.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Department of Agriculture (department) for the two fiscal years ended June 30, 2019. The objectives of the audit were to:

- ◆ Obtain an understanding of the department’s internal controls to the extent necessary to support our audit of the financial schedules and, if necessary, make recommendations for improvement in management and the internal controls of the department.
- ◆ Determine whether the department’s financial schedules present fairly the results of its operations and changes in fund equity for each of the two fiscal years ended June 30, 2019.
- ◆ Determine whether the department complied with selected state laws and regulations.

Scope

Our audit work included analyzing the financial schedules and notes disclosures to obtain sufficient and appropriate audit evidence to render an opinion on the department’s financial schedules. We reviewed the underlying activity which includes but was not limited to Charges for Services, Licenses and Permits, Taxes, Federal Revenue, Grants, and Hail Insurance. Additional information related to Hail Insurance program follows.

The Montana State Hail Insurance program was created to provide basic hail insurance coverage on crops grown in Montana and the program’s activity is recorded in the department’s Enterprise Fund. In the Hail Insurance program, the Schedule of Revenues & Transfers-In reflects a classification error between current revenue and prior year revenue in the Enterprise Fund. Because Total Revenues & Transfers-In of \$1,075,699 in the Enterprise Fund is correct, we made no audit recommendation and our opinion is not modified.

Background

Article XII, Section 1 of the Constitution of the State of Montana mandates the legislature provide for a Department of Agriculture and enact laws and provide appropriations to protect, enhance, and develop all agriculture. The department’s statutory functions and responsibilities include:

- ◆ Encourage and promote the interests of Montana agriculture.
- ◆ Collect and publish agricultural statistics.
- ◆ Assist, encourage, and promote the organization of farmers’ institutes, agricultural societies, fairs, and other exhibitions of agriculture.

- ◆ Adopt standards for grade and other classifications of farm products.
- ◆ Assist in the development of economical and efficient marketing distribution systems.
- ◆ Gather and distribute marketing information concerning supply, demand, price, and movement of farm products.
- ◆ Regulate and protect Montana agricultural activities through the administration of statutes related to agriculture.

Agricultural Development Division (38.52 FTE): assists Montana's agricultural industry by providing services including market and agribusiness development, Growth Through Agriculture grants and loans, wheat and barley research and marketing, beginning farmer/rancher loans, hail insurance, grain grading and inspection, agriculture education and outreach, agriculture literacy, and administration of agricultural commodity research and market development programs. The division provides support to the Montana Alfalfa Seed Committee, the Wheat and Barley Committee, the Agricultural Development Council, the Board of Hail Insurance, and advisory committees for potatoes and pulse crops.

Agricultural Sciences Division (61.42 FTE): administers agricultural programs relating to the production, manufacturing, certification, and marketing of commodities exported from or distributed in the state. The division administers the Montana Pesticides Act, Crop Insect Detection Act, Vertebrate Pest Management Act, Agricultural Chemical Groundwater Protection Act, Noxious Weed Management Trust Fund Act, Commercial Feed and Fertilizer laws, Organic Certification program, Industrial Hemp program, and the department's Chemical Analytical Laboratory. Division personnel provide technical and consultant services to consumers and agricultural producers.

Central Management Division (15.10 FTE): includes the director's office and provides support to all of the programs in the department by performing accounting, fiscal management, payroll, purchasing, property control, data processing, and legal support functions.

The report contains no recommendations and we issued unmodified opinions on the financial schedules for fiscal years 2018 and 2019.

Independent Auditor's Report and Department Financial Schedules

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Agriculture for each of the fiscal years ended June 30, 2019, and 2018, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the department's preparation and fair presentation of the financial schedules in order to design audit procedures

that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system, without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, deferred outflows of resources, liabilities, deferred inflows of resources and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the department as of June 30, 2019, and June 30, 2018, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund equity of the Department of Agriculture for each of the fiscal years ended June 30, 2019, and 2018, 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 April 16, 2020, on our consideration of the Department of Agriculture's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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

April 16, 2020

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Private Purpose Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2018	<u>\$ (552,229)</u>	<u>\$ 13,645,301</u>	<u>\$ (164,835)</u>	<u>\$ 1,467,193</u>	<u>\$ 698,308</u>	<u>\$ 10,663,283</u>
ADDITIONS						
Budgeted Revenues & Transfers-In	12	16,224,816	2,933,541	(3,363,809)		
Nonbudgeted Revenues & Transfers-In		352,587	7,584	334	21,000	835,777
Prior Year Revenues & Transfers-In Adjustments		(79,379)	(14,598)	4,439,174		(11)
Direct Entries to Fund Equity	1,400,717	742,792	23,147	(9,386)		
Total Additions	<u>1,400,729</u>	<u>17,240,815</u>	<u>2,949,675</u>	<u>1,066,313</u>	<u>21,000</u>	<u>835,766</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	1,426,384	16,481,615	3,036,155	882,162		
Nonbudgeted Expenditures & Transfers-Out		1,047,382		19,586	5,000	364,897
Prior Year Expenditures & Transfers-Out Adjustments	(577)	(237,001)	9,280	54,712		
Total Reductions	<u>1,425,807</u>	<u>17,291,996</u>	<u>3,045,435</u>	<u>956,460</u>	<u>5,000</u>	<u>364,897</u>
FUND EQUITY: June 30, 2019	<u>\$ (577,307)</u>	<u>\$ 13,594,120</u>	<u>\$ (260,596)</u>	<u>\$ 1,577,046</u>	<u>\$ 714,308</u>	<u>\$ 11,134,152</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-11.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

		General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Private Purpose Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2017		\$ (364,111)	\$ 13,316,628	\$ (42,374)	\$ 658,855	\$ 658,808	\$ 10,985,249
ADDITIONS							
Budgeted Revenues & Transfers-In	12		16,057,192	2,680,149	1,087,755		
Nonbudgeted Revenues & Transfers-In			461,132	3,711	3,731	64,000	33,020
Prior Year Revenues & Transfers-In Adjustments			(113,785)	(3,215)	119,125		(3)
Direct Entries to Fund Equity		1,161,239	385,661		174,184		
Total Additions		<u>1,161,251</u>	<u>16,790,199</u>	<u>2,680,645</u>	<u>1,384,795</u>	<u>64,000</u>	<u>33,018</u>
REDUCTIONS							
Budgeted Expenditures & Transfers-Out		1,364,105	15,687,724	2,803,106	550,691		
Nonbudgeted Expenditures & Transfers-Out		(235)	868,143		25,766	24,500	354,983
Prior Year Expenditures & Transfers-Out Adjustments		(14,500)	(94,341)				
Total Reductions		<u>1,349,370</u>	<u>16,461,526</u>	<u>2,803,106</u>	<u>576,457</u>	<u>24,500</u>	<u>354,983</u>
FUND EQUITY: June 30, 2018		<u>\$ (552,229)</u>	<u>\$ 13,645,301</u>	<u>\$ (164,835)</u>	<u>\$ 1,467,193</u>	<u>\$ 698,308</u>	<u>\$ 10,663,283</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-11.

MONTANA DEPARTMENT OF AGRICULTURE
 SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Private Purpose Trust Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Licenses and Permits	\$	5,070,589				\$	5,070,589
Taxes		6,115,312					6,115,312
Charges for Services		2,177,360	\$	1,029,570			3,206,930
Investment Earnings		450,251		44,153		\$	1,330,170
Fines and Forfeits		26,212		1,976			28,188
Sale of Documents, Merchandise and Property		15,635					15,635
Grants, Contracts, and Donations		9,998			\$	21,000	30,998
Transfers-in		2,593,982					2,593,982
Capital Asset Sale Proceeds		10,390	\$	3,873			14,263
Federal Indirect Cost Recoveries			171,316				171,316
Miscellaneous	\$	28,295					28,307
Federal			2,751,338				2,751,338
Total Revenues & Transfers-In	12	16,498,023	2,926,527	1,075,699	21,000	835,766	21,357,027
Less: Nonbudgeted Revenues & Transfers-In		352,587	7,584	334			1,217,282
Prior Year Revenues & Transfers-In Adjustments		(79,379)	(14,598)	4,439,174		(11)	4,345,186
Actual Budgeted Revenues & Transfers-In	12	16,224,816	2,933,541	(3,363,809)	0	0	15,794,559
Estimated Revenues & Transfers-In	65	20,289,030	2,227,484	1,573,102			24,089,681
Budgeted Revenues & Transfers-In Over (Under) Estimated	(53)	(4,064,214)	706,057	(4,936,911)	0	0	(8,295,122)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Licenses and Permits	\$	289,201				\$	289,201
Taxes		(4,100,076)					(4,100,076)
Charges for Services		(396,026)	\$	(1,080)	\$	(4,967,812)	(5,364,918)
Investment Earnings		173,535	(50)	39,025			212,510
Fines and Forfeits		(55,853)		(8,124)			(63,977)
Sale of Documents, Merchandise and Property		(5,145)					(7,451)
Grants, Contracts, and Donations		(67,250)		(2,306)			(67,250)
Transfers-in		113,328					113,328
Capital Asset Sale Proceeds		(1,155)					(1,155)
Federal Indirect Cost Recoveries	(53)	(13,773)	55,388				55,388
Miscellaneous		(1,000)	654,104				(13,826)
Federal	(53)	(4,064,214)	706,057	(4,936,911)	0	0	(8,295,122)
Budgeted Revenues & Transfers-In Over (Under) Estimated							

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-11.

MONTANA DEPARTMENT OF AGRICULTURE
 SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Private Purpose Trust Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Licenses and Permits	\$	4,855,177				\$	4,855,177
Taxes		6,414,042					6,414,042
Charges for Services		2,078,928		\$ 1,184,511			3,263,439
Investment Earnings		360,139		22,076		\$ 33,018	415,234
Fines and Forfeits		26,254		500			26,753
Sale of Documents, Merchandise and Property		14,206					14,206
Grants, Contracts, and Donations		22,148		3,524	\$ 64,000		89,672
Transfers-in		2,604,018					2,604,018
Capital Asset Sale Proceeds		9,279	3,711				12,990
Federal Indirect Cost Recoveries			153,210				153,210
Miscellaneous	\$ 12	20,349					20,361
Federal			2,523,724				2,523,724
Total Revenues & Transfers-In	12	16,404,539	2,680,645	1,210,611	64,000	33,018	20,392,825
Less: Nonbudgeted Revenues & Transfers-In		461,132	3,711	3,731	64,000	33,020	565,595
Prior Year Revenues & Transfers-In Adjustments		(113,785)	(3,215)	119,125		(3)	2,122
Actual Budgeted Revenues & Transfers-In	12	16,057,192	2,680,149	1,087,755	0	0	19,825,108
Estimated Revenues & Transfers-In	65	18,584,740	2,069,806	1,573,102	0	0	22,227,713
Budgeted Revenues & Transfers-In Over (Under) Estimated	(53)	(2,527,548)	610,343	(485,347)	0	0	(2,402,605)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Licenses and Permits	\$	85,927				\$	85,927
Taxes		(2,127,531)					(2,127,531)
Charges for Services		(449,522)	(600)	(493,015)			(943,137)
Investment Earnings		64,764	(50)	17,268			81,982
Fines and Forfeits		(51,296)		(9,600)			(60,897)
Sale of Documents, Merchandise and Property		(6,544)	(2,306)				(8,850)
Grants, Contracts, and Donations		(67,250)					(67,250)
Transfers-in		39,314					39,314
Capital Asset Sale Proceeds		(1,155)					(1,155)
Federal Indirect Cost Recoveries			44,639				44,639
Miscellaneous	\$ (53)	(14,255)					(14,308)
Federal			568,661				568,661
Budgeted Revenues & Transfers-In Over (Under) Estimated	(53)	(2,527,548)	610,343	(485,347)	0	0	(2,402,605)

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-11.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Agricultural Development Division	Agricultural Sciences Division	Central Management Division	Total
Personal Services				
Salaries	\$ 1,528,757	\$ 3,105,868	\$ 996,579	\$ 5,631,203
Hourly Wages	55,324	66,434		121,758
Other Compensation	12,550	7,862		20,412
Employee Benefits	611,193	1,246,570	358,435	2,216,198
Personal Services-Other	(3,452)		25,448	21,996
Total	<u>2,204,371</u>	<u>4,426,733</u>	<u>1,380,462</u>	<u>8,011,566</u>
Operating Expenses				
Other Services	442,170	478,061	44,469	964,699
Supplies & Materials	98,715	339,057	27,965	465,736
Communications	103,266	139,206	24,290	266,761
Travel	240,154	199,920	22,700	462,773
Rent	93,171	183,642	70,811	347,624
Utilities	11,933	28,233		40,166
Repair & Maintenance	8,377	118,354	5,006	131,736
Other Expenses	1,285,642	137,257	28,816	1,451,715
Total	<u>2,283,426</u>	<u>1,623,731</u>	<u>224,055</u>	<u>4,131,212</u>
Equipment & Intangible Assets				
Equipment	66,818	246,840		313,658
Total	<u>66,818</u>	<u>246,840</u>		<u>313,658</u>
Capital Outlay				
Buildings			74,693	74,693
Total			<u>74,693</u>	<u>74,693</u>
Grants				
From State Sources	4,824,444	2,027,285	500	6,852,230
From Federal Sources	1,235,978	636,850		1,872,828
Total	<u>6,060,423</u>	<u>2,664,135</u>	<u>500</u>	<u>8,725,058</u>
Benefits & Claims				
From State Sources	512,584			512,584
From Other Sources		5,000		5,000
Total	<u>512,584</u>	<u>5,000</u>		<u>517,584</u>
Transfers-out				
Fund transfers	167,961	441,858		609,819
Intra-Entity Expense		727,497		727,497
Total	<u>167,961</u>	<u>1,169,355</u>		<u>1,337,315</u>
Post Employment Benefits				
Other Post Employment Benefits	832			832
Employer Pension Expense	(22,322)			(22,322)
Total	<u>(21,491)</u>			<u>(21,491)</u>
Total Expenditures & Transfers-Out	<u>\$ 11,274,092</u>	<u>\$ 10,135,794</u>	<u>\$ 1,679,710</u>	<u>\$ 23,089,596</u>
EXPENDITURES & TRANSFERS-OUT BY FUND				
General Fund	\$ 1,079,310	\$ 211,016	\$ 135,481	\$ 1,425,807
State Special Revenue Fund	7,896,526	8,107,548	1,287,922	17,291,996
Federal Special Revenue Fund	1,457,918	1,447,332	140,185	3,045,435
Enterprise Fund	840,338		116,121	956,460
Private Purpose Trust Fund		5,000		5,000
Permanent Fund		364,897		364,897
Total Expenditures & Transfers-Out	11,274,092	10,135,794	1,679,710	23,089,596
Less: Nonbudgeted Expenditures & Transfers-Out	231,133	1,177,554	28,179	1,436,866
Prior Year Expenditures & Transfers-Out Adjustments	(184,270)	10,606	78	(173,586)
Actual Budgeted Expenditures & Transfers-Out	11,227,230	8,947,634	1,651,453	21,826,316
Budget Authority	21,513,581	9,815,657	1,716,278	33,045,515
Unspent Budget Authority	<u>\$ 10,286,351</u>	<u>\$ 868,023</u>	<u>\$ 64,825</u>	<u>\$ 11,219,199</u>
UNSPENT BUDGET AUTHORITY BY FUND				
General Fund	\$ 333	\$ 2,867	\$ 1	\$ 3,200
State Special Revenue Fund	3,728,424	587,497	54,139	4,370,059
Federal Special Revenue Fund	2,071,162	277,659	5,339	2,354,160
Enterprise Fund	4,486,433		5,347	4,491,779
Unspent Budget Authority	<u>\$ 10,286,351</u>	<u>\$ 868,023</u>	<u>\$ 64,825</u>	<u>\$ 11,219,199</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-11.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Agricultural Development Division	Agricultural Sciences Division	Central Management Division	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT				
Personal Services				
Salaries	\$ 1,552,080	\$ 2,875,529	\$ 939,414	\$ 5,367,023
Hourly Wages	89,872	62,679		152,552
Other Compensation	15,250	2,900		18,150
Employee Benefits	557,784	1,134,529	312,039	2,004,352
Personal Services-Other	6,481			6,481
Total	<u>2,221,467</u>	<u>4,075,638</u>	<u>1,251,453</u>	<u>7,548,558</u>
Operating Expenses				
Other Services	635,694	352,745	81,886	1,070,325
Supplies & Materials	86,119	263,641	16,035	365,794
Communications	77,474	150,489	27,195	255,157
Travel	262,632	183,762	30,029	476,423
Rent	90,550	202,465	61,456	354,470
Utilities	12,428	30,286		42,714
Repair & Maintenance	33,510	118,243	1,827	153,580
Other Expenses	1,055,604	111,535	20,790	1,187,929
Goods Purchased For Resale			167	167
Total	<u>2,254,011</u>	<u>1,413,165</u>	<u>239,384</u>	<u>3,906,560</u>
Equipment & Intangible Assets				
Equipment	96,967	307,423		404,390
Intangible Assets		9,880		9,880
Total	<u>96,967</u>	<u>317,303</u>		<u>414,270</u>
Grants				
From State Sources	4,646,645	2,044,361		6,691,007
From Federal Sources	1,197,244	453,367		1,650,611
Total	<u>5,843,889</u>	<u>2,497,728</u>		<u>8,341,617</u>
Benefits & Claims				
From State Sources	128,822			128,822
From Other Sources		24,500		24,500
Total	<u>128,822</u>	<u>24,500</u>		<u>153,322</u>
Transfers-out				
Fund transfers	153,538	403,081	45	556,664
Intra-Entity Expense		617,085		617,085
Total	<u>153,538</u>	<u>1,020,166</u>	<u>45</u>	<u>1,173,749</u>
Post Employment Benefits				
Other Post Employment Benefits	1,084			1,084
Employer Pension Expense	30,783			30,783
Total	<u>31,867</u>			<u>31,867</u>
Total Expenditures & Transfers-Out	<u>\$ 10,730,561</u>	<u>\$ 9,348,500</u>	<u>\$ 1,490,882</u>	<u>\$ 21,569,943</u>
EXPENDITURES & TRANSFERS-OUT BY FUND				
General Fund	\$ 1,011,158	\$ 200,008	\$ 138,204	\$ 1,349,370
State Special Revenue Fund	7,638,408	7,682,194	1,140,924	16,461,526
Federal Special Revenue Fund	1,597,569	1,086,815	118,722	2,803,106
Enterprise Fund	483,426		93,032	576,457
Private Purpose Trust Fund		24,500		24,500
Permanent Fund		354,983		354,983
Total Expenditures & Transfers-Out	10,730,561	9,348,500	1,490,882	21,569,943
Less: Nonbudgeted Expenditures & Transfers-Out	228,296	1,045,161	(300)	1,273,157
Prior Year Expenditures & Transfers-Out Adjustments	(88,392)	(20,449)		(108,841)
Actual Budgeted Expenditures & Transfers-Out	10,590,657	8,323,788	1,491,182	20,405,627
Budget Authority	17,560,314	9,351,796	1,604,303	28,516,413
Unspent Budget Authority	<u>\$ 6,969,657</u>	<u>\$ 1,028,008</u>	<u>\$ 113,121</u>	<u>\$ 8,110,786</u>
UNSPENT BUDGET AUTHORITY BY FUND				
General Fund	\$ 3,288	\$ 1,089	\$ 1,346	\$ 5,724
State Special Revenue Fund	4,082,854	612,600	53,917	4,749,371
Federal Special Revenue Fund	2,049,480	414,319	56,893	2,520,691
Enterprise Fund	834,035		965	835,000
Unspent Budget Authority	<u>\$ 6,969,657</u>	<u>\$ 1,028,008</u>	<u>\$ 113,121</u>	<u>\$ 8,110,786</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-11.

Department of Agriculture
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2019

1. Summary of Significant Accounting Policies

Basis of Accounting

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

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

The department uses accrual basis accounting for its Proprietary (Enterprise) and Fiduciary (Private-Purpose Trust) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

- ◆ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.

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

Proprietary Fund Category

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

Fiduciary Fund Category

- ♦ **Private Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. The department uses the private-purpose trust fund to record commercial pesticide applicator certificates of deposit.

2. General Fund Equity Balance

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations.

The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2018 and June 30, 2019.

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.

4. Hail Insurance

In order to reduce exposure to large losses the hail insurance program entered into a quota-share reinsurance agreement. As a result of this agreement, both Charges for Services and Benefits & Claims From State Sources reflect a percentage of the premiums received and the total losses paid in relation to the percentage of premiums and risk ceded to the reinsurer. Insureds paid \$4,461,859 and \$4,969,475 in hail insurance premiums and the department ceded \$3,569,487 and \$4,224,054 of those premiums in calendar year 2019 and calendar year 2018, respectively. Total losses were \$3,928,693 and \$3,531,644 and the department ceded \$3,142,954 and \$3,001,897 of those losses in calendar year 2019 and calendar year 2018, respectively.

In compliance with the Governmental Accounting Standards Board's revenue recognition criteria, revenue accrual entries are recorded for the Hail Insurance program at fiscal year-end, then reversed in the following fiscal year. The reversal entry recorded in fiscal year 2019 was inconsistent with prior years; it used 2018 as the program year, rather than 2019, which caused \$4.4 million to be recorded as Prior Year Revenues & Transfers-In Adjustments. The agency has developed procedures to ensure future accrual reversals will use the current year as the program year.

5. Unspent Budget Authority

At June 30, 2019, the agency had \$10.3 million in unspent budget authority in the Agricultural Development Division, the material portion of which is broken down as follows. One-time-only authority was established for this biennium to allow the Wheat & Barley Committee to transition from issuing state fiscal year awards to calendar year awards. However, the authority was not needed for this transition and therefore not used. The amount remaining at year-end was \$2.0 million. The Specialty Crop Block Grant can have up to three years of active awards during a single fiscal year. The awards cover a three-year period, but all the needed authority is requested at the time the award is approved. Due to the nature and timing of awards, unspent authority is expected for the first two years of each award. The total remaining authority for

the FFY17 and FFY18 awards was \$1.8 million. The amount of grant dollars issued from Pulse Research & Marketing is limited by assessment collections. The unspent authority in the Pulse Research & Marketing statutory appropriation at year-end was \$432 thousand. The Hail Insurance program has a statutory appropriation for claims; the remaining authority at year-end was \$4.4 million. Additional authority is requested based on the expected claims. However, due to the inherent volatility of hail damage, the amount of actual claims may be less than anticipated, or may be paid later in the Hail Season in the following fiscal year.

At June 30, 2018, the agency had \$7.0 million in unspent budget authority in the Agricultural Development Division, the material portion of which is broken down as follows. One-time-only authority was established for this biennium to allow the Wheat & Barley Committee to transition from issuing state fiscal year awards to calendar year awards. However, the authority was not needed for this transition and therefore not used. The amount remaining at year-end was \$2.0 million. The Specialty Crop Block Grant can have up to three years of active awards during a single fiscal year. The awards cover a three-year period, but all the needed authority is requested at the time the award is approved. Due to the nature and timing of awards, unspent authority is expected for the first two years of each award. The total remaining authority for the FFY16 and FFY17 awards was \$1.6 million. The amount of grant dollars issued from Pulse Research & Marketing is limited by assessment collections. The unspent authority in the Pulse Research & Marketing statutory appropriation at year-end was \$1.5 million. The Hail Insurance program has a statutory appropriation for claims; the remaining authority at year-end was \$691 thousand. Additional authority is requested based on the expected claims. However, due to the inherent volatility of hail damage, the amount of actual claims may be less than anticipated, or may be paid later in the Hail Season in the following fiscal year.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

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

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Agriculture for each of the fiscal years ended June 30, 2019, and 2018, and the related notes to the financial schedules, and have issued our report thereon dated April 16, 2020.

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 controls 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 on 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,

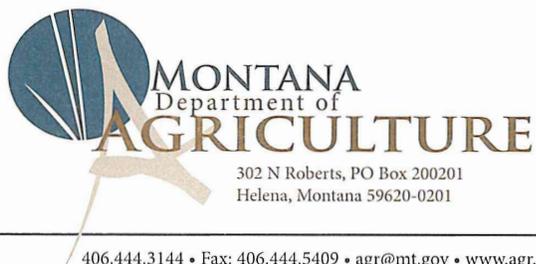
/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

April 16, 2020

DEPARTMENT OF
AGRICULTURE

DEPARTMENT RESPONSE



Steve Bullock
Governor

Ben Thomas
Director

May 15, 2020

Mr. Angus Maciver
Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, MT 59620-1705

RECEIVED
May 21, 2020
LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver:

Thank you for the opportunity to respond to the financial-compliance audit of the Department of Agriculture for the two fiscal years ending June 30, 2019. We have reviewed the financial-compliance audit report which contains no recommendations; therefore, we do not have any comments or exceptions to your report.

I want to take this opportunity to thank you and your staff for the professionalism and fairness shown during the audit. We appreciate the services of your staff while reviewing our procedures, internal controls, and accounting practices. We will continue to improve the operations at the Department of Agriculture and we look forward to guidance provided by your office.

We are available to answer any further questions you may have.

Sincerely,

Ben Thomas
Director
Montana Department of Agriculture