



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Livestock

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

JULY 2020

LEGISLATIVE AUDIT
DIVISION

19-22

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§5-13-202(2), MCA

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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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July 2020

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report of the Department of Livestock for the two fiscal years ended June 30, 2019. During the audit we identified numerous and significant accounting errors. As a result, we issued adverse opinions on the financial schedules for each of the two fiscal years ended June 30, 2019. This means the user of the financial schedules should not rely on the information presented or the information in the underlying accounting records.

The report contains five recommendations to the department related to making timely deposits as required by law, recording agency fund activity as required by state accounting policy, correcting various accounting misstatements identified, correcting misstatements in federal revenue, and enhancing controls over information systems.

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/ Angus Maciver

Angus Maciver
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

	<u>Name</u>	<u>City</u>	<u>Industry Represented</u>	<u>Term Expires March 1</u>
	Board of Livestock	Brett DeBruycker, Chair	Dutton	Cattle
Nina Baucus		Wolf Creek	Cattle	2023
Susan Brown		Belgrade	Dairy/Poultry	2023
Lila Taylor		Busby	Cattle	2021
Ed Waldner		Chester	Swine	2023
Wendy Palmer		Raynesford	Cattle	2025
Gilles Stockton		Grass Range	Sheep	2025

During fiscal years 2018 and 2019 John Lehfeldt served as chair of the board. John Scully served as acting chair once the terms ended in March 2019, until the Governor made his appointments in May 2020.

Department of Livestock

Mike Honeycutt, Executive Officer

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

Centralized Services Division

Brian Simonson, Deputy Executive Officer, CSD Administrator
(Effective July 2018)

Evan Waters, Acting CSD Administrator (through June 2018)

Chad Lee, Bureau Chief, Milk Control Bureau

George Edwards, Executive Secretary, Livestock Loss Board

Leslie Doely, Administrator, Brands Enforcement Division and Coordinator,
Livestock Crimestoppers Commission (through September 2019)

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

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FINANCIAL-COMPLIANCE AUDIT

Department of Livestock

For the Two Fiscal Years Ended June 30, 2019

JULY 2020

19-22

REPORT SUMMARY

The Department of Livestock’s (department) total expenditures were approximately \$14 million in both fiscal years 2018 and 2019. Approximately \$8.6 million in both fiscal years was expended in the State Special Revenue Fund. During the audit we identified numerous and significant accounting errors. Due to the numerous and significant errors identified, we modified the opinions on the financial schedules for each of the two fiscal years ended June 30, 2019.

Context

The department is tasked 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.

Revenue is collected in the state special revenue fund for brand license fees, per capita livestock tax fees, and various charges for services including laboratory services. The department also receives federal grant awards and general fund appropriations.

We focused our audit efforts on the department’s activity related to the per capita tax fee, charges for services, licenses and permits revenue, federal revenue, operating expenditures, transfers, and activity in the agency fund. We reviewed the overall reasonableness of the financial schedules and notes and we considered the office’s control systems throughout the audit. Additionally, we evaluated compliance with selected laws and regulations.

Results

The current audit report contains five recommendations to the department related to making timely deposits as required by law, recording agency fund activity as required by state accounting policy, various accounting misstatements identified, misstatements in federal revenue, and enhancing controls over information systems. We identified numerous and significant accounting errors during the audit. As a result, we issued adverse opinions on the financial schedules for each of the two fiscal years ended June 30, 2019. This means the user of the financial schedules should not rely on the information presented there or in the underlying accounting records maintained in the state’s accounting system.

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

For a complete copy of the report (19-22) 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 <https://leg.mt.gov/lad/audit-reports>
 Report Fraud, Waste, and Abuse to the Legislative Auditor’s FRAUD HOTLINE
 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, 2019. 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 result of operations and changes in fund equity and property held in trust for each of the two fiscal years ended June 30, 2019, and June 30, 2018.
4. Determine the implementation status of prior audit recommendations.

We focused our audit efforts on the department's activity related to the per capita tax fee, charges for services, licenses and permits revenue, federal revenue, operating expenditures, transfers, and activity in the agency fund. We reviewed the overall reasonableness of the financial schedules and notes and we considered the department's control systems throughout the audit. Additionally, we evaluated compliance with selected laws and regulations.

Background

The department, 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 three divisions that correspond to the program expenditures in the department's Schedules of Total Expenditures & Transfers-Out on pages A-9 and A-10.

Animal Health Division (67.51 FTE) is responsible for the control and eradication of animal diseases and the prevention of transmission of animal diseases to humans. Effective July 1, 2017, legislative changes restructured the department and the Diagnostic Laboratory, Meat and Poultry Inspection Bureau, and Milk and Egg Inspection Bureau are now under the Animal Health Division. The fiscal year 2018 financial schedules reflect these changes.

The Diagnostic Laboratory 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. There are two inspection programs; Meat and Poultry Inspection and Milk and Egg Inspection. These programs ensure meat, poultry, meat products, and poultry products that are slaughtered, processed, and/or stored in the state meet state and federal requirements, and eggs, milk, and milk products sold or manufactured in the state are fit for human consumption.

Brands Enforcement Division (53.11 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 inspection by state livestock inspectors are department revenues. There are also 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 (17 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 bears and works to decrease the risk of wolf- or grizzly bear-caused losses.

Prior Audit Recommendations

The prior financial-compliance audit contained three recommendations to the department. The two recommendations related to recording per capita revenue and fees and required statutory transfers in the correct fiscal year were fully implemented. The third recommendation is partially implemented. The recommendation addressed other accounting misstatements in federal revenue receivables, revenue estimates, and agency fund revenues. The department addressed the part of the recommendation related to correctly recording revenue estimates. In Recommendations #2 and #4 in this report we again address errors in federal revenue receivables and agency fund revenues.

All the recommendations in the prior audit report involved misstatements to the fiscal year 2016 and 2017 financial schedules. The department continued to use accounting practices contrary to state accounting policy at the beginning of fiscal year 2018. By the end of fiscal year 2018 the department changed their accounting practices to comply with state accounting policy. As a result, there are multiple misstatements in the fiscal year 2018 financial schedules, as addressed further in Recommendation #3.

Chapter II – Findings and Recommendations

Department Financial Schedules and Accounting Records Misrepresent the Department’s Financial Status

During the audit we identified significant and numerous misstatements in the financial schedules. Some of these were the result of the ongoing impact of errors in the prior year financial schedules. Others were the result of the Department of Livestock (department) attempting to implement prior audit recommendations and creating new misstatements during the process. The three following sections discuss these misstatements in more detail.

Each of these three sections contain information about misstatements that contributed to the adverse opinions on the fiscal year 2018 and 2019 financial schedules on page A-2. We issue an adverse opinion when we consider the impact of identified misstatements to be both material and pervasive. An adverse opinion on the financial schedules means that the reader should not rely on the information presented on the financial schedules. It also means that any information derived from the underlying accounting records in the state’s accounting system should not be relied on. Because these three sections resulted in material misstatements, we also consider these three sections, cumulatively, to be a material weakness in internal control as described in the report on page B-2.

Estray Livestock Accounting Errors

The department incorrectly recorded revenue and expense activity in the agency fund in fiscal years 2018 and 2019. The department also did not recognize revenue in the state special revenue fund as required in fiscal year 2018.

The estray livestock program seeks to return unbranded livestock to the rightful owner, locate owners of branded livestock, or ascertain the lawful owner of livestock with an unrecorded brand. This includes holding the money received from selling those animals for the owners to claim, caring for the animals until they are sold, and running advertisements to let the public know which animals the department is holding. This money is not the department’s and is required to be held for the owners and is thus accounted for in an agency fund. If the department is unable to locate the owner after two years, the department is allowed to claim that money as its own. At that point it becomes revenue for the department and the funds no longer belong in an agency fund. By law this revenue belongs in a state special revenue fund.

State accounting policy states that agency funds report only assets and liabilities. Net position is not reported in the agency fund; net position includes revenues and expenditures. No revenue or expenditures can be reported in the agency fund.

In the prior audit report, we recommended the department not record revenue activity in the agency fund. However, during fiscal year 2018 and 2019 the department recorded revenues and expenditures, in the agency fund contrary to state accounting policy. The revenue and expenditures recorded were to address an incorrect beginning fund equity balance in fiscal year 2018 and to recognize the revenue the department earns after holding the estray livestock for two years.

Additionally, in fiscal year 2018 the department did not record revenue in the state special revenue account for resources belonging to the department. State accounting policy requires revenue be recognized when it is realizable, measurable, earned, and available. Since the money is on hand and the two-year time requirement was met, revenue should be recognized. Revenue should have been recognized in fiscal year 2018 in the state special revenue fund, and property held in trust reduced. The department recognized this revenue and reduced property held in trust in fiscal year 2019, which means the total revenue recognized related to stock estray is overstated. This is illustrated in the following table.

Table 1
**Agency Fund Errors
Over (Under) Statements**

Schedule of Changes in Fund Equity & Property Held In Trust		
	Fiscal Year 2018	Fiscal Year 2019
Fund Equity, July 1	\$27,144	
Property Held in Trust, July 1		\$67,438
Nonbudgeted Revenues & Transfers-In		\$103,458
Nonbudgeted Expenditures & Transfers-Out		\$103,458
Prior Year Expenditures	\$27,144	
Reductions in Property Held in Trust	(\$67,438)	\$67,438
Property Held In Trust, June 30	\$67,438	

Source: Compiled by the Legislative Audit Division from department records.

Department staff indicated they were unsure how to correctly account for this activity, which resulted in the misstatements summarized above.

The Governmental Accounting Standards Board (GASB) issued new accounting standards effective July 1, 2019, affecting how estray property is recorded. Department

personnel should become familiar with associated changes in state policy and work with Department of Administration personnel to ensure resources associated with estray livestock are properly accounted for.

The accounting misstatements contributed to the adverse opinion on page A-2. Since this resulted in material misstatements, it is considered part of the material weakness in internal control described in the report on page B-2.

RECOMMENDATION #1

We recommend the Department of Livestock comply with state accounting policy when recording estray livestock resources subject to claim by owners and associated department revenue.

Accounting Errors and Use of Incorrect Accounting Procedures

The department continued to use incorrect accounting procedures from prior years, resulting in material errors in the fiscal year 2018 financial schedules.

During the prior audit, we identified multiple instances where accounting procedures used were not in accordance with state accounting policy. The department did not recognize taxes revenue, transfers, and the fee paid to the Department of Revenue for collecting taxes in the correct year. These accounting errors resulted in misstated fund equity at the end of fiscal year 2017. Consequently, fund equity at the beginning of fiscal year 2018 is understated by \$4.7 million and \$290,000 in the State Special Revenue Fund and Federal Special Revenue Fund, respectively.

At the beginning of fiscal year 2018 the department continued to use these incorrect accounting procedures and continued to recognize its per capita fee tax revenue in the incorrect fiscal year. By the end of fiscal year 2018 the department changed its procedures and began recording the activity in accordance with state accounting policy. However, because it started the year using the incorrect procedures there are multiple misstatements in the fiscal year 2018 financial schedules that were not corrected. Misstatements of fiscal year 2016 and 2017 activity was also not corrected as required by state accounting policy.

State accounting policy provides guidance on how to correct misstatements from prior years, and specifically requires the department to record such transactions as direct entries or prior year revenue or expenditure adjustments depending on the date of the original transaction. However, the department did not record any of their entries as a prior year revenue or expenditure adjustments or as direct entries to fund equity as required by state accounting policy. While the department's process did result in some of the misstatements from the prior audit being corrected not all errors from the prior audit were appropriately corrected. We also identified multiple transactions resulting in misstatements.

To provide the most useful information for the user of the financial schedules we considered what the activity on the financial schedules would be if the department followed state accounting policy and recorded the activity without errors in prior years. The table below summarizes the errors we identified for fiscal year 2018. These errors are described in more detail above.

Table 2
Fiscal Year 2018 Misstatements

Schedule of Revenues & Transfers-In	
State Special Revenue Fund	Over(Under) Statement
Taxes Revenue	\$ 4,802,555
Transfers-In	\$101,258
Schedule of Changes in Fund Equity & Property Held in Trust	
State Special Revenue Fund	
Fund Equity, July 1, 2018	(\$4,707,229)
Budgeted Revenues & Transfers-In	\$4,802,555
Nonbudgeted Revenues & Transfers-In	\$101,258
Nonbudgeted Expenditures & Transfers-Out	\$198,649
Schedule of Expenditures & Transfers-Out	
Central Services Division	
Fund Transfers	\$198,649

Source: Compiled by the Legislative Audit Division from department records.

In addition to the errors above, the department also incorrectly recorded a transaction in fiscal year 2019 as a prior year revenue and expenditure adjustments. Since this transaction was not correcting an error and was not related to prior year activity it should not be recorded as a prior year transaction. As a result, prior year expenditures and revenues on the fiscal year 2019 financial schedules are overstated and nonbudgeted revenues and expenditures are understated by \$350,000.

This situation illustrates the importance of processing accurate transactions and establishing internal control that allows for the timely detection and correction of accounting errors. The accounting misstatements related to misstated taxes revenue in fiscal year 2018 and misstated prior year expenditures in fiscal year 2019 contributed to the adverse opinions on page A-2. We also consider this to be part of the material weakness in internal controls as further described in the report on page B-2. As previously described, this means a user should not rely on the information presented in the financial schedules or contained in the underlying accounting records. Additionally, any reports generated from the underlying accounting records could be misleading and should not be relied on.

RECOMMENDATION #2

We recommend the Department of Livestock

- A. *Record correcting entries, when required, in accordance with state accounting policy and*
 - B. *Record prior year revenue and expenditures in accordance with state accounting policy.*
-

Federal Revenue Misstatements

While addressing a prior audit recommendation, the department incorrectly recorded federal revenue.

The department receives multiple federal grants. Some of these grants include funding related to meat and poultry inspection and animal health diseases. The federal grants the department receives are on a reimbursement basis; meaning the department first spends the money then receives reimbursement from the federal government.

Since the grants are on a reimbursement basis federal revenue should approximate federal expenditures. However, this was not the case in fiscal year 2018 or 2019. State accounting policy also indicates that federal revenue should approximate federal expenditures for reimbursement grants, and that a receivable should be recorded for revenue requested but not yet received. The prior audit report contained a recommendation related to this, but the department did not fully implement the recommendation.

During the audit period department staff attempted to record revenue requested from the federal government but not yet received. The department staff recording this activity was new to the position and thought they incorrectly recorded the activity. They made a correcting entry as a result. However, they initially recorded the federal revenue correctly and the correcting entry misstated the federal revenue. The department did not identify this misstatement until the following fiscal year which resulted in misstated federal revenue in both fiscal year 2018 and 2019. Since the department has no controls in place over recording federal revenue, department staff recorded federal revenue incorrectly.

The following table represents misstatements identified in fiscal years 2018 and 2019.

Table 3
Federal Revenue Misstatements

Federal Special Revenue Fund		
	Fiscal Year 2018 Over(Under) Statement	Fiscal Year 2019 Over(Under) Statement
Schedule of Total Revenues & Transfers-In		
Federal Revenue	(\$270,814)	\$571,987
Prior Year Revenue	\$278,700	\$476,782
Schedule of Changes in Fund Equity & Property Held in Trust		
Fund Equity, June 1	(\$290,705)	(\$561,519)
Budgeted Revenues & Transfers-In	(\$549,514)	\$95,205
Prior Year Revenue	\$278,700	\$476,782
Fund Equity, June 30	(\$561,519)	

Source: Compiled by the Legislative Audit Division from department records.

State accounting policy requires agencies to establish internal control policies and procedures designed to verify the accuracy and reliability of financial data. For federal revenue this could include, but is not limited to, developing detailed written procedures, providing additional training to staff, or developing a more comprehensive review process for federal revenue transactions. We consider this to be part of the material weakness in internal control as further discussed on page B-2. The accounting misstatements also contributed to the adverse opinion on page A-2.

RECOMMENDATION #3

We recommend the Department of Livestock develop and implement internal controls over federal revenue entries to ensure federal revenues are correct in the state's accounting system at fiscal year-end.

Deposits

The department did not deposit inspection fees timely as required by state law.

The department employs stock inspectors who work throughout the state and perform various inspections of livestock. The stock inspectors do not work from a central office and are usually in the field by themselves. This includes often working in remote areas. When the inspector performs an inspection, the inspector collects the fee owed at the time of inspection. The fees are usually paid via cash or check, and the department relies on the stock inspector to make the deposit.

Section 17-6-105, MCA, requires deposits to be made when currency on hand reaches \$200, total collections reach \$750, or weekly regardless of the amount collected. Additionally, state accounting policy also requires agencies to develop internal controls over financial transactions and processes. This should include developing internal controls to ensure compliance with all relevant regulations, including §17-6-105, MCA. Department management expressed concerns related to deposits being made in accordance with state law, and requested we review this activity as part of our audit.

We reviewed 25 deposits totaling approximately \$32,000, from both fiscal years 2018 and 2019. Of those deposits, 18 were made more than 7 days from the date of the collection of the payment. On average, the late deposits were made 33 days after receipt and averaged \$630. Additionally, one deposit was made 112 days after the collection of the payment and two deposits crossed fiscal year-end, meaning the revenue was recorded in the wrong fiscal year. We did not review every deposit for inspection fees and anticipate other deposits did not comply with state law as well.

Currently, the department is not in compliance with state law. While we did not identify any lost or stolen currency, if deposits are not made timely there is an increased risk of loss or theft of the currency the stock inspectors collect in the field. Also, there is a risk the revenue associated with the deposit will be recorded in the wrong fiscal year.

The department does not have controls in place to make sure stock inspectors are making timely deposits as required by state law. The department developed an internal policy outlining the requirements in state law at the beginning of fiscal year 2019. Before that, the department did not have a written policy addressing when stock inspectors should make deposits. However, as evidenced by our review of deposits from fiscal years 2018 and 2019, this internal policy is not followed. Since the stock inspectors do not work from a central office, and are often in remote areas, it can be challenging to make timely deposits. But the inspectors should be able to make at least weekly deposits at their local banks.

Additional controls the department could implement include conducting reviews to confirm each stock inspector makes a deposit at least weekly or more frequently if they collect more than the limits established in law. The department could also enhance training provided to stock inspectors to ensure they understand the necessity and requirements for making timely deposits of money collected.

We consider this to be a significant deficiency in internal control as further described in the report on page B-2.

RECOMMENDATION #4

We recommend the Department of Livestock enhance existing controls to ensure all deposits of inspection fees are made timely as required by state law.

Information System Controls

The Vetstar Animal Disease Diagnostic System (VADDS) lacks proper access and change control processes.

The Diagnostic Laboratory in Bozeman is the only accredited, full-service veterinary lab in Montana. The laboratory provides diagnostic support to veterinarians, livestock producers, companion animal owners, and the Department of Fish, Wildlife, & Parks as well as other state and federal agencies. The laboratory uses VADDS to store test results and generate invoices for the services provided. The department has been using VADDS since August 2015. Annual revenue from lab services was approximately \$1 million in fiscal years 2018 and 2019.

The department's controls over VADDS are not designed to comply with IT best practices pertaining to two key concepts: user management and system change control. The department has not completed a review of VADDS user access since implementation of the system, and there are no plans to complete a review of user access. Additionally, changes to VADDS are not logged and monitored centrally. Changes are requested by IT staff in the Helena office as well as by staff in the lab in Bozeman, and a comprehensive list of these changes is not maintained.

State IT policies have incorporated IT best practices and indicate a yearly review of access should be conducted to ensure appropriate access for all users. Users should only have the access necessary to do their job, and if they leave the department or change jobs the access should be updated timely. If access is not reviewed there is an increased risk inappropriate access would not be identified and corrected. This could result in inaccurate data in VADDS which is used to bill for the lab services. With inappropriate access, inaccurate test data could be entered into the system and provided to the users of the laboratory, and there is a risk the department might not bill for all services provided.

Department staff indicate they have never performed a review of access because it has controls over granting and removing access. The department believed these controls were sufficient. However, if they are not performing a review of access based on a list generated by VADDS they would not be able to identify inappropriate access for employees who have changed job duties and no longer needs this access or for employees who no longer work at the department and have not had their access removed.

Additionally, IT best practices indicate changes to the system should be tracked and monitored to ensure all changes are developed, tested, and properly implemented. Tracking changes is essential to ensure all changes are developed, tested, and completed. If changes are not tracked centrally, there is an increased risk not all requested changes are made, or changes made are not requested or tested. This could result in the system not operating correctly, or errors in the data contained within VADDS.

Department staff also indicated they have struggled to implement a central change log due to the lab's location, and because multiple employees are authorized to request changes. Due to the lab's location in another city, and the fact staff in the lab and in the central IT office in Helena can request changes, a central change log is more important to make sure all changes are requested, tested, and implemented. The department could also set up a process to route all change requests through one person so that they are centrally monitored.

We consider this to be a significant deficiency in internal control as further described on page B-2.

RECOMMENDATION #5

We recommend the Department of Livestock develop internal controls over the Vetstar Animal Disease Diagnostic System to:

- A. Perform periodic reviews of user access, and*
 - B. Develop a central process to track changes to the Vetstar Animal Disease Diagnostic System to ensure all changes are developed, tested, and properly implemented.*
-

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 & 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, 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.

Basis for Adverse Opinions on Regulatory Basis of Accounting

Due to misstatements in fiscal years 2017 and 2016, beginning fund equity in the state special revenue fund and federal special revenue fund are misstated.

Taxes revenue was recorded in fiscal year 2018, but it should have been recorded when collected in fiscal year 2017. This revenue should have been recognized in the year collected as it met all revenue recognition requirements.

The department receives multiple federal grants on a reimbursement basis. As a result, federal revenue should approximate federal expenditures. However, federal revenue is misstated in both fiscal year 2019 and 2018 as the department made errors when recording the amount of revenue requested from the federal government, but not yet received.

State accounting policy indicates that agency funds should only contain assets and liabilities and do not have a fund equity balance. The department incorrectly recorded revenues and expenditures to the Agency Fund in both fiscal years 2018 and 2019. Additionally, the department did not correctly record reductions to Property Held in Trust in fiscal years 2018 and 2019 when recognizing estray livestock revenue belonging to the department.

In fiscal year 2019 the department incorrectly recorded a transfer-out using a prior program year. The activity incorrectly shows up as a prior year expenditure.

The cumulative effect of these misstatements are summarized in the table below.

Schedule and Accounts	Overstated/(Understated)		
	State Special Revenue Fund	Federal Special Revenue Fund	Agency Fund
Schedule of Total Revenues and Transfers-In for the Fiscal Year Ended June 30, 2018			
Total Revenues & Transfers-In by Class			
Taxes	\$4,802,555		
Federal		(\$270,814)	
Total Revenues & Transfers-In			
Prior Year Revenues & Transfers-In		\$278,700	
Budgeted Revenues & Transfers-In Over (Under) Estimated by Class			
Taxes	\$4,802,555		
Federal Revenue		(\$549,514)	
Schedule of Changes in Fund Equity and Property Held in Trust for the Fiscal Year Ended June 30, 2018			
Fund Equity July 1, 2017	(\$4,707,229)	(\$290,705)	\$27,144
Budgeted Revenues & Transfers-In	\$4,802,555	(\$549,514)	
Prior Year Revenues & Transfers-In Adjustments		\$278,700	
Prior Year Expenditures & Transfers-Out Adjustments			\$27,144
Reductions in Property Held in Trust			(\$67,438)
Fund Equity June 30, 2018		(\$561,519)	
Property Held in Trust June 30, 2018			\$67,438
Schedule of Total Revenues and Transfers-In for the Fiscal Year Ended June 30, 2019			
Total Revenues & Transfers-In by Class			
Grants, Contracts, and Donations			\$103,458
Federal		\$571,987	
Total Revenues & Transfers-In			
Nonbudgeted Revenues & Transfers-In	(\$350,000)		\$103,458
Prior Year Revenues & Transfers-In	\$350,000	\$476,782	
Budgeted Revenues & Transfers-In Over (Under) Estimated by Class			
Federal		\$95,205	
Schedule of Changes in Fund Equity and Property Held in Trust for the Fiscal Year Ended June 30, 2019			
Fund Equity July 1, 2018		(\$561,519)	
Property Held in Trust July 1, 2018			\$67,438
Budgeted Revenues & Transfers-In		\$95,205	
Nonbudgeted Revenues & Transfers-In	(\$350,000)		\$103,458
Prior Year Revenues & Transfers-In Adjustments	\$350,000	\$476,782	
Nonbudgeted Expenditures & Transfers-Out	(350,000)		\$103,458
Prior Year Expenditures & Transfers-Out Adjustments	\$350,000		
Reductions in Property Held in Trust			\$67,438
Schedule of Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2019			
	Central Services Division		
Total Expenditures & Transfers-Out			
Nonbudgeted Expenditures & Transfers-Out	(350,000)		
Prior Year Expenditures & Transfers-Out	350,000		

Adverse Opinions on Regulatory Basis of Accounting

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinions” paragraph, the Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out for the fiscal years ended June 30, 2019, do not present fairly 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, 2019, and 2018, in conformity with the basis of accounting described in Note 1.

Emphasis of Matter

As discussed in Note 8 to the financial schedules, effective July 1, 2017, the department was restructured due to legislative changes. The Diagnostic Laboratory, Meat and Poultry Inspection Bureau, and Milk and Egg Inspection Bureau were moved under the Animal Health Division.

As discussed in Note 5 to the financial schedules, the 2017 Regular Legislative Session also created a new enterprise fund for the Diagnostic Laboratory. All Charges for Services received for laboratory services are recorded in this fund. The Diagnostic Laboratory is also now partially funded by this fund. The Diagnostic Laboratory also receives funding from the State Special Revenue Fund and General Fund.

Our opinion is not modified with respect to these matters.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2020, on our consideration of the department’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

April 30, 2020

DEPARTMENT OF LIVESTOCK
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Agency Fund
FUND EQUITY: July 1, 2018	\$ (76,696)	\$ 12,379,191	\$ (476,782)	\$ (38,083)	\$ 0
PROPERTY HELD IN TRUST: July 1, 2018					\$ 228,023
ADDITIONS					
Budgeted Revenues & Transfers-In	4,389	9,470,270	2,285,339	1,022,700	
Nonbudgeted Revenues & Transfers-In		122,598		125	103,458
Prior Year Revenues & Transfers-In Adjustments		362,729	497,848		
Direct Entries to Fund Equity	2,522,153	7,220	(58,500)	(16,254)	
Additions to Property Held in Trust					691,230
Total Additions	<u>2,526,542</u>	<u>9,962,817</u>	<u>2,724,687</u>	<u>1,006,572</u>	<u>794,688</u>
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	2,598,562	8,323,871	2,213,148	872,784	
Nonbudgeted Expenditures & Transfers-Out		(4,214)		(37,601)	103,458
Prior Year Expenditures & Transfers-Out Adjustments	1,323	327,260	(1,893)	11,210	
Reductions in Property Held in Trust					773,248
Total Reductions	<u>2,599,885</u>	<u>8,646,917</u>	<u>2,211,255</u>	<u>846,393</u>	<u>876,706</u>
FUND EQUITY: June 30, 2019	<u>\$ (150,039)</u>	<u>\$ 13,695,091</u>	<u>\$ 36,651</u>	<u>\$ 122,096</u>	<u>\$ 0</u>
PROPERTY HELD IN TRUST: June 30, 2019					<u>\$ 146,005</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 LIVESTOCK
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Agency Fund
FUND EQUITY: July 1, 2017	\$ (189,106)	\$ 6,168,804	\$ (205,902)	\$ 0	\$ 27,144
PROPERTY HELD IN TRUST: July 1, 2017					\$ 299,626
ADDITIONS					
Budgeted Revenues & Transfers-In	4,397	14,723,788	1,566,406	1,044,953	
Nonbudgeted Revenues & Transfers-In		156,645		377,061	
Prior Year Revenues & Transfers-In Adjustments		120,128	278,700		
Direct Entries to Fund Equity	2,415,792	7,760		(140,070)	
Additions to Property Held in Trust					632,415
Total Additions	<u>2,420,189</u>	<u>15,008,321</u>	<u>1,845,106</u>	<u>1,281,944</u>	<u>632,415</u>
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	2,309,899	7,935,618	2,115,986	1,359,697	
Nonbudgeted Expenditures & Transfers-Out	(2,120)	862,316		(39,671)	
Prior Year Expenditures & Transfers-Out Adjustments					27,144
Reductions in Property Held in Trust					704,018
Total Reductions	<u>2,307,779</u>	<u>8,797,934</u>	<u>2,115,986</u>	<u>1,320,027</u>	<u>731,162</u>
FUND EQUITY: June 30, 2018	\$ (76,696)	\$ 12,379,191	\$ (476,782)	\$ (38,083)	\$ 0
PROPERTY HELD IN TRUST: June 30, 2018					<u>\$ 228,023</u>

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DEPARTMENT OF LIVESTOCK
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	Agency Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits						
Taxes	\$ 4,363	\$ 984,427				\$ 988,790
Charges for Services		5,506,516	699			5,507,215
Investment Earnings		2,230,022		1,021,572		3,251,593
Fines and Forfeits		309,829				309,829
Sale of Documents, Merchandise and Property				1,129		1,129
Grants, Contracts, and Donations		34,624			103,458	138,082
Transfers-in						
Capital Asset Sale Proceeds		653,458		125		653,583
Federal Indirect Cost Recoveries		17,093				17,093
Miscellaneous		219,208				219,208
Federal	26	420				447
Total Revenues & Transfers-In	4,389	9,955,597	2,782,488	1,022,825	103,458	2,782,488
Less: Nonbudgeted Revenues & Transfers-In		122,598	2,783,187	125	103,458	13,869,457
Prior Year Revenues & Transfers-In Adjustments		362,729	497,848			860,577
Actual Budgeted Revenues & Transfers-In	4,389	9,470,270	2,285,339	1,022,700	0	12,782,699
Estimated Revenues & Transfers-In	4,651	11,249,379	2,327,753	1,184,000		14,765,783
Budgeted Revenues & Transfers-In Over (Under) Estimated	(262)	(1,779,109)	(42,414)	(161,300)	0	(1,983,084)
	\$	\$	\$	\$	\$	\$
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits						
Taxes	\$ 13	(38,324)				(38,311)
Charges for Services		(147,231)	(84)			(147,314)
Investment Earnings		(1,324,244)		(158,428)		(1,482,672)
Fines and Forfeits	(1)	246,831				246,831
Sale of Documents, Merchandise and Property		(2,800)		(2,871)		(5,672)
Grants, Contracts, and Donations	(250)	(111,880)				(111,880)
Transfers-in		(400,000)				(250)
Federal Indirect Cost Recoveries		859				859
Miscellaneous	(24)	(2,320)				(2,344)
Federal						
Budgeted Revenues & Transfers-In Over (Under) Estimated	(262)	(1,779,109)	(42,330)	(161,300)	0	(1,983,084)
	\$	\$	\$	\$	\$	\$

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

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS					
Licenses and Permits	\$ 4,397	\$ 967,661			\$ 972,058
Taxes		10,414,382	1,630		10,416,012
Charges for Services		2,339,476		1,043,630	3,383,105
Investment Earnings		174,962			174,962
Fines and Forfeits				1,324	1,324
Sale of Documents, Merchandise and Property		28,959			28,959
Grants, Contracts, and Donations		64,142		2,061	66,203
Transfers-in		693,796		375,000	1,068,796
Capital Asset Sale Proceeds		39,014			39,014
Federal Indirect Cost Recoveries		277,793			277,793
Miscellaneous		376			376
Federal			1,843,476		1,843,476
Total Revenues & Transfers-In	<u>4,397</u>	<u>15,000,561</u>	<u>1,845,106</u>	<u>1,422,014</u>	<u>18,272,078</u>
Less: Nonbudgeted Revenues & Transfers-In		156,645		377,061	533,706
Prior Year Revenues & Transfers-In Adjustments		120,128			120,128
Actual Budgeted Revenues & Transfers-In	4,397	14,723,788	278,700	1,044,953	17,339,544
Estimated Revenues & Transfers-In	4,601	10,113,549	2,332,810	1,184,000	13,634,960
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>(204)</u>	<u>4,610,239</u>	<u>(766,404)</u>	<u>(139,047)</u>	<u>3,704,584</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Licenses and Permits	\$ 47	\$ (82,811)			\$ (82,764)
Taxes		4,664,342	93		4,664,434
Charges for Services		35,546		(136,370)	(100,824)
Investment Earnings		46,105			46,105
Fines and Forfeits	(1)	(2,800)		(2,676)	(5,477)
Sale of Documents, Merchandise and Property		(44,854)			(44,854)
Grants, Contracts, and Donations		14,142			13,892
Transfers-in	(250)	(75,000)			(75,000)
Federal Indirect Cost Recoveries		57,863			57,863
Miscellaneous		(2,294)			(2,294)
Federal			(766,497)		(766,497)
Budgeted Revenues & Transfers-in Over (Under) Estimated	<u>(204)</u>	<u>4,610,239</u>	<u>(766,404)</u>	<u>(139,047)</u>	<u>3,704,584</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 LIVESTOCK
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Animal Health Division	Brands Enforcement Division	Centralized Services Division	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT				
Personal Services				
Salaries	\$ 2,709,721	\$ 2,314,512	\$ 994,921	\$ 6,019,154
Other Compensation			3,375	3,375
Employee Benefits	<u>1,224,726</u>	<u>1,043,983</u>	<u>374,138</u>	<u>2,642,848</u>
Total	<u>3,934,447</u>	<u>3,358,495</u>	<u>1,372,434</u>	<u>8,665,377</u>
Operating Expenses				
Other Services	1,080,334	66,147	534,136	1,680,617
Supplies & Materials	586,079	114,635	122,698	823,413
Communications	97,919	59,662	21,106	178,688
Travel	111,290	21,022	21,475	153,787
Rent	237,663	166,026	159,090	562,779
Utilities	42,180	6,500		48,680
Repair & Maintenance	150,583	31,111	623	182,317
Other Expenses	751,072	72,994	220,267	1,044,333
Goods Purchased For Resale			(6,737)	(6,737)
Total	<u>3,057,120</u>	<u>538,097</u>	<u>1,072,658</u>	<u>4,667,875</u>
Equipment & Intangible Assets				
Equipment	(59,617)		17,466	(42,151)
Total	<u>(59,617)</u>		<u>17,466</u>	<u>(42,151)</u>
Grants				
From State Sources			21,999	21,999
From Federal Sources			66,053	66,053
Total			<u>88,052</u>	<u>88,052</u>
Benefits & Claims				
From State Sources			248,635	248,635
Total			<u>248,635</u>	<u>248,635</u>
Transfers-out				
Fund transfers	222,123	103,458	446,942	772,524
Total	<u>222,123</u>	<u>103,458</u>	<u>446,942</u>	<u>772,524</u>
Debt Service				
Capital Leases	54			54
Total	<u>54</u>			<u>54</u>
Post Employment Benefits				
Employer Pension Expense	7,542			7,542
Total	<u>7,542</u>			<u>7,542</u>
Total Expenditures & Transfers-Out	<u>\$ 7,161,670</u>	<u>\$ 4,000,050</u>	<u>\$ 3,246,188</u>	<u>\$ 14,407,908</u>
EXPENDITURES & TRANSFERS-OUT BY FUND				
General Fund	\$ 2,505,226		\$ 94,659	\$ 2,599,885
State Special Revenue Fund	1,728,796	\$ 3,896,592	3,021,529	8,646,917
Federal Special Revenue Fund	2,081,255		130,000	2,211,255
Enterprise Fund	846,393			846,393
Agency Fund		103,458		103,458
Total Expenditures & Transfers-Out	7,161,670	4,000,050	3,246,188	14,407,908
Less: Nonbudgeted Expenditures & Transfers-Out	(37,476)	103,458	(4,339)	61,643
Prior Year Expenditures & Transfers-Out Adjustments	11,830	315	325,755	337,901
Actual Budgeted Expenditures & Transfers-Out	7,187,316	3,896,277	2,924,772	14,008,365
Budget Authority	7,890,213	3,920,449	3,024,349	14,835,011
Unspent Budget Authority	<u>\$ 702,897</u>	<u>\$ 24,172</u>	<u>\$ 99,577</u>	<u>\$ 826,647</u>
UNSPENT BUDGET AUTHORITY BY FUND				
General Fund	\$ 6,847		\$ 0	\$ 6,847
State Special Revenue Fund	295,254	\$ 24,172	99,577	419,003
Federal Special Revenue Fund	90,908			90,908
Enterprise Fund	309,889			309,889
Unspent Budget Authority	<u>\$ 702,897</u>	<u>\$ 24,172</u>	<u>\$ 99,577</u>	<u>\$ 826,647</u>

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

	Animal Health Division	Brands Enforcement Division	Centralized Services Division	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT				
Personal Services				
Salaries	\$ 2,922,185	\$ 2,242,555	\$ 867,293	\$ 6,032,033
Other Compensation			4,275	4,275
Employee Benefits	1,141,114	946,394	305,000	2,392,509
Total	<u>4,063,299</u>	<u>3,188,949</u>	<u>1,176,569</u>	<u>8,428,817</u>
Operating Expenses				
Other Services	1,012,511	94,912	734,758	1,842,181
Supplies & Materials	542,206	99,669	104,950	746,825
Communications	71,073	60,666	68,239	199,978
Travel	104,487	25,866	24,556	154,909
Rent	227,738	147,408	159,153	534,299
Utilities	45,840	6,500		52,340
Repair & Maintenance	192,169	24,901	1,907	218,978
Other Expenses	599,116	64,839	23,706	687,661
Total	<u>2,795,139</u>	<u>524,762</u>	<u>1,117,269</u>	<u>4,437,171</u>
Equipment & Intangible Assets				
Equipment	24,136			24,136
Total	<u>24,136</u>			<u>24,136</u>
Grants				
From State Sources			77,967	77,967
From Federal Sources			48,216	48,216
Total			<u>126,183</u>	<u>126,183</u>
Benefits & Claims				
From State Sources			219,604	219,604
Total			<u>219,604</u>	<u>219,604</u>
Transfers-out				
Fund transfers	626,857	27,144	661,628	1,315,630
Total	<u>626,857</u>	<u>27,144</u>	<u>661,628</u>	<u>1,315,630</u>
Debt Service				
Capital Leases	1,150			1,150
Total	<u>1,150</u>			<u>1,150</u>
Post Employment Benefits				
Other Post Employment Benefits	1,300			1,300
Employer Pension Expense	14,878			14,878
Total	<u>16,178</u>			<u>16,178</u>
Total Expenditures & Transfers-Out	\$ <u>7,526,760</u>	\$ <u>3,740,856</u>	\$ <u>3,301,254</u>	\$ <u>14,568,869</u>
EXPENDITURES & TRANSFERS-OUT BY FUND				
General Fund	\$ 2,224,049		\$ 83,730	\$ 2,307,779
State Special Revenue Fund	2,001,699	\$ 3,713,712	3,082,524	8,797,934
Federal Special Revenue Fund	1,980,986		135,000	2,115,986
Enterprise Fund	1,320,027			1,320,027
Agency Fund		27,144		27,144
Total Expenditures & Transfers-Out	7,526,760	3,740,856	3,301,254	14,568,869
Less: Nonbudgeted Expenditures & Transfers-Out	364,798	(4,941)	460,669	820,526
Prior Year Expenditures & Transfers-Out Adjustments		27,144		27,144
Actual Budgeted Expenditures & Transfers-Out	7,161,961	3,718,653	2,840,585	13,721,199
Budget Authority	7,574,450	3,731,815	3,066,063	14,372,328
Unspent Budget Authority	<u>\$ 412,489</u>	<u>\$ 13,162</u>	<u>\$ 225,478</u>	<u>\$ 651,129</u>
UNSPENT BUDGET AUTHORITY BY FUND				
General Fund	\$ 60,632		\$ 2,002	\$ 62,634
State Special Revenue Fund	159,417	\$ 13,162	223,476	396,055
Federal Special Revenue Fund	170,555			170,555
Enterprise Fund	21,884			21,884
Unspent Budget Authority	<u>\$ 412,489</u>	<u>\$ 13,162</u>	<u>\$ 225,478</u>	<u>\$ 651,129</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 Livestock
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, 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 Proprietary and Fiduciary fund categories. Under the accrual basis, as defined by state accounting policy, the (department, board, office, council) 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. 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 (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 the Diagnostic Laboratory, Brand Inspection and Control, Animal Health, Milk and Egg, Milk Control, Predatory Animal, Livestock Loss Board Restricted, Livestock Loss Reduction 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, Federal Umbrella, National Animal Health Laboratory Network (NAHLN), Animal Disease Traceability and Federal Shell Egg Inspection program.

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 Montana Veterinarian Diagnostic Laboratory.

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 Stock Estray, 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, 2018 and June 30, 2019.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General and State Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

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 as the revenues are earned. Gross receipts in 2011 were \$4,647,042. The Department recognizes \$464,704 each year during the ten year rerecord period. Unearned revenue is the balance of the rerecord fees collected in 2011 that has not been earned and is unavailable for current year expenditures. The balance of unearned revenue for rerecord fees as of June 30, 2018 and 2019 is \$1,626,463 and \$1,161,759, respectively.

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 gross receipts were \$299,100 and \$270,640 for fiscal year 2018 and 2019, respectively. Recognized revenue for the fiscal year 2018 and 2019 revenue was \$34,983 and \$44,913, respectively. The Department recognized \$264,117 and \$225,727 as unearned revenue in fiscal year 2018 and 2018, respectively. These amounts 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, 2018 and 2019 is \$1,035,629 and \$974,937, respectively.

Brand mortgage renewal revenues are amortized over a five-year period from January 2013 to December 2018. The new renewal period is January 2018 through December 2022. Mortgage renewal gross receipts was \$38,625. Recognized revenue was \$3,863 and \$2,630 in FY 2018 and 2019, respectively. Mortgage renewal unearned revenue balance at FYE 2018 and 2019 was \$35,405 and \$32,132, respectively.

New brand mortgage revenues are amortized over same period as mortgage renewals. New mortgage receipts were \$91,825 and \$19,775 in FY 2018 and 2019, respectively. The Department recognized \$6,637 and \$21,451 in FY2018 and 2019, respectively. New mortgage unearned revenue balance was \$85,188 and \$83,512 for fiscal year 2018 and 2019, respectively.

5. Change of Fund type

The 2017 legislation changed the Montana Veterinarian Diagnostic Laboratory from State Special Revenue (SSRF) to Enterprise Fund. The calculated fund balance of the MVDL at July 1, 2017 was \$375,000. To transfer cash and fund balance from the SSRF to the Enterprise Fund, the Department recorded a non-budgeted transfers-out of \$375,000 from the SSRF and a non-budgeted transfer-in for the same amount to the Enterprise Fund.

6. Transfer of Revenue from Agency Fund to State Special Revenue

The Livestock Estray holds money from the sale of livestock that has not had proper ownership documentation at time of sale. When the seller provides documentation, the sale proceeds are returned to the seller. If after two years, the seller does not provide sufficient documentation of ownership, the sales proceeds can be reverted to the Department's SSRF. The amount of transfer from agency fund to the SSRF was \$27,144 and \$103,458 in FY 2018 and 2019, respectively.

7. Nonbudgeted Expenditures and Transfers-Out

The Department is required by law to transfer cash from the Livestock Loss Mitigation Fund to the Livestock Loss Reduction fund when the fund balance is in excess of \$300,000 at end of fiscal year. These are recorded as Nonbudgeted Transfers. The amount of transfer was \$116,651 in FY 2018. The Livestock Loss Reduction fund balance for mitigation payments was less than \$300,000 in FY 2019.

8. Department Restructure

The 2017 legislation changed the structure of the department by combining four divisions into one. The four divisions were diagnostic laboratory, animal health and import office, milk & egg inspection and meat & poultry inspection. These are now under the animal health & food safety division.

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 & 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, 2019, and 2018, and the related notes to the financial schedules, and have issued our report thereon dated April 30, 2020. Our report includes adverse opinions on the fiscal year 2019 and 2018 financial schedules.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described below to be material weaknesses.

- ◆ As described in Recommendations #1, #2, and #3, cumulatively, beginning on page 5, the department's controls over recording financial activity are not sufficient to prevent, or detect and correct in a timely manner, material misstatements. Material misstatements were present in both fiscal years 2018 and 2019.

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 the attention by those charged with governance. We consider the deficiencies described below to be significant deficiencies.

- ◆ As described in Recommendation #4, on page 11, the department does not have controls in place to ensure that deposits are made timely as required by state law. If deposits are not made timely it increases the risk that a deposit may not be made, and cash and currency could be lost or stolen before a deposit is made. It also increases the risk that the deposit will be recorded in the wrong fiscal year creating an accounting misstatement.
- ◆ Controls over the Vetstar Animal Disease Diagnostic information system are not adequate to comply with state IT best practices, as described in Recommendation #5, on page 12. The department does not maintain a central change log to manage change requests, and they do not complete periodic reviews of access to ensure that all users have appropriate access.

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*.

Department of Livestock's Response to Findings

The department's response to the findings identified in our audit are described on page C-1 of this report. The department's response was not subjected to the auditing procedures applied in the audit of the financial schedules and, accordingly, we express no opinion on it.

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 30, 2020

DEPARTMENT OF
LIVESTOCK

DEPARTMENT RESPONSE

STATE OF MONTANA
STEVE BULLOCK, GOVERNOR

DEPARTMENT OF LIVESTOCK
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July 6, 2020

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LEGISLATIVE AUDIT DIV.

Angus Maciver, Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

Subject: Financial-Compliance Audit #19-22: Department of Livestock Response

Dear Mr. Maciver:

The Department of Livestock has reviewed the July 2020 Financial-Compliance Audit for two fiscal years ending June 30, 2019 and thanks the Audit Committee and staff for their ongoing efforts to assist our agency in becoming ever more efficient and effective in our service to all Montanans. Our responses and corrective action plans for the recommendations appear below.

Recommendation #1

We recommend the Department of Livestock comply with state accounting policy when recording estray livestock resources subject to claim by owners and associated department revenue.

Response: Concur

The department transitioned this custodial account from State Special Revenue fund to an Agency fund as a result of a 2015 Audit recommendation and despite the 2017 Audit recommendation to not record any revenues and expenses in an Agency Fund, Accounting missed this awareness and continued incorrectly recording estray fund transfers to Brands fees as revenue. While the methodology was out of compliance the funds were all accounted for, so the issue is mostly procedural. To prove that point, as of FY 2020 these types of accounts are now transitioned by DOA from Agency and back to State Special Revenue Fund accounts and we will be doing these transactions once again as revenue activity. An additional finding here is acknowledged that accounting made a late transfer out of the Estray account in July 2019 that should have been made in the previous year.

Corrective Action:

The corrective action necessary here to ensure that proper fiscal year closeout entries are made in compliance with state accounting policy is the implementation of a FYE checkoff procedure that will be developed and tested during this year's closeout execution. This short but necessary reminder of year-end tasks will catch this and other housekeeping chores.

Planned Completion Date: 08/31/2020

STATE OF MONTANASTEVE BULLOCK, GOVERNOR

Recommendation #2*We recommend the Department of Livestock*

- A. *Record correcting entries, when required, in accordance with state accounting policy and*
- B. *Record prior year revenue and expenditures in accordance with state accounting policy.*

Response: Partially Concur

The first error here was the continuation of a management decision to defer revenue into the fiscal year in which it was to be expended. Admittedly the dollar figure is large and the practice was against state accounting policy, but that awareness was not known until the 2017 audit recommendation was brought to the department's attention. While this continuation of misreporting of revenues into FY 2018 resulted in misstatements in the FY 2018 financials, the funds collection activity and reporting still all occurred as required. Moreover and as noted in the auditor's report, the accounting as of the beginning of FY 2019 and going forward is in compliance with state policy and thus this issue is entirely in the past and not of a pervasive nature warranting an advancement of last audit's modified opinion, primarily based on this issue, to an adverse opinion this cycle.

The second finding of recording the \$350,000 predator transfer is a matter of clerical error. Of the numerous entries made in July of 2018 for FY 2018's year-end accounting, this one was erroneously assigned to program year 2018. In this finding we completely concur with the auditors that an established internal control would allow for the timely detection and correction of such errors.

Corrective Action:

The second finding's corrective action also relies upon putting in place a FYE internal control checkoff to prevent this from happening. Not having a formalized standard operating procedure in place is serious shortcoming of the department.

Planned Completion Date: 08/31/2020**Recommendation #3***We recommend the Department of Livestock develop and implement internal controls over federal revenue entries to ensure federal revenues are correct in the state's accounting system at fiscal year-end.***Response: Concur**

As the narrative in this finding reports, the staff was new and made erroneous journal entries trying to correct a perceived problem. These isolated misstatements were errors that are not reflective of a systemic problem with federal reporting in the bureau but rather again highlights the need for a short but effective FYE internal control procedure.

Corrective Action:

The same corrective action will be taken, as with the previous two recommendations, to ensure fiscal year-end entries are correctly recorded.

Planned Completion Date: 08/31/2020

STATE OF MONTANASTEVE BULLOCK, GOVERNOR

Recommendation #4

We recommend the Department of Livestock enhance existing controls to ensure all deposits of inspection fees are made timely as required by state law.

Response: Concur

The department requested this review during LAD's entrance meeting, as noted in the audit, and appreciates the team looking into this issue and their recommendation. Corrective steps were started in early 2020 to identify non-timely deposits through reconciliation reporting between the business office and Brands division.

Corrective Action:

The department will continue to develop management procedures and policies to better track inspection fee deposits.

Planned Completion Date: 08/31/2020

Recommendation #5

We recommend the Department of Livestock develop internal controls over the Vetstar Animal Disease Diagnostic System to:

- A. Perform periodic review of user access, and*
- B. Develop a central process to track changes the Vetstar Animal Disease Diagnostic System to ensure all changes are developed, tested, and properly implemented.*

Response: Concur

The Department appreciates the LAD's assessment of the possibility that an individual could manipulate the Veterinarian Diagnostic Laboratory's pricing module within VADDS to defraud the government.

Corrective Action:

The Lab has already instituted change and access logs that include periodic secondary party reviewing and approving as appropriate. The associated standard operating procedure is in development.

Planned Completion Date: 08/31/2020

Sincerely,



Mike Honeycutt
Executive Officer
Montana Board of Livestock