



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Justice

*For the Two Fiscal Years Ended
June 30, 2020*

MARCH 2021

LEGISLATIVE AUDIT
DIVISION

20-18

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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
William Soller

March 2021

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Justice for the two fiscal years ended June 30, 2020. Included in this report are two recommendations related to collecting fees commensurate with costs in its Agency Legal Services Internal Service Fund and accrual of expenditures in its Custodial Fund.

The department's written response to the audit recommendations is included in the audit report on page C-1. We thank the Attorney General and department staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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ELECTED, APPOINTED, AND ADMINISTRATIVE OFFICIALS

Department of Justice Austin Knudsen, Attorney General (effective January 2021)

William Selph, Chief of Staff (effective January 2021)

Tim Fox, Attorney General (through December 2020)

Mike Milburn, Chief of Staff (through December 2020)

Division Administrators (effective January 2021)

Stephanie Cote, Central Services

Michael Harris, Information Technology Services

Scott Larson, Forensic Sciences*

Colonel Steve Lavin, Highway Patrol

Bryan Lockerby, Criminal Investigation*

Laurie Bakri, Motor Vehicle

Rusty Gackle, Gambling Control

Kris Hansen, Legal Services

Division Administrators (through December 2020)

Liz Bangerter, Central Services

Butch Huseby, Information Technology Services

Colonel Tom Butler, Highway Patrol

Sarah Garcia, Motor Vehicle

Angela Nunn, Gambling Control

Melissa Schlichting, Legal Services

*Continuing position, prior to January 2021

For additional information concerning the Department of Justice, contact:

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MONTANA LEGISLATIVE AUDIT DIVISION

Department of Justice

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2020

BACKGROUND

The Department of Justice (department), led by the Attorney General, is Montana's leading legal and law enforcement agency. Department lawyers defend the state of Montana in court and bring suit on parties who have wronged the state or its people through its Office of Consumer Protection and Natural Resources Damages Program. The department provides investigation and forensic services to county and local law enforcement, administers the Highway Patrol, motor vehicle titling and registration, and provides regulation of electronic gambling.

The department operates with eight divisions. These are Legal Services Division, Division of Criminal Investigation, Forensic Services Division, Montana Highway Patrol, Motor Vehicle Division, Gambling Control Division, Information Technology Division, and Central Services Division.

**Attorney General and
Department Director:**
Austin Knudsen

In fiscal year 2020 the Department of Justice collected \$112.5 million in motor vehicle license and permit revenue and \$57.5 million in electronic gambling taxes for the general fund. These sources comprised 94.7 percent of the \$179.5 million of revenue recorded by the department in the general fund in fiscal 2020. The department expended \$40.4 million from the general fund and \$123.3 million from the state special revenue fund in fiscal year 2020. This report contains two recommendations to the department for improving compliance with state law and accounting standards.

AUDITOR'S OPINIONS (page A-1): UNMODIFIED

We found the department's financial schedules and note disclosures presented fairly the activity of the department in all material respects and issued unmodified opinions. This means a reader can rely on the information presented and the underlying financial records.

For the full context of the department's financial activity, see the financial schedules and notes beginning on page A-4.

RECOMMENDATIONS:

In this report, we issued the following recommendations:

To the department: 2

To the legislature: 0

In this report, we determined the implementation status of recommendations in the prior audit:

Fully Implemented: 1

Partially Implemented: 0

Not Implemented: 0

RECOMMENDATION #1 (page 5):

State Compliance

The department needs to seek an increase in fees and/or decrease expenses to maintain sufficient working capital in its Agency Legal Services Internal Service Fund and comply with the state law requirement to charge fees commensurate with costs.

Department response: Concur

For the full report or more information, contact the Legislative Audit Division.

leg.mt.gov/lad

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RECOMMENDATION #2 (page 6):

State Compliance

The department collects vehicle fees and taxes for counties and vanity license plate fees for nonprofits. To comply with generally accepted accounting principles and state law, the department needs to record a liability and accrue expenses in the Custodial Fund for the amounts collected but not yet dispersed to counties and nonprofits.

Department response: Concur

REPORT ON INTERNAL CONTROL AND COMPLIANCE

(page B-1):

In this report, we identified the following:

Material Weaknesses in Internal Control: 0

Significant Deficiencies in Internal Control: 0

Material Non-Compliance: 0

Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Department of Justice (department) for the two fiscal years ended June 30, 2020. The objectives of the audit were to:

1. Determine whether the department's financial schedules present fairly the results of operations for each of the fiscal years ended June 30, 2020, and 2019, and property held in trust for the fiscal year ended June 30, 2019.
2. 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 management and internal controls of the department.
3. Determine whether the department complied with selected state and federal laws and regulations.
4. Determine the implementation status of prior audit recommendations.

The significant sources of revenue for the department include motor vehicle licenses and permits and tax revenue from gambling operations, both major sources of general fund revenue. Personal services costs and operating expenditures comprise the bulk of the expenditures. Our audit effort focused on auditing these activities. Audit procedures included control testing, testing transactions processed on the state accounting system, sampling, and analytical procedures. We also tested compliance with provisions of selected laws governing the operations of the department.

In accordance with §17-8-101(6), MCA, we reviewed the fees charged and the fund equity balances of the department's internal service fund. We discussed the results of this testing on page 5.

Background

The Attorney General, who is elected to serve a four-year term, heads the department. The department's primary functions include providing effective statewide law enforcement, furnishing legal services on behalf of the state, and improving public safety. The department had 790.91 authorized full-time equivalent (FTE) employees in fiscal year 2020. The following section describes the divisions that are presented on the Schedules of Expenditures & Transfers Out.

Department Divisions

Legal Services (77.5 FTE) provides legal research and analysis for the Attorney General; legal counsel for state government and state officials, bureaus, and boards; legal assistance to local governments; legal assistance, training, and support for county

prosecutors; assistance through the offices of Consumer Protection and Victim Services Bureau; and legal advice and support for all state agencies through the Agency Legal Services Bureau.

The Natural Resource Damage Program prepares natural resource damage assessments and lawsuits to recover damages to natural resources caused by release of hazardous substances and develops and implements restoration plans that guide the expenditure of settlement proceeds on restorations projects.

Gambling Control (45.99 FTE) licenses and regulates gambling activities and enforces gambling laws in the state of Montana. The division collects license fees, gambling taxes, and investigates applications and complaints relating to alcoholic beverage licensing.

Motor Vehicle (152.25 FTE) licenses individual and commercial drivers, administers all driver license records, and issues motor vehicle registrations and titles. The Motor Vehicle Division includes the Title and Registration Bureau and driver licensing offices located statewide.

Montana Highway Patrol (306.09 FTE) enforces commercial vehicle regulations and general traffic laws, investigates accidents and auto thefts, inspects vehicles, provides motorist assistance, and administers a drug interdiction program with a K-9 unit.

Criminal Investigation (108.99 FTE) includes the administration, management, and coordination of criminal investigative services, and training performed by the Investigations Bureau, the Narcotics Bureau, the Children's Justice Center, and the Law Enforcement Academy Bureau. The division maintains Montana's Sexual or Violent Offender Registry, the state reporting of criminal records and fingerprint information, and Montana's Criminal Justice Information Network. The division's Public Safety Officer Standards and Training Council is composed of 13 members appointed by the Governor and is responsible for establishing basic and advanced qualification and training standards for employment of Montana's public safety officers.

Central Services (18.49 FTE) provides centralized accounting, administrative, budgetary, human resources, payroll, and fiscal support for the department.

Information Technology Service (39.30 FTE) provides a full range of services for the department and the criminal justice community. The division maintains several statewide criminal justice systems, including the state criminal history records system and the state criminal justice information network, that link law enforcement agencies in Montana with various state, regional, and national systems, including the Montana

Enhanced Registration and Licensing Information Network and the Driver Control System.

Forensic Services (42.30 FTE) performs scientific analyses of evidence submitted by law enforcement officials, coroners and state agencies. The division promotes forensic science training, scientific criminal investigations, and manages a statewide system of death investigations.

Prior Audit Recommendations

Our office performed the department's financial-compliance audit for the two fiscal years ended June 30, 2018. This report included one recommendation to the department. We recommended the department reduce the charge for services until the cash balance in the cigarette fire safety account complies with the limitation in state law. The department implemented this recommendation.

Chapter II – Findings and Recommendations

Agency Legal Services Fees

The Agency Legal Services Internal Service Fund fees did not generate revenue commensurate with costs during fiscal years 2019 and 2020.

In accordance with §17-8-101(6), MCA, we reviewed fees charged and fund equity balances in the department's Agency Legal Services Internal Service Fund to determine whether fees were commensurate with costs and fund balance was reasonable. In our analysis, we generally considered fees to be reasonable and commensurate with costs if a fund's working capital was positive and did not exceed 60 days of expense activity for the fund.

State accounting policy defines working capital as the amount of cash that would remain if all the current assets were converted, and all the current liabilities paid, at their book value. We consider fund equity to be reasonable if, once adjusted for non-cash liabilities for pension and other post employment benefits and noncurrent liabilities, the fund equity balance not associated with capitalized assets was positive and did not exceed 60 days of working capital.

We reviewed the Internal Service Fund account for Agency Legal Services. The current assets of \$164,874 and \$9,598 for fiscal years 2019 and 2020, respectively, are less than the current liabilities of \$168,620 and \$180,051, for fiscal years 2019 and 2020, respectively. This trend for the two fiscal years resulted in the fund's working capital being negative \$179,453 and the fund having a zero cash balance for fiscal year 2020. Thus, for years 2019 and 2020, fees are not commensurate with costs and related fund balances are not reasonable.

Department personnel attributed the revenue imbalance to static hourly fees that had not changed for six years even though salaries and operating expenses increased and a drop in billings caused by staff being on extended leave, other staff using their leave balances to lower excess leave balances, and staff affected by COVID.

RECOMMENDATION #1

We recommend the Department of Justice comply with state law by increasing revenue and/or decreasing expense as necessary to maintain fees commensurate with costs in its Agency Legal Services Fund.

Custodial Fund Liabilities and Expenses

In fiscal year 2020, the state of Montana implemented Governmental Accounting Standards Board (GASB) Statement No. 84–Fiduciary Activities. The department did not record expenses and liabilities in its Custodial Fund as required by GASB Statement No. 84.

Section 17-1-102, MCA, requires the department to record its financial activity in accordance with Generally Accepted Accounting Principles, which includes GASB Statement No. 84. This standard governs how the department records activity in its Justice County Collection Custodial Fund associated with vehicle fees and taxes collected for the counties and with vanity plate fees collected for nonprofits. Under the standard, the department is required to report a liability for the amounts collected, but not yet remitted, to the counties and nonprofits at fiscal year-end.

At fiscal year-end 2020, the department did not record a liability and corresponding expense in the Justice County Collection Custodial Fund. As a result, expenses and accrued liabilities in the fund were understated by \$1,971,397 and Fund Equity was overstated by \$1,971,397 at fiscal year-end 2020.

Department personnel said they were not aware of the requirement in the standard to record a liability and expense when there is cash on hand at fiscal year-end even if there is no requirement to distribute cash at that time.

RECOMMENDATION #2

We recommend the Department of Justice record liabilities in its Custodial Fund when a valid obligation exists.

Independent Auditor's Report and Department Financial Schedules

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures and Transfers-Out for the fiscal year ended June 30, 2019, for the Department of Justice, 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, 2020, and June 30, 2019, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held In Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2019, present fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Department of Justice for each of the fiscal years ended June 30, 2020, and 2019, in conformity with the basis of accounting described in Note 1.

Emphasis of Matter

As discussed in Note 1 – Basis of Presentation, the financial schedule format was adopted by the Legislative Audit Committee. On June 16, 2020, the Committee approved a change in format to remove the presentation of revenue estimates from the Schedule of Total Revenues & Transfers-In. Our opinion is not modified with respect to this matter.

In fiscal year 2020, the state adopted *Governmental Accounting Standards Board Statement 84–Fiduciary Activities*. Implementation of the standard necessitated elimination of property held in trust, and its additions and reductions, on the Schedule of Changes in Fund Equity. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2021, on our consideration of the Department of Justice’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

January 12, 2021

DEPARTMENT OF JUSTICE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Custodial Fund
FUND EQUITY: July 1, 2019	\$ 23,278,744	\$ 246,500,340	\$ 649,891	\$ 928	\$ 238,766	\$ (518,018)	\$ 0
ADDITIONS							
Budgeted Revenues & Transfers-In	179,355,576	71,452,735	6,115,853		734,958	1,535,655	2,358,054
Nonbudgeted Revenues & Transfers-In	19,991	43,187,584	4,908		8,119		15,917,405
Prior Year Revenues & Transfers-In Adjustments	113,404	1,251	(94,315)		(18,704)		(386,736)
Direct Entries to Fund Equity	(143,300,683)	6,249,887	24		1,459,017	28,653	197,324
Total Additions	36,188,289	120,891,458	6,026,470	0	2,183,391	1,564,308	18,086,047
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	40,379,106	75,736,886	6,178,932		2,042,760	1,721,825	
Nonbudgeted Expenditures & Transfers-Out	16,532	47,656,821			19,056	34,419	15,912,911
Prior Year Expenditures & Transfers-Out Adjustments	(39,144)	(141,451)	(67,039)		(50)	(3)	
Total Reductions	40,356,493	123,252,255	6,111,893	0	2,061,765	1,756,241	15,912,911
FUND EQUITY: June 30, 2020	\$ 19,110,539	\$ 244,139,542	\$ 564,468	\$ 928	\$ 360,392	\$ (709,952)	\$ 2,173,137

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 JUSTICE
 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	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund
FUND EQUITY: July 1, 2018	\$ 25,677,127	\$ 254,185,464	\$ 637,031	\$ (34,216)	\$ 129,941	\$ (438,972)	\$ 0
PROPERTY HELD IN TRUST: July 1, 2018							\$ 1,620
ADDITIONS							
Budgeted Revenues & Transfers-In	183,976,565	67,696,023	6,088,011		749,914	1,679,506	(3,313)
Nonbudgeted Revenues & Transfers-In	232,790	27,490,313	53		7,398	157	
Prior Year Revenues & Transfers-In Adjustments	59,425	33,877	(6,151)		(748)		3,313
Direct Entries to Fund Equity	(147,198,313)	5,651,198			1,236,412	3,688	
Additions to Property Held in Trust							15,755,068
Total Additions	\$ 37,070,467	\$ 100,871,412	\$ 6,081,913	\$ 0	\$ 1,992,976	\$ 1,683,351	\$ 15,755,068
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	39,293,865	67,529,219	6,038,152		1,923,831	1,719,124	
Nonbudgeted Expenditures & Transfers-Out	226,800	41,089,110	30,900		(39,680)	43,337	
Prior Year Expenditures & Transfers-Out Adjustments	(51,815)	(61,794)		(35,144)		(64)	
Reductions in Property Held in Trust							15,559,364
Total Reductions	\$ 39,468,850	\$ 108,556,536	\$ 6,069,052	\$ (35,144)	\$ 1,884,151	\$ 1,762,397	\$ 15,559,364
FUND EQUITY: June 30, 2019	\$ 23,278,744	\$ 246,500,340	\$ 649,891	\$ 928	\$ 238,766	\$ (518,018)	\$ 0
PROPERTY HELD IN TRUST: June 30, 2019							\$ 197,324

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 JUSTICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Custodial Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Licenses and Permits	\$ 112,511,741	\$ 46,464,632		\$ 660,709		\$ 988,281	\$ 160,625,363
Taxes	57,491,579	5,090,672	4,722			919,260	63,506,232
Charges for Services	4,394,796	12,290,543	6,197	54,102	1,535,655	25,446	18,306,739
Investment Earnings		11,862,610	6,178				11,868,788
Fines and Forfeits	37,247	107,680					144,927
Monetary Settlements	2,654,262	3,257,496					5,911,758
Sale of Documents, Merchandise and Property	255,432	28,496		9,563			293,491
Rentals, Leases and Royalties		15,644					15,644
Grants, Contracts, and Donations		52,945					52,945
Transfers-in	2,125,460	23,891,284	3,729,127				29,745,871
Capital Asset Sale Proceeds	3,225	104,889					108,114
Inception of Lease/Installment Contract	16,532	11,059,400					11,075,932
Miscellaneous	(1,302)	415,040				15,955,736	16,369,474
Federal		240	2,280,222				2,280,462
Total Revenues & Transfers-in	179,488,972	114,641,570	6,026,446	724,374	1,535,655	17,888,723	320,305,740
Less: Nonbudgeted Revenues & Transfers-In	19,991	43,187,584	4,908	8,119		15,917,405	59,138,008
Prior Year Revenues & Transfers-In Adjustments	113,404	1,251	(94,315)	(18,704)		(386,736)	(385,099)
Actual Budgeted Revenues & Transfers-In	\$ 179,355,576	\$ 71,452,735	\$ 6,115,853	\$ 734,958	\$ 1,535,655	\$ 2,358,054	\$ 261,552,831

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 JUSTICE
 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	Internal Service Fund	Agency Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Licenses and Permits	\$ 112,805,040	\$ 44,714,924		\$ 702,284			\$ 158,222,248
Taxes	63,165,676	4,238,192	4,706				67,408,574
Charges for Services	4,630,701	11,790,519	29,088	45,605	1,679,663		18,175,577
Investment Earnings		13,175,600	12,617				13,188,217
Fines and Forfeits	89,115	96,063					185,178
Monetary Settlements	3,034,002	6,018,577					9,052,579
Sale of Documents, Merchandise and Property	288,218	13,247		8,675			310,140
Rentals, Leases and Royalties		10,600					10,600
Grants, Contracts, and Donations	20,677	84,484					105,162
Transfers-in		14,066,888	4,149,525				18,216,414
Capital Asset Sale Proceeds	4,781	128,283					133,064
Inception of Lease/Installment Contract	226,780	320,155					546,935
Federal Indirect Cost Recoveries	1,371						1,371
Miscellaneous	2,419	543,624	1,146				547,188
Federal		19,057	1,884,831				1,903,888
Total Revenues & Transfers-In	184,268,779	95,220,214	6,081,913	756,565	1,679,663	0	288,007,134
Less: Nonbudgeted Revenues & Transfers-In	232,790	27,490,313	53	7,398	157		27,730,711
Prior Year Revenues & Transfers-In Adjustments	59,425	33,877	(6,151)	(748)		3,313	89,717
Actual Budgeted Revenues & Transfers-In	183,976,565	67,696,023	6,088,011	749,914	1,679,506	(3,313)	260,186,706
Estimated Revenues & Transfers-In	183,976,565	67,696,023	6,088,011	749,914	1,679,506	(3,313)	260,186,706
Budgeted Revenues & Transfers-In Over (Under) Estimated	0	0	0	0	0	0	0

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 JUSTICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Agency Legal Services	Central Services Division	Division of Criminal Investigation	Forensic Services Division	Gambling Control Division	Information Technology System	Legal Services Division	Montana Highway Patrol	Motor Vehicle Division	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT										
Personal Services										
Salaries	\$ 1,136,600	\$ 1,276,664	\$ 7,017,737	\$ 3,485,246	\$ 2,450,156	\$ 2,448,724	\$ 5,908,211	\$ 19,383,554	\$ 6,806,021	\$ 49,912,913
Employee Benefits	341,587	468,896	2,939,434	1,144,524	986,107	881,786	2,018,620	11,381,869	3,328,918	23,491,742
Personal Services-Other	19,848				(765)					19,083
Total	1,498,035	1,745,560	9,957,172	4,629,770	3,435,498	3,330,510	7,926,831	30,765,424	10,134,939	73,423,738
Operating Expenses										
Other Services	60,132	575,866	3,082,379	519,536	107,108	222,919	13,709,446	2,287,862	7,695,372	28,260,621
Supplies & Materials	10,827	24,047	728,908	695,329	52,886	690,178	146,930	3,018,804	1,120,622	6,488,531
Communications	15,642	27,041	404,699	77,219	95,872	119,357	164,538	642,626	1,372,166	2,919,160
Travel	5,927	7,751	336,533	29,939	26,957	7,192	130,352	1,085,029	227,688	1,857,366
Rent	81,419	147,730	860,745	153,154	294,050	163,827	415,737	969,164	788,431	3,874,255
Utilities			111,667	140,571			1,139	35,875	6,040	295,293
Repair & Maintenance		54,516	577,538	295,429	15,017	655,722	11,556	874,124	118,992	2,602,894
Other Expenses	27,114	15,944,647	212,999	19,798	47,677	56,528	270,770	265,263	72,513	16,917,310
Goods Purchased For Resale			9,696							9,696
Total	201,061	16,781,597	6,325,164	1,930,975	639,567	1,915,722	14,850,468	9,178,747	11,401,825	63,225,127
Equipment & Intangible Assets										
Equipment		11,250	1,116,735	928,939	18,175	412,589	102,766	3,698,091	146,768	6,435,314
Livestock								5,000		5,000
Capital leases - equipment		23,733	8,926				5,627	11,037,645		11,075,932
Intangible Assets			308,888			367,912			2,045,167	2,721,967
Total		34,983	1,434,549	928,939	18,175	780,501	108,393	14,740,737	2,191,935	20,238,212
Capital Outlay										
Buildings				28,750			25,194		74,670	128,614
Other Improvements			41,113							41,113
Total			41,113	28,750			25,194		74,670	169,726
Local Assistance										
From State Sources		3,518,362			1,772,560					5,290,922
Total		3,518,362			1,772,560					5,290,922
Grants										
From State Sources			25,000							25,000
From Federal Sources			153,000							153,000
Grant To Governmental Entities							212,850			212,850
Grant To Non-Governmental Ent							94,451		24,000	118,451
Total			178,000				307,301		24,000	509,301
Benefits & Claims										
To Individuals							707,121			707,121
Total							707,121			707,121
Transfers-out										
Fund transfers			11,295				19,288,712		2,327,242	21,627,249
Total			11,295				19,288,712		2,327,242	21,627,249
Debt Service										
Loans				45,707				858,721		904,428
Capital Leases			8,749	211,781	2,475		1,934	4,260		229,199
Installment Purchases								3,032,524		3,032,524
Total			8,749	257,488	2,475		1,934	3,895,506		4,166,152
Post Employment Benefits										
Other Post Employment Benefits	2,802					2,351				5,153
Employer Pension Expense	46,707					42,150				88,858
Total	49,510					44,502				94,011
Total Expenditures & Transfers-Out	\$ 1,748,605	\$ 22,080,502	\$ 17,956,042	\$ 7,775,922	\$ 5,912,776	\$ 6,026,732	\$ 43,215,954	\$ 58,580,414	\$ 26,154,612	\$ 189,451,559
EXPENDITURES & TRANSFERS-OUT BY FUND										
General Fund		\$ 5,358,341	\$ 8,350,311	\$ 5,325,127		\$ 4,837,158	\$ 6,332,909	\$ 1,709,685	\$ 8,442,963	\$ 40,356,493
State Special Revenue Fund		753,978	7,030,454	1,412,326	4,495,198	1,172,171	35,970,002	55,327,084	17,091,042	123,252,255
Federal Special Revenue Fund			2,575,277	1,038,470		2,635	913,043	1,543,645	38,823	6,111,893
Enterprise Fund		55,273			1,417,578	7,132			581,783	2,061,765
Internal Service Fund	\$ 1,748,605					7,636				1,756,241
Custodial Fund		15,912,911								15,912,911
Total Expenditures & Transfers-Out	1,748,605	22,080,502	17,956,042	7,775,922	5,912,776	6,026,732	43,215,954	58,580,414	26,154,612	189,451,559
Less: Nonbudgeted Expenditures & Transfers-Out	34,419	15,955,634	204,787		65		33,956,676	11,362,696	2,125,460	63,639,738
Prior Year Expenditures & Transfers-Out Adjustments	(3)	1,443	(52,811)	(70,257)	(20,952)	(1,230)	(43,326)	(14,459)	(46,093)	(247,688)
Actual Budgeted Expenditures & Transfers-Out	1,714,189	6,123,425	17,804,065	7,846,179	5,933,663	6,027,962	9,302,605	47,232,176	24,075,245	126,059,510
Budget Authority	1,845,571	7,438,426	23,510,873	9,311,662	6,613,040	6,088,752	11,046,640	48,690,790	25,007,453	139,553,207
Unspent Budget Authority	\$ 131,382	\$ 1,315,001	\$ 5,706,807	\$ 1,465,483	\$ 679,377	\$ 60,790	\$ 1,744,035	\$ 1,458,614	\$ 932,208	\$ 13,493,697
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund		\$ 469,919	\$ 130,205	\$ 14,978		\$ 60,789	\$ 46,370	\$ 210,832	\$ 404,145	\$ 1,337,239
State Special Revenue Fund		698,046	1,166,678	302,760	674,557	1	740,361	87,281	436,255	4,105,939
Federal Special Revenue Fund		146,533	4,055,673	1,147,745			957,304	1,160,501	81,936	7,549,691
Capital Projects Fund			354,251							354,251
Enterprise Fund		503			4,820				9,872	15,195
Internal Service Fund	\$ 131,382									131,382
Unspent Budget Authority	\$ 131,382	\$ 1,315,001	\$ 5,706,807	\$ 1,465,483	\$ 679,377	\$ 60,790	\$ 1,744,035	\$ 1,458,614	\$ 932,208	\$ 13,493,697

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

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Agency Legal Services	Central Services Division	Division of Criminal Investigation	Forensic Services Division	Gambling Control Division	Information Technology System	Legal Services Division	Montana Highway Patrol	Motor Vehicle Division	Post Council	Total
Personal Services											
Salaries	\$ 1,101,920	\$ 1,080,606	\$ 6,480,760	\$ 3,167,617	\$ 2,457,027	\$ 2,328,541	\$ 5,802,279	\$ 18,655,166	\$ 5,529,517	\$ 191,628	\$ 46,795,060
Employee Benefits	340,308	402,644	2,802,316	1,081,043	963,371	850,327	2,005,179	11,164,256	2,874,646	70,762	22,554,851
Personal Services-Other	5,517				(5,466)						51
Total	1,447,745	1,483,250	9,283,077	4,248,660	3,414,932	3,178,867	7,807,458	29,819,421	8,404,163	262,390	69,349,963
Operating Expenses											
Other Services	107,623	422,805	2,222,832	1,007,373	155,761	149,858	11,593,789	2,187,164	7,727,222	101,167	25,675,593
Supplies & Materials	11,767	28,472	925,714	629,670	55,341	344,450	235,888	3,123,129	1,586,819	31,690	6,972,941
Communications	16,497	23,986	410,110	69,139	91,724	181,025	134,529	713,844	1,574,940	6,303	3,222,097
Travel	10,800	12,592	364,090	39,693	46,761	13,621	161,982	1,025,588	199,669	12,023	1,886,818
Rent	74,421	134,098	823,352	162,565	277,152	164,704	404,930	976,598	751,539	2,247	3,771,607
Utilities			105,260	132,366			30,771	32,314	5,482		306,193
Repair & Maintenance	35	24,059	519,848	228,934	14,537	655,234	46,897	907,270	135,958	84	2,532,856
Other Expenses	24,746	87,502	234,517	42,661	51,295	53,369	316,671	262,691	77,380	6,303	1,157,134
Goods Purchased For Resale			9,961								9,961
Total	245,888	733,513	5,615,681	2,312,401	692,571	1,562,261	12,925,456	9,228,598	12,059,010	159,819	45,535,200
Equipment & Intangible Assets											
Equipment		(24,032)	517,118	1,150,616	56,500	152,750	299,000	2,121,617	158,991		4,432,559
Livestock								30,900			30,900
Capital leases - equipment				546,935							546,935
Intangible Assets			986,617			228,778			2,151,235		3,366,630
Total		(24,032)	1,503,735	1,697,550	56,500	381,528	299,000	2,152,517	2,310,226		8,377,024
Capital Outlay											
Land & Interest In Land							4,757,853				4,757,853
Buildings									77,743		77,743
Total							4,757,853		77,743		4,835,596
Local Assistance											
From State Sources		3,459,703				1,768,005					5,227,708
Total		3,459,703				1,768,005					5,227,708
Grants											
From State Sources							2,150				2,150
From Federal Sources			132,200								132,200
Grant To Governmental Entities							15,206				15,206
Grant To Non-Governmental Ent							3,665,262				3,665,262
Total			132,200				3,682,618				3,814,818
Benefits & Claims											
To Individuals							770,053				770,053
Total							770,053				770,053
Transfers-out											
Fund transfers			101,295	160,000	10,000		18,955,278		314,005		19,540,578
Total			101,295	160,000	10,000		18,955,278		314,005		19,540,578
Debt Service											
Loans				45,707							45,707
Capital Leases				106,567							106,567
Total				152,274							152,274
Post Employment Benefits											
Other Post Employment Benefits	4,044				3,591						7,635
Employer Pension Expense	57,083				37,910						94,993
Total	61,127				41,501						102,629
Total Expenditures & Transfers-Out	\$ 1,754,761	\$ 5,652,434	\$ 16,635,988	\$ 8,570,885	\$ 5,983,509	\$ 5,122,656	\$ 49,197,716	\$ 41,200,536	\$ 23,165,147	\$ 422,208	\$ 157,705,841
EXPENDITURES & TRANSFERS-OUT BY FUND											
General Fund		\$ 5,120,279	\$ 7,289,829	\$ 6,245,876	\$ 20	\$ 4,387,216	\$ 6,600,548	\$ 1,694,015	\$ 7,708,859	\$ 422,208	\$ 39,468,850
State Special Revenue Fund		533,063	5,796,042	1,749,974	4,696,820	718,037	42,084,019	38,241,543	14,737,038		108,556,536
Federal Special Revenue Fund			3,550,117	575,035		2,635	513,149	1,264,979	163,137		6,069,052
Capital Projects Fund									(35,144)		(35,144)
Enterprise Fund		(908)			1,286,669	7,132			591,258		1,884,151
Internal Service Fund	\$ 1,754,761					7,636					1,762,397
Total Expenditures & Transfers-Out	1,754,761	5,652,434	16,635,988	8,570,885	5,983,509	5,122,656	49,197,716	41,200,536	23,165,147	422,208	157,705,841
Less: Nonbudgeted Expenditures & Transfers-Out	43,337	(32,597)	308,275	546,935	(7,059)		40,102,592	388,985			41,350,467
Prior Year Expenditures & Transfers-Out Adjustments	(64)	(35,513)	(450)	(35,513)	(4,710)	(7,231)	(4,710)	(36,337)	(64,512)		(148,818)
Actual Budgeted Expenditures & Transfers-Out	1,711,488	5,685,031	16,328,163	8,059,463	5,990,569	5,129,887	9,099,834	40,847,889	23,229,660	422,208	116,504,192
Budget Authority	1,830,382	7,218,439	20,965,720	9,224,012	6,425,602	5,147,764	12,194,996	42,842,658	24,027,779	424,971	130,302,323
Unspent Budget Authority	\$ 118,894	\$ 1,533,409	\$ 4,637,557	\$ 1,164,549	\$ 435,033	\$ 17,877	\$ 3,095,162	\$ 1,994,769	\$ 798,119	\$ 2,763	\$ 13,798,131
UNSPENT BUDGET AUTHORITY BY FUND											
General Fund		\$ 478,752	\$ 93,737	\$ 1	\$ 1,127	\$ 441,175	\$ 227,172	\$ 1,257	\$ 2,763	\$ 1,245,985	
State Special Revenue Fund		982,500	265,466	87,930	435,007	16,749	1,070,814	338,054	787,736	3,984,255	
Federal Special Revenue Fund		4,677	3,924,103	1,076,618		1,583,173	1,429,543	9,126		8,027,240	
Capital Projects Fund			354,251							354,251	
Enterprise Fund		67,479			27				1	67,506	
Internal Service Fund	\$ 118,894									118,894	
Unspent Budget Authority	\$ 118,894	\$ 1,533,409	\$ 4,637,557	\$ 1,164,549	\$ 435,033	\$ 17,877	\$ 3,095,162	\$ 1,994,769	\$ 798,119	\$ 2,763	\$ 13,798,131

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 Justice
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2020

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 Capital Projects). 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 Internal Service) and Fiduciary (Agency) 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. On June 16, 2020, the Legislative Audit Committee adopted a change in the format of the Schedule of Total Revenues and Transfers-In which excludes the reporting of revenue estimate information. This change applies to schedules for the fiscal year ended June 30, 2020 and schedules for the fiscal year ended June 30, 2019 when presented with FY 2020 schedules.

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 Highway Patrol operations, collections of gambling license revenues, Montana Law Enforcement Academy operations, Natural Resources Damage Litigation Program, Consumer Protection, Criminal Justice Information Network, Crime Victims Compensation, Criminal Records Information Systems, Forensic Sciences Division, and the Motor Vehicle Information Technology System.
- ◆ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include:

Agreement Type	Program Name
Federal Award	24/7 Sobriety Program Coordinator
Federal Award	Breath Alcohol Analysis Instrumentation
Federal Award	Commercial Driver's License Audit Software
Federal Award	Commercial Driver's License Help Desk Improvement
Federal Award	Community Awareness Project
Federal Award	COPS Anti-Methamphetamine Program (CAMP)
Federal Award	Paul Coverdell Forensic Sciences Improvement
Federal Award	Crime Victim Benefits Compensation
Federal Award	Digital Access Exchange
Federal Award	DNA Backlog Reduction Program
Federal Award	Domestic Violence Fatality Review Commission
Federal Award	Eastern Montana Drug Task Force
Federal Award	High Intensity Drug Trafficking Areas
Federal Award	Internet Crimes Against Children Task Force
Federal Award	Intervention, Networks, Training, Enforcement, Response, and Collaborative Efforts Develop Effectiveness (INTERCEDE)
Federal Award	Medical Examiner Office Accreditation
Federal Award	MHP Communication Planning
Federal Award	Montana Analysis and Technical Information Center
Federal Award	Montana Sexual Assault Forensic Evidence - Inventory, Tracking and Reporting Program
Federal Award	National Criminal History Improvement Program
Federal Award	Office of the Child and Family Ombudsman
Federal Award	Passport Verification
Federal Award	Selective Traffic Enforcement Programs
Federal Award	Sex Offender Registration and Notification Act Reallocation Funds
Federal Award	Sexual Assault Kit Initiative
Federal Award	SMART Adam Walsh Act Implementation
Federal Award	Southwest Montana Drug Task Force
Federal Award	Special Traffic Safety Enforcement Team
Federal Award	State Medicaid Fraud Control Units
Federal Award	Traffic Safety Resource Officer
Federal Award	Traffic Safety Resource Prosecutor
Federal Award	Web Based Crash Trainer
Federal Contract	Alcohol, Tobacco, Firearms and Explosives Task Force Overtime
Federal Contract	Big Sky Safe Streets Task Force Overtime
Federal Contract	DEA Drug Diversion Task Force Overtime
Federal Contract	DEA Task Force Overtime
Federal Contract	Federal Forfeitures
Federal Contract	Flathead County High Intensity Drug Trafficking Areas Overtime
Federal Contract	Homeland Security Overtime
Federal Contract	Organized Crime Drug Enforcement Task Force
Federal Contract	US Marshall Overtime
State MOU	DPHHS MOU - Child Protection Prosecution
State MOU	DPHHS MOU - Criminal Forensic Interview Training

- ♦ **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The Department uses this fund to account for the costs related to developing the information technology system related to the production and maintenance of MERLIN.

Proprietary Fund Category

- ♦ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. Department Internal Service Fund includes Agency Legal Services, which provides legal services to other state agencies.
- ♦ **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 MVD state information portal, MVD electronic commerce, and the Liquor License, which is used to fund part of the Gambling Divisions operations and administered by the Department of Revenue.

Fiduciary Fund Category

- ♦ **Agency Fund/ Custodial Fund**– to account for resources held by the state in a custodial capacity. FY19's Schedule of Changes in Fund Equity and Property Held In Trust list the Agency Fund as "Agency Fund," whereas the name changed on the FY20 Schedule of Changes in Fund Equity, to "Custodial Fund." In FY19, the Agency Fund accounting stated that Agency Funds must have a zero balance at fiscal year-end. GASB 84 changed this in FY20. The Custodial Fund may have a balance at fiscal year-end. In addition, GASB 84 removed the need to list the references to the property held in trust.

Department Agency/Custodial Funds include activity for county and sponsored organization license plate fee collections, and monies seized and held pending court case decisions.

2. General Fund Equity Balance

The Department has authority to pay obligations from the statewide General Fund within its appropriation limits. The Department's total assets placed in the fund exceed outstanding liabilities, resulting in positive ending General Fund equity balances for each of the fiscal years ended June 30, 2019, and June 30, 2020. These balances reflect the results of the activity of the Department and not the fund equity balance of the statewide General Fund.

3. Direct Entries to Fund Equity

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

4. Transfers

The Department transferred \$4,353,000 to the State General Fund, from the Office of Consumer Protection's State Special Revenue Fund, on June 18, 2019, per HB684, Section 19.

The Department transferred \$2,125,460.19 to the State General Fund, from the Motor Vehicle Division's State Special Revenue Fund, on August 26, 2019, per MCA 61-3-321.

5. Settlements

The Department received a settlement on February 21, 2019, as a result of the State of Montana, ex rel. Tim Fox, Attorney General vs. Johnson & Johnson, et al case in the amount of \$1,358,575.13. The settlement was the result of an investigation into unfair and deceptive marketing by Johnson & Johnson, which minimized and failed to disclose risks associated with its metal-on-metal hip implants. The amount was deposited into a state special revenue fund for the Office of Consumer Protection, Legal Services Division.

The Department received a settlement on March 15, 2019, as a result of a Confidential Multistate Settlement Judgment with Wells Fargo, in the amount of \$2,779,651.69. The settlement resolved an investigation into unfair and deceptive practices related to several areas of Wells Fargo business, including sales practices related to consumer and small business accounts, sales practices related to renters and term-life insurance products, collateral protection insurance policies, GAP products, and mortgage interest rate-lock extension fees. The amount was deposited into a state special revenue fund for the Office of Consumer Protection, Legal Services Division.

The Department received a settlement on September 24, 2019, as a result of the State of Montana, ex rel. Tim Fox, Attorney General vs. Equifax case in the amount of \$1 million. The settlement with Equifax was the result of an investigation into its 2017 data breach affecting over 147 million Americans, which included 380,441 Montanans. The amount was deposited into a state special revenue fund for the Office of Consumer Protection, Legal Services Division.

The Department received a settlement on November 8, 2019, as a result of the State of Montana, ex rel. Tim Fox, Attorney General vs. Johnson & Johnson case in the amount of \$1,460,022.66. The settlement was a result of an investigation concerning their deceptive marketing of transvaginal surgical mesh devices by misrepresenting the safety and effectiveness of the devices and failing to sufficiently disclose risks associated with their use. The amount was deposited into a state special revenue fund for the Office of Consumer Protection, Legal Services Division.

6. Subsequent Events

Per 61-3-321 MCA, on August 18, 2020, the Department transferred \$1,119,549.50 to the State General Fund, from the Motor Vehicle Division's State Special Revenue Fund.

The Department received a settlement on September 3, 2020 as a result of the State of Montana, ex rel. Tim Fox, Attorney General vs. Honda Motor Company, Inc., and Honda of America Mfg., Inc., in the amount of \$974,966.88. The settlement was a result of an investigation and subsequent Complaint and Consent Judgement over allegations Honda concealed safety issues related to defects in the frontal airbag systems installed in certain Honda and Acura vehicles sold in the United States. The systems were designed and manufactured by Takata Corporation, a long-time Honda supplier, and were first installed in Honda vehicles in the 2001 model year. The amount was deposited into a state special revenue fund for the Office of Consumer Protection, Legal Services Division.

Per 30-14-143 MCA, on December 11, 2020, the Department transferred \$2,138,000 to the State General Fund, from the Office of Consumer Protection's State Special Revenue Fund.

The Department received a portion of the first partial settlement payment for Montana v. Philip Morris et al. (case). on December 17, 2020, in the amount of \$5,397,194.02. The case alleged a decade-plus, wrongful withholding of a portion of the State's annual payment under the tobacco Master Settlement Agreement (MSA) under breach of contract, the False Claims Act, breach of the covenant of good faith and fair dealing and other theories. The case settled by consent decree in the Montana First Judicial District Court. The first partial settlement payment replaced funds wrongfully withheld under the MSA. Funds were distributed per the Montana Constitution and MCA including an 11 percent distribution (\$5,397,194.02) to the State General Fund per e.g., § 53-4-1011 MCA. No amount of the first settlement payment is for the Department's use.

The Department received the second and final settlement payment for Montana v. Philip Morris et al. on December 24, 2020, in the amount of \$4,445,330.56. The amount was deposited into the State General Fund and is not for the Department's use per e.g., §17-8-410 MCA.

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
William Soller

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 Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out of the Department of Justice for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out of the Department of Justice for the fiscal year ended June 30, 2019, and the related notes to the financial schedules, and have issued our report thereon dated January 12, 2021.

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

January 12, 2021

DEPARTMENT OF JUSTICE

DEPARTMENT RESPONSE

AUSTIN KNUDSEN



STATE OF MONTANA

March 16, 2021

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

RECEIVED
MAR 17 2021
LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver:

The Department of Justice thanks you and your audit team for the professionalism displayed while conducting this financial compliance audit. The audit provides valuable and timely information for us to evaluate our programs and accounting processes.

Please accept the following as my response to the audit recommendation and disclosure presented in the report for the two fiscal years ended June 30, 2020.

Recommendation #1

We recommend the Department of Justice comply with state law by increasing revenue and/or decreasing expense as necessary to maintain fees commensurate with costs in its Agency Legal Services Fund.

Concur. In Fiscal Year 2018, Agency Legal Services ended the fiscal year with a cash reserve of \$210,007.53, which was just below the 60-day operating reserve. In Fiscal Year 2019, ALS ended the fiscal year with a cash reserve of \$164,874.13. It became apparent that ALS was having difficulty billing and collecting fees sufficient to cover operating costs and sustain a 60-day operating reserve. In Fiscal Year 2020, the AG's Office engaged a third party to do a business assessment of ALS. It was determined that a substantial increase in the fees charged by ALS was needed. In July 2020, the Department of Justice submitted an EPP request for the 2021 legislature to increase the fees charged by ALS from \$106/hour for attorneys to \$121/hour, and from \$62/hour for paralegals to \$71/hour.

DEPARTMENT OF JUSTICE

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AUSTIN KNUDSEN



STATE OF MONTANA

Recommendation #2

We recommend the Department of Justice record liabilities in its Custodial Fund when a valid obligation exists.

Concur. The Department will work with DOA State Accounting and the Motor Vehicle Division to determine if any payments can be accrued in fund 07135.

An accrual for FY20 cannot be made as any payments that could have been accrued were paid out in July of FY21. Payments made in July were made as program year 2021 payments. An adjusting journal was completed February 2, 2021, to move the July payments in the amount of \$1,525,531 from program year 2021 to program year 2020.

Respectfully,

A handwritten signature in blue ink, appearing to read "Austin Knudsen".

Austin Knudsen,
Attorney General

DEPARTMENT OF JUSTICE

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