



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Livestock

*For the Two Fiscal Years Ended
June 30, 2021*

OCTOBER 2022

LEGISLATIVE AUDIT
DIVISION

21-22

FINANCIAL-COMPLIANCE AUDITS

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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, 2021, was issued June 21, 2022. The Single Audit Report for the two fiscal years ended June 30, 2023, will be issued by March 31, 2024.

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

October 2022

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report for the Department of Livestock (department) for each of the fiscal years ended June 30, 2021, and 2020. During the audit, we obtained an understanding of stock estray, per capita assessments, brand records, brand inspections, and operating expenditure processes, reviewed financial records, and tested internal controls and compliance with state laws and regulations. Our audit resulted in two recommendations to the department related to capital assets and stock estray misstatements.

We issued unmodified opinions on the financial schedules for each of the two fiscal years ended June 30, 2021, and 2020, which means the reader can rely on the information in the schedules. The 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* includes two significant deficiencies in internal controls and no material noncompliance.

We thank the Board of Livestock, executive director, and department 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	Gene Curry, Chair	Valier	Cattle
Nina Baucus		Wolf Creek	Cattle	2023
Susan Brown		Belgrade	Dairy/Poultry	2023
Jake Feddes		Belgrade	Cattle	2027
Alan Redfield		Livingston	Cattle	2027
Ed Waldner		Chester	Swine	2023
Greg Wichman		Hilger	Sheep	2027

Brett DeBruycker served as chair June 2020 through February 2021.
Gene Curry became chair in March 2021.

Department of Livestock

Mike Honeycutt, Executive Officer

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

Brian Simonson, Deputy Executive Officer, Central Services Division

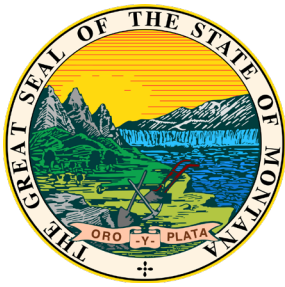
Gregory Juda, Lab Director, Diagnostic Laboratory

Ethan Wilfore, Administrator, Brands Enforcement Division
(through April 2022)

Jay Bodner, Administrator, Brands Enforcement Division
(effective August 2022)

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

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Department of Livestock
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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Department of Livestock

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2021

A report to the Montana Legislature

BACKGROUND

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 assessment, and various charges for services including laboratory services. The department also receives federal grant awards and general fund appropriations.

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 of Livestock’s (department) total expenditures were \$16–\$17 million for fiscal years 2020 and 2021 with expenditures primarily related to personal services and operations. Approximately \$16 million is collected in revenues annually, primarily related to per capita assessments and brand ownership fees. Fiscal year 2021 was a re-record year for brands. This happens every 10 years. In past audits, we reported errors in recording brand re-records and subsequent revenue recognition. The current audit did not identify any misstatements in this activity. However, this report does include accounting issues related to capital assets and stock estray.

AUDITOR’S OPINION (page A-1): UNMODIFIED

The reader can rely on the information presented on the financial schedules and notes presented in this report.

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: 2

Partially Implemented: 3

Not Implemented: 0

RECOMMENDATION #1 (page 4):

Accounting Misstatements

The department did not have adequate controls to properly account for stock estray activity according to state accounting policy.

Department response: Concur

(continued on back)

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

leg.mt.gov/lad

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RECOMMENDATION #2 (page 6):

Accounting Misstatements

The department did not have adequate controls to properly account for capital asset purchases according to state accounting policy.

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: 2

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 and Background

What We Did

We performed a financial-compliance audit of the Department of Livestock (department) for the two fiscal years ended June 30, 2021. The objectives of our 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 for each of the two fiscal years ended June 30, 2021, and June 30, 2020.
4. Determine the implementation status of prior audit recommendations.

Our audit effort focused on brand re-record, per capita assessments, livestock inspection fees, and federal revenue. We also completed work over personal services and operating expenditures. We reviewed and tested relevant department control systems throughout the audit and determined compliance with selected state laws and regulations. We issued unmodified opinions on the financial schedules for each fiscal year under audit. The Independent Auditor's Report begins on page A-1, followed by the financial schedules and accompanying notes.

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 includes seven members appointed by the governor and confirmed by the Senate to serve six-year terms. The board hires an executive officer responsible for the department's operations 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. The division includes the Diagnostic Laboratory and Inspection Bureaus for Meat and Poultry and Milk and Egg.

The Diagnostic Laboratory operates on the Bozeman campus of Montana State University. The lab operates two inspection programs for the Meat and Poultry and Milk and Egg bureaus. These programs ensure meat, poultry, eggs, milk, and any products, slaughtered, processed, stored, sold, or manufactured in the state, meet state and federal requirements, or 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 employs state livestock inspectors in 16 districts throughout the state. The fees charged for inspection by state livestock inspectors are department revenues. There are also approximately 550 deputy state livestock inspectors who are not department employees and retain their inspection fees. The Livestock Crimestoppers Commission is allocated to the department for administrative purposes and 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 following:

- ◆ Milk Control Board - responsible for the regulation of milk producer pricing.
- ◆ Predator Control Program - contracts with the U.S. Department of Agriculture to control predators that injure or kill domestic livestock.
- ◆ Livestock Loss Board - provides financial reimbursement to producers for losses caused by wolves, mountain lions, or grizzly bears and works to decrease the risk of wolf, mountain lion, or grizzly bear caused losses.

Prior Audit Recommendations (PAR)

The prior financial-compliance audit contained five recommendations to the department as noted in the following table.

PAR #	Status	Current Audit Report
1	This recommendation related to accounting for stock stray activity in the correct fund type and recording all necessary transactions. During the current audit, we found the correct fund type was used, but the revenue and expenditure accounts were not those required in state accounting policy.	Recommendation #1
2	This recommendation related to recording transactions in accordance with state accounting policy. During the current audit we found accounting entries in FY's 20 and 21 were not recorded according to state accounting policy or omitted. However, we found fewer misstatements than in the previous audit. While we continue to make a recommendation, we consider the recommendation partially implemented.	Recommendation #2
3	This recommendation related to developing internal controls over federal revenues. This recommendation is fully implemented.	n/a
4	This recommendation related to inspection fee deposits. Our audit found two instances of deposits that were a day or two late. We consider this recommendation partially implemented, but due to the significant improvement, make no further recommendation at this time.	n/a
5	This recommendation related to developing internal controls over access and changes to the department's Vetstar Animal Disease Diagnostic System. This recommendation is fully implemented.	n/a

Source: Compiled by the Legislative Audit Division.

Chapter II – Findings and Recommendations

Internal Controls

State policy requires management to identify risks of financial misstatement specific to their department, design control activities to respond to risks identified, and establish and operate monitoring activities to evaluate their internal control system. State policy requires control activities to assist the department in ensuring they report financial activity accurately, comply with state laws and policies, and safeguard state resources. During the audit we identified several misstatements in the financial schedules or accounting records that indicate internal controls related to financial reporting can be improved.

Livestock Estray Accounting Errors

The department's internal controls were not adequate to detect errors in the accounts used to record stock estray transactions.

State law provides for an estray livestock program that 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. The program allows the department to sell the animals and retain the proceeds, care for the animals until they are sold, and run advertisements to let the public know which animals the department holds. Initially, the proceeds from sales do not belong to the department and are held for the owners for two years. If the department cannot locate the owner after two years, it is allowed to claim the remaining proceeds as its own. In prior years, accounting activity required using an agency fund with a transfer of remaining proceeds to a state special revenue fund. Current accounting standards require recording the initial revenue in one state special revenue fund with a transfer of remaining proceeds to a different state special revenue fund for the department to spend.

The prior audit reported the department did not use the correct accounts to report this activity in an agency fund per state accounting policy. In fiscal year 2020, new accounting standards renamed agency funds to custodial funds and resulted in the stock estray activity no longer meeting the criteria for that fund type. As a result, the portion of the prior audit recommendation related to entries in an agency fund is no longer relevant.

When the stock estray accounting entries were recorded on the state's accounting system for fiscal years 2020 and 2021, the department thought they were implementing the prior audit recommendation, as well as the new accounting standard. However, in error, the entries made were primarily recorded to accounts that would be required if the activity had remained in a custodial fund type. Since the activity is now strictly in state special revenue funds, the accounts used were not in accordance with state accounting policy applicable to that fund type. The accounting entries should reflect the following process.

- ◆ Stock Estray Account, where proceeds held for owners are recorded, recognizes grants, contracts, and donations revenue upon sale of estray stock.
- ◆ Stock Estray Account transfers-out unclaimed proceeds after two years to the Inspection & Control Account.

- ◆ Inspection & Control Account, where department proceeds are recorded, recognizes a transfer-in from the Stock Estray Account.

Errors in recording this activity resulted in misstatements as shown in the table below.

Table 2
Livestock Estray Misstatements
State Special Revenue Fund (SSRF) Misstatements
Fiscal Years 2020 and 2021

Schedule of Revenues & Transfers-In		
	FY20 Over (Under) Statement	FY21 Over (Under) Statement
SSRF – Stock Estray Account		
Grants, Contracts & Donations*	(\$91,149)	\$0
Miscellaneous	\$91,148	\$0
SSRF – Inspection & Control Account		
Charges for Services	\$20,800	\$92,584
Transfers-In*	(\$20,800)	(\$92,584)
Schedule of Expenditures & Transfers-Out		
Brands Enforcement Division		
Operating Expenses, Other Expenses	\$20,800	\$92,584
Fund Transfers*	(\$20,800)	(\$92,584)

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

*Represents the correct account for the transactions.

The department's internal controls include review of transactions prior to posting on the state's accounting records. However, the internal controls in place were not adequate to detect the error in accounts used which resulted in a significant deficiency in internal controls reported in the 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* on page B-1. Department personnel indicated they will enhance controls to include review of state accounting policy.

RECOMMENDATION #1

We recommend the Department of Livestock enhance internal controls to ensure stock estray transactions required by law are recorded in accordance with state accounting policy.

Capital Asset Accounting Errors

The department's internal controls were not adequate to detect or prevent errors in recording the purchase and retirement of capital assets.

In fiscal year 2020, the department used state and federal special revenue funds to purchase or upgrade lab equipment totaling \$408,791. State accounting policy prescribes the required accounting entries to reflect the purchase of these assets. The department recorded entries to accurately reflect the expenditures and cash paid for the purchase of these assets. However, the department did not record required accounting entries to capitalize six of the assets. As a result, the accounting records do not reflect the asset itself or the annual depreciation expense for these six assets.

The state's accounting system includes an asset management (AM) module that should include all assets that exceed the applicable capitalization threshold set in state policy. The AM module generates entries such as annual depreciation costs for each asset. If the assets are not recorded in AM, there is no record of the assets and the transactions to record depreciation are not generated. While the department financial schedules are not misstated as a result of these omissions, in Table 3, we noted misstatements on the accounting records that support the state's Annual Comprehensive Financial Report.

Additionally, in fiscal year 2020 the department retired or disposed of some equipment. The department recorded transactions related to the retirements not required by state accounting policy which resulted in further errors in the accounting records.

Specifically, concerning the fiscal year 2020 Schedule of Expenditures & Transfers-Out, equipment is overstated by \$176,769 and other expenses is understated by \$159,170.

Department personnel noted it was an oversight not recording these assets into the AM module. While a reconciliation was performed that could have caught the oversight, the differences noted did not prompt a follow-up. For the assets that were retired, the department misapplied state accounting policy. In both instances, internal controls were not adequate to prevent or detect these errors. This resulted in a significant deficiency in internal controls reported in the 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* on page B-1.

Table 3
Capital Asset Misstatements
Fiscal Year 2020 and 2021

Account	Over (Under) Stated by Fiscal Year	
	2020	2021
Equipment Asset	(\$202,640)	(\$202,640)
Asset Expense Offset	\$202,640	\$202,640
Depreciation Expense	(\$14,958)	(\$28,370)
Accumulated Depreciation*	(\$14,958)	(\$43,328)

Source: Compiled by Legislative Audit Division from department records.

* The Accumulated Depreciation account carries a credit balance, meaning it off-sets the equipment asset balance to reflect the declining value of an asset each year. As such, the 2021 understatement is the cumulative effect of the missing 2020 depreciation plus the 2021 depreciation.

RECOMMENDATION #2

We recommend the Department of Livestock enhance controls over capital asset activity to ensure transactions are recorded according to state accounting policy.

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 Schedules of Changes in Fund Equity, 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, 2021, and 2020, 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, 2021, and June 30, 2020, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, present fairly, in all material respects, the results of operations and changes in fund equity of the Department of Livestock for each of the fiscal years ended June 30, 2021, and 2020, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2022, on our consideration of the Department of Livestock'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

August 17, 2022

DEPARTMENT OF LIVESTOCK
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Custodial Fund
FUND EQUITY: July 1, 2020	(240,015)	14,967,737	35,633	133,765	615
	\$	\$	\$	\$	\$
ADDITIONS					
Budgeted Revenues & Transfers-In	4,228	10,942,690	2,185,473	1,557,702	92,648
Nonbudgeted Revenues & Transfers-In		769,787			
Prior Year Revenues & Transfers-In Adjustments	3,042,236	(6,263)			
Direct Entries to Fund Equity	3,046,463	69,854			
Total Additions		11,776,068	2,185,473	1,557,702	92,648
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	2,982,488	9,151,308	2,236,300	1,533,899	
Nonbudgeted Expenditures & Transfers-Out		1,242,884		2,126	145,287
Prior Year Expenditures & Transfers-Out Adjustments	(3,055)	(6,465)	3,000		
Total Reductions	2,979,433	10,387,726	2,239,300	1,536,025	145,287
FUND EQUITY: June 30, 2021	\$ (172,984)	\$ 16,356,079	\$ (18,194)	\$ 155,442	\$ (52,024)

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-9.

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

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Custodial Fund
FUND EQUITY: July 1, 2019	\$ (150,039)	\$ 13,695,091	\$ 36,651	\$ 122,096	\$ 0
ADDITIONS					
Budgeted Revenues & Transfers-In	5,677	10,100,551	2,423,015	1,119,832	96,350
Nonbudgeted Revenues & Transfers-In		618,221			
Prior Year Revenues & Transfers-In Adjustments	66	20,460	(8,287)	68,805	
Direct Entries to Fund Equity	2,793,848	(3,735)		8,145	631
Total Additions	2,799,591	10,735,497	2,414,728	1,196,782	96,981
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	2,883,975	8,531,058	2,421,431	1,176,998	
Nonbudgeted Expenditures & Transfers-Out		930,950		(9,473)	96,366
Prior Year Expenditures & Transfers-Out Adjustments	5,592	843	(5,686)	17,588	
Total Reductions	2,889,567	9,462,851	2,415,745	1,185,113	96,366
FUND EQUITY: June 30, 2020	\$ (240,015)	\$ 14,967,737	\$ 35,633	\$ 133,765	\$ 615

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-9.

DEPARTMENT OF LIVESTOCK
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Custodial Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits	\$ 4,190	\$ 1,416,889			\$	\$ 1,421,079
Taxes		5,874,207				5,874,207
Charges for Services		2,535,804		1,554,312		4,090,116
Investment Earnings		29,260				29,260
Fines and Forfeits		20		3,389		3,409
Sale of Documents, Merchandise and Property		17,774				17,774
Grants, Contracts, and Donations		93,384				93,384
Transfers-in		829,022				829,022
Capital Asset Sale Proceeds		22,461				22,461
Federal Indirect Cost Recoveries		243,871				243,871
Miscellaneous	38	643,523	\$ 38		\$ 92,648	736,246
Federal			2,185,435			2,185,435
Total Revenues & Transfers-In	4,228	11,706,214	2,185,473	1,557,702	92,648	15,546,264
Less: Nonbudgeted Revenues & Transfers-In		769,787			92,648	862,435
Prior Year Revenues & Transfers-In Adjustments		(6,263)				(6,263)
Actual Budgeted Revenues & Transfers-In	4,228	10,942,690	2,185,473	1,557,702	0	14,690,092

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-9.

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

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Custodial Fund	Total
Licenses and Permits	\$ 5,743	\$ 1,151,720			\$	\$ 1,157,463
Taxes		5,590,728	1,234			5,591,962
Charges for Services		2,253,476		1,155,563		3,409,039
Investment Earnings		230,417				230,417
Fines and Forfeits				2,071		2,071
Capital Contributions				31,003		31,003
Sale of Documents, Merchandise and Property		34,026				34,026
Grants, Contracts, and Donations		(70,349)				(70,349)
Transfers-in		820,226				820,226
Capital Asset Sale Proceeds		13,927				13,927
Federal Indirect Cost Recoveries		212,004				212,004
Miscellaneous		503,057			\$ 96,350	599,407
Federal			2,413,494			2,413,494
Total Revenues & Transfers-In	5,743	10,739,233	2,414,728	1,188,638	96,350	14,444,691
Less: Nonbudgeted Revenues & Transfers-In		618,221			96,350	714,571
Prior Year Revenues & Transfers-In Adjustments	66	20,460	(8,287)	68,805		81,044
Actual Budgeted Revenues & Transfers-In	5,677	10,100,551	2,423,015	1,119,832	0	13,649,076

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-9.

DEPARTMENT OF LIVESTOCK
 SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2021

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Animal Health Division	Brands Enforcement Division	Centralized Services Division	Total
Personal Services				
Salaries	\$ 3,276,409	\$ 2,570,487	\$ 978,859	\$ 6,825,755
Other Compensation			3,450	3,450
Employee Benefits	1,556,068	1,139,009	354,411	3,049,488
Personal Services-Other	(4,762)			(4,762)
Total	<u>4,827,715</u>	<u>3,709,496</u>	<u>1,336,719</u>	<u>9,873,930</u>
Operating Expenses				
Other Services	1,385,643	132,832	618,979	2,137,454
Supplies & Materials	801,785	65,879	78,595	946,259
Communications	95,087	106,708	41,270	243,066
Travel	60,926	15,078	8,675	84,679
Rent	297,233	193,748	163,392	654,373
Utilities	40,953	6,000		46,953
Repair & Maintenance	225,261	56,120	2,197	283,577
Other Expenses	544,870	229,854	708,553	1,483,277
Total	<u>3,451,758</u>	<u>806,220</u>	<u>1,621,660</u>	<u>5,879,638</u>
Equipment & Intangible Assets				
Equipment	40,952			40,952
Intangible Assets			191,341	191,341
Total	<u>40,952</u>		<u>191,341</u>	<u>232,293</u>
Grants				
From State Sources			58,881	58,881
From Federal Sources			80,000	80,000
Total			<u>138,881</u>	<u>138,881</u>
Benefits & Claims				
From State Sources			231,554	231,554
Total			<u>231,554</u>	<u>231,554</u>
Transfers-out				
Fund transfers	208,384		634,877	843,261
Total	<u>208,384</u>		<u>634,877</u>	<u>843,261</u>
Post Employment Benefits				
Other Post Employment Benefits	74,266			74,266
Employer Pension Expense	13,948			13,948
Total	<u>88,214</u>			<u>88,214</u>
Total Expenditures & Transfers-Out	<u>\$ 8,617,022</u>	<u>\$ 4,515,716</u>	<u>\$ 4,155,033</u>	<u>\$ 17,287,771</u>
EXPENDITURES & TRANSFERS-OUT BY FUND				
General Fund	\$ 2,866,310		\$ 113,122	\$ 2,979,433
State Special Revenue Fund	2,090,387	\$ 4,423,195	3,874,144	10,387,726
Federal Special Revenue Fund	2,124,300		115,000	2,239,300
Enterprise Fund	1,536,025			1,536,025
Custodial Fund		92,521	52,766	145,287
Total Expenditures & Transfers-Out	8,617,022	4,515,716	4,155,033	17,287,771
Less: Nonbudgeted Expenditures & Transfers-Out	2,126	185,105	1,203,066	1,390,297
Prior Year Expenditures & Transfers-Out Adjustments	3,156	(8,500)	(1,176)	(6,520)
Actual Budgeted Expenditures & Transfers-Out	8,611,741	4,339,111	2,953,143	15,903,994
Budget Authority	9,096,610	4,432,816	3,856,007	17,385,433
Unspent Budget Authority	<u>\$ 484,869</u>	<u>\$ 93,705</u>	<u>\$ 902,864</u>	<u>\$ 1,481,438</u>
UNSPENT BUDGET AUTHORITY BY FUND				
General Fund	\$ 106,474		\$ 1,768	\$ 108,242
State Special Revenue Fund	133,059	\$ 93,705	901,097	1,127,860
Federal Special Revenue Fund	178,527			178,527
Enterprise Fund	66,809			66,809
Unspent Budget Authority	<u>\$ 484,869</u>	<u>\$ 93,705</u>	<u>\$ 902,864</u>	<u>\$ 1,481,438</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-9.

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

	Animal Health Division	Brands Enforcement Division	Centralized Services Division	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT				
Personal Services				
Salaries	\$ 3,203,796	\$ 2,254,808	\$ 1,021,238	\$ 6,479,841
Other Compensation			3,700	3,700
Employee Benefits	1,318,029	1,019,338	381,203	2,718,570
Personal Services-Other	27,418			27,418
Total	<u>4,549,243</u>	<u>3,274,146</u>	<u>1,406,140</u>	<u>9,229,529</u>
Operating Expenses				
Other Services	1,181,653	136,078	593,465	1,911,196
Supplies & Materials	681,746	104,855	57,019	843,620
Communications	119,694	63,565	45,701	228,959
Travel	134,362	30,750	17,428	182,540
Rent	244,641	164,252	161,748	570,641
Utilities	41,832	6,500		48,332
Repair & Maintenance	182,304	38,433	2,182	222,919
Other Expenses	410,361	179,628	418,609	1,008,598
Goods Purchased For Resale			6,737	6,737
Total	<u>2,996,592</u>	<u>724,060</u>	<u>1,302,890</u>	<u>5,023,543</u>
Equipment & Intangible Assets				
Equipment	585,561			585,561
Total	<u>585,561</u>			<u>585,561</u>
Grants				
From State Sources			6,667	6,667
From Federal Sources			90,000	90,000
Total			<u>96,667</u>	<u>96,667</u>
Benefits & Claims				
From State Sources			240,788	240,788
Total			<u>240,788</u>	<u>240,788</u>
Transfers-out				
Fund transfers	248,353		618,694	867,048
Total	<u>248,353</u>		<u>618,694</u>	<u>867,048</u>
Post Employment Benefits				
Other Post Employment Benefits	474			474
Employer Pension Expense	6,035			6,035
Total	<u>6,509</u>			<u>6,509</u>
Total Expenditures & Transfers-Out	<u>\$ 8,386,258</u>	<u>\$ 3,998,206</u>	<u>\$ 3,665,179</u>	<u>\$ 16,049,643</u>
EXPENDITURES & TRANSFERS-OUT BY FUND				
General Fund	\$ 2,781,545		\$ 108,022	\$ 2,889,567
State Special Revenue Fund	2,123,854	\$ 3,901,840	3,437,157	9,462,851
Federal Special Revenue Fund	2,295,745		120,000	2,415,745
Enterprise Fund	1,185,113			1,185,113
Custodial Fund		96,366		96,366
Total Expenditures & Transfers-Out	8,386,258	3,998,206	3,665,179	16,049,643
Less: Nonbudgeted Expenditures & Transfers-Out	(9,473)	117,166	910,150	1,017,844
Prior Year Expenditures & Transfers-Out Adjustments	17,491	(91)	937	18,337
Actual Budgeted Expenditures & Transfers-Out	8,378,240	3,881,131	2,754,091	15,013,462
Budget Authority	8,917,912	4,216,347	3,236,595	16,370,854
Unspent Budget Authority	<u>\$ 539,672</u>	<u>\$ 335,216</u>	<u>\$ 482,504</u>	<u>\$ 1,357,392</u>
UNSPENT BUDGET AUTHORITY BY FUND				
General Fund	\$ 95,997		\$ 4,364	\$ 100,362
State Special Revenue Fund	226,458	\$ 335,216	478,140	1,039,813
Federal Special Revenue Fund	199,840			199,840
Enterprise Fund	17,377			17,377
Unspent Budget Authority	<u>\$ 539,672</u>	<u>\$ 335,216</u>	<u>\$ 482,504</u>	<u>\$ 1,357,392</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-9.

Department of Livestock

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2021

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 (Enterprise) and Fiduciary (custodial) 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 audit committee updated the format at the June 16, 2020 meeting. The Committee voted to exclude property held in trust activity from the Schedule of Changes in Fund Equity beginning in fiscal year 2020. In FY20 the Schedule of Changes in Fund Equity no longer reports property held in trust line items and does not contain property held in trust in its name. Additionally, the Committee voted to exclude revenue estimate activity from the Schedule of Total Revenues and Transfers-In effective as of fiscal year 2020. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

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

- ◆ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include Brand Inspection and Control, Animal Health, Milk and Egg, Milk Control, Predatory Animal, Livestock Loss Board Restricted, Livestock Loss Reduction, Livestock Loss Prevention, Stock Estray, Producers Milk Pool, 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 Proprietary Fund includes Montana Veterinarian Diagnostic Laboratory.

Fiduciary Fund Category

- ◆ **Custodial Fund** – to account for resources held by the state in a custodial capacity. Custodial 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 custodial fund includes the Beef Check-Off.

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, 2020 and June 30, 2021.

3. State Special Revenue Unspent Budget Authority

Budget authority was added to the livestock loss reimbursement in anticipation of increased livestock deprecation in 2020 and 2021. Claims increased 2020 and 2021 but was below the budget authority by \$89,000 and \$103,000, respectively. The excess authority in this fund can be carried forward per MCA to be used in subsequent years. The department received additional authority in Central Services Division for FY 2020 and 2021 for operations as there were unanticipated expenses in the prior biennium. These expenses did not repeat in FY 2020 and 2021 which left unspent authority of \$275,000 and \$273,000, respectively. The department received additional budget authority in the

amount of \$500,000 in FY 2021 for software application development. The department expended \$191,000 of the \$500,000, leaving \$309,000 of unspent authority to be carried forward to FY 2022 to finish the planned software application development. Any of the unspent additional authority can be carried forward so that the application(s) can be completed. The Milk Control Division had an employee retire at end of FY 2020. This resulted in salary savings in FY 2020 and 2021 of \$24,000 and \$77,000, respectively. Also, the MCB had lower operating expenses in FY 2020 and 2021, saving about \$20,000 each year. The brands division had open positions in FY 2021 that resulted in savings of \$236,000. The department utilizes budget authority carryforward (CF) which increases overall authority. The department had CF authority for FY 2020 and 2021 in amounts of \$85,000 and \$169,000, respectively. The department's proprietary revenue was higher than anticipated which the department utilized to save state special revenue cash in anticipation of upcoming capital investments. The department has had significant variation in program expenditures leading to abnormally higher unspent authority this biennium.

4. Direct Entries to Fund Equity

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

5. Unearned Revenues

Revenues are recognized when they are realizable, measurable, earned, and available. Brands rerecord occurs every ten years. The 2011 rerecord revenues will be fully earned and recognized in December 2021. Gross receipts during the 2011 rerecord period were \$4,647,042. The Department recognizes \$464,704 each year during the ten-year rerecord period. The balance of unearned revenue for 2011 rerecord fees as of June 30, 2020 and 2021 is \$697,055 and \$232,351, respectively.

The 2021 rerecord began in January 2021 and ended December 31, 2021. Monies received from the 2021 rerecord was posted to the unearned revenue liability account. This will be amortized over the ten-year period as the revenues are earned beginning January 2022. Unearned revenue is the balance of the rerecord fees collected in 2011 and 2021 that has not been earned and is unavailable for current year expenditures. The balance of unearned revenue for 2021 rerecord fees as of June 30, 2021 is \$5,224,275.

New brands and brand transfers revenues are amortized over the period remaining until the next brands rerecord which will be December 2021. New brands and transfer gross receipts were \$288,625 and \$582,768 for fiscal year 2020 and 2021, respectively. The Department recognized \$469,459 and \$735,150 for fiscal year 2020 and 2021, respectively. The balance of unearned revenue for 2021 new brands and brand transfers were \$801,256 and \$519,921 as of June 30, 2020 and 2021, respectively.

New brands purchased in 2021 were recorded as unearned revenue and will be recognized as revenue beginning in January 2022. The amount received for new brands as of June 30, 2021 was \$126,075.

Brand mortgage renewal revenues are amortized over a five-year period from January 2018 to December 2022. Mortgage renewal gross receipts was \$38,625. Mortgage renewal unearned revenue balance at FYE 2020 and 2021 was \$19,312 and \$11,584, respectively.

New brand mortgage revenues are amortized over same period as mortgage renewals. New mortgage receipts were \$23,925 and \$24,110 in FY 2020 and 2021, respectively. The Department recognized \$43,649 and \$39,749 in FY2020 and 2021, respectively. New mortgage unearned revenue balance was \$74,294 and \$65,497 for fiscal year 2020 and 2021, respectively.

6. Change of Fund type

GASB 84 changed the method that two custodial accounts are recorded. In FY 2020, the Milk Pool fund and the Stock Estray fund were changed from custodial fund accounting to state special revenue accounting. These are not budgeted funds.

7. Transfer of Revenue from Custodial Fund to State Special Revenue

The Stock 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 custodial fund to the SSRF was \$20,800 and \$92,584 in FY 2020 and 2021, respectively.

8. Nonbudgeted Expenditures and Transfers-Out

Per 81-1-112 MCA, the Department is required to transfer cash from the Livestock Loss Mitigation Fund to the Livestock Loss Reduction fund when the unencumbered fund balance is in excess of \$300,000 at end of fiscal year. These are recorded as Nonbudgeted Transfers. The amount of transfer was \$55,410 and \$104,022 in FY 2020 and 2021, respectively.

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 Schedules of Changes in Fund Equity, 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, 2021, and 2020, and the related notes to the financial schedules, and have issued our report thereon dated August 17, 2022.

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 as a basis for designing 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any

deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described below, that we consider to be significant deficiencies.

- ◆ As described in Recommendation #1 on page 4, the department does not have adequate internal controls in place to ensure transactions related to the annual stock estray activity are recorded according to state accounting policy.
- ◆ As described in Recommendation #2 on page 6, the department does not have adequate internal controls in place to ensure transactions processed related to the purchase and retirement of capital assets are in compliance with state accounting policy.

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 financial schedules. 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 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

August 17, 2022

DEPARTMENT OF
LIVESTOCK

DEPARTMENT RESPONSE

STATE OF MONTANA

GREG GIANFORTE, GOVERNOR

MT DEPARTMENT OF LIVESTOCK
PO BOX 202001
HELENA, MONTANA 59620-2001



ANIMAL HEALTH & FOOD SAFETY DIVISION (406) 444-2043
BRANDS ENFORCEMENT DIVISION (406) 444-2045
CENTRALIZED SERVICES DIVISION (406) 444-4994
EXECUTIVE OFFICE (406) 444-9321

October 3, 2022

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

RECEIVED
October 3, 2022
LEGISLATIVE AUDIT DIV.

Subject: Financial-Compliance Audit #21-22: Department of Livestock Response

Dear Mr. Maciver,

The Department of Livestock has reviewed the October 2022 Financial-Compliance Audit for the two fiscal years ending June 30, 2021. Thank you to the Audit Committee and staff for their ongoing efforts to assist out agency in becoming ever more efficient and effective in our services to all Montana. Our responses and corrective action plans for the recommendations appear below.

Recommendation #1

We recommend the Department of Livestock enhance internal controls to ensure stock estray transactions required by law are recorded in accordance with state accounting policy.

Response: Concur

The department transitioned the Agency fund to a State Special Revenue fund because of Governmental Accounting Standards Board pronouncement number 84. As a result of changing the fund type, revenues and expenditures should have been recorded as transfer to/from other funds. While the account numbers that were used were out of compliance, all revenues and expenditures were accounted for as a revenue or expenditure.

Corrective Action:

The department will strengthen internal controls with the inclusion of an accounting review of the Montana Operations Manual Governmental Accounting Overview and the Interfund Activities policies. The year-end checklist will be updated to include this review.

Planned Completion Date: 10/03/2022

Recommendation #2

We recommend the Department of Livestock enhance internal controls over capital asset activity to ensure transactions are recorded according to state accounting policy.

Response: Concur

The department had not reported equipment into the State's asset management system in FY 2020 which caused an understatement assets and depreciation expense in FY 2020 and 2021.

Corrective Action:

Accounting staff had put in a process in FY 2021 that would help reconcile asset purchases that were entered into the asset management system. The process and instructions are included with the accounting year-end processes and procedures. The year-end checklist will be updated to include the reconciliation of fixed asset purchases.

Planned Completion Date: 10/03/2022

Sincerely,

A handwritten signature in black ink, appearing to read "M. Honeycutt", written in a cursive style.

Mike Honeycutt
Executive Officer
Montana Department of Livestock