



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

# *Department of Revenue*

*For the Two Fiscal Years Ended  
June 30, 2022*

JANUARY 2023

LEGISLATIVE AUDIT  
DIVISION

22-14

## LEGISLATIVE AUDIT COMMITTEE

### REPRESENTATIVES

LYN HELLEGAARD

[Lyn.Hellegaard@legmt.gov](mailto:Lyn.Hellegaard@legmt.gov)

SJ HOWELL

[SJ.Howell@legmt.gov](mailto:SJ.Howell@legmt.gov)

EMMA KERR-CARPENTER

[Emma.KC@legmt.gov](mailto:Emma.KC@legmt.gov)

TERRY MOORE

[Terry.Moore@legmt.gov](mailto:Terry.Moore@legmt.gov)

JERRY SCHILLINGER

[Jerry.Schillinger@legmt.gov](mailto:Jerry.Schillinger@legmt.gov)

LAURA SMITH

[Laura.Smith@legmt.gov](mailto:Laura.Smith@legmt.gov)

### SENATORS

DAN BARTEL

[Dan.Bartel@legmt.gov](mailto:Dan.Bartel@legmt.gov)

JASON ELLSWORTH

[Jason.Ellsworth@legmt.gov](mailto:Jason.Ellsworth@legmt.gov)

PAT FLOWERS

[Pat.Flowers@legmt.gov](mailto:Pat.Flowers@legmt.gov)

DENISE HAYMAN

[Denise.Hayman@legmt.gov](mailto:Denise.Hayman@legmt.gov)

KATHY KELKER

[Kathy.Kelker@legmt.gov](mailto:Kathy.Kelker@legmt.gov)

TOM MCGILLVRAY

[Tom.McGillvray@mtleg.gov](mailto:Tom.McGillvray@mtleg.gov)

MEMBERS SERVE UNTIL A  
MEMBER'S LEGISLATIVE TERM  
OF OFFICE ENDS OR UNTIL A  
SUCCESSOR IS APPOINTED,  
WHICHEVER OCCURS FIRST.

§5-13-202(2), MCA

FRAUD HOTLINE  
(STATEWIDE)  
1-800-222-4446  
(IN HELENA)  
444-4446  
[LADHotline@legmt.gov](mailto:LADHotline@legmt.gov)  
[www.montanafraud.gov](http://www.montanafraud.gov)

## 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, 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.

### AUDIT STAFF

JEANE CARSTENSEN-GARRETT	ALEXA O'DELL
ADAM HEFENIEDER	KAREN E. SIMPSON
BRENDA KELLER	SHANDELL VANDONSEL
HUNTER MCCLURE	KELLY ZWANG

Reports can be found in electronic format at:  
<https://leg.mt.gov/lad/audit-reports>

# LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller

January 2023

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Revenue for the two fiscal years ended June 30, 2022. During the audit, we focused our work on the department's activities related to tax collections and distributions to local governments. This included testing individual income, corporate, and property tax collections. Other testing included but was not limited to activity related to liquor sales and expenses, oil and gas taxes, and accommodations taxes. This report contains one recommendation to the department related to improving internal controls over recording wire deposits timely, as state policy requires. We issued unmodified opinions on the department's financial schedules.

The department's written response to the audit recommendation is included on page C-1. We thank the Director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

*/s/ Angus Maciver*

Angus Maciver  
Legislative Auditor



## TABLE OF CONTENTS

Figures and Tables.....	ii
Appointed and Administrative Officials .....	iii
Report Summary .....	S-1
<b>CHAPTER I – INTRODUCTION AND BACKGROUND .....</b>	<b>1</b>
Introduction .....	1
Department Financial Summary .....	1
Department Organization and Functions .....	3
Advisory Councils, Boards, and Memberships.....	4
Internal Service Fund.....	5
Cannabis Control Division .....	5
<b>CHAPTER II – FINDING AND RECOMMENDATION .....</b>	<b>9</b>
Internal Control Over Wire Deposits .....	9
<b>INDEPENDENT AUDITOR’S REPORT AND DEPARTMENT FINANCIAL SCHEDULES</b>	
Independent Auditor’s Report .....	A-1
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2022 .....	A-4
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2021 .....	A-5
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2022 .....	A-6
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2021.....	A-7
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2022..	A-8
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2021 .	A-9
Notes to the Financial Schedules .....	A-11
<b>REPORT ON INTERNAL CONTROL AND COMPLIANCE</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance With <i>Government</i> <i>Auditing Standards</i> .....	B-1
<b>DEPARTMENT RESPONSE</b>	
Department of Revenue .....	C-1

## FIGURES AND TABLES

### Figures

Figure 1	Taxes by Tax Type.....	1
Figure 2	Individual Income Tax Growth .....	2
Figure 3	Other Tax Growth.....	2

### Tables

Table 1	Cannabis Control Division Revenues .....	6
Table 2	Summary of Noncompliance .....	9

## APPOINTED AND ADMINISTRATIVE OFFICIALS

### Department of Revenue

Brendan Beatty, Director

Scott Mendenhall, Deputy Director

Tracy Morano, Operations Director

Jason Slead, Communications Director

Charles Geary, Human Resources Director

Eric Dale, Tax Policy and Research Director

Derek Bell, Administrator, Business & Income Taxes Division

Becky Schlauch, Administrator, Alcoholic Beverage Control Division

Kory Hoffland, Administrator, Property Assessment Division

Kristan Barbour, Administrator, Cannabis Control Division

Manuel Soto, Administrator and Chief Information Officer,  
Technology Services Division

Margaret Kauska, Chief Security Officer

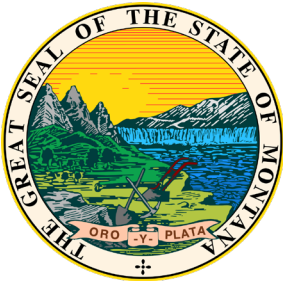
Jill Hamilton, Administrator, Information Management and  
Collections Division

For additional information concerning the Department of Revenue,  
contact:

Tracy Morano, Operations Director  
Department of Revenue  
125 N. Roberts  
Helena, MT 59604-5805  
(406) 444-4008  
e-mail: [tmorano@mt.gov](mailto:tmorano@mt.gov)







# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL-COMPLIANCE AUDIT

Department of Revenue

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2022

A report to the Montana Legislature

### BACKGROUND

The Montana Department of Revenue administers state tax laws by enforcing regulations for approximately 40 state taxes and fees. The main sources of these taxes are:

- Individual Income
- Property
- Natural Resources
- Corporate
- Liquor/Alcohol

In addition to the tax administration, the department establishes values for all taxable property. The department also oversees liquor distribution and licensing operations in the state and administers the eStop licensing program and bad debt collections on behalf of state agencies. The eStop program allows businesses to apply for or renew up to eight state licenses simultaneously with a single payment.

The Montana Department of Revenue collected approximately \$2.7 billion and \$3.6 billion in taxes in fiscal years 2021 and 2022, respectively, an increase of 31 percent between the two years. Changes in economic factors, a return to pre-pandemic levels for several taxes, as well as the new recreational cannabis tax contributed to this increase. Approximately \$199 million and \$236 million of the tax collections were distributed to local governments in fiscal years 2021 and 2022.

### **AUDITOR'S OPINION (page A-1): UNMODIFIED**

We found the department's financial schedules presented fairly the department's activity in all material respects and issued unmodified opinions on the regulatory basis of accounting under which the financial schedules are presented. 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.

### **SUMMARY OF AUDIT WORK:**

We focused our audit work primarily on the department's activities related to tax collections and distributions to local governments. This included testing individual income, corporate, and property tax collections. Other testing included, but was not limited to, activity related to liquor sales and expenses, oil and gas taxes, and accommodations taxes. Our audit work also included understanding the department's internal control policies and procedures, performing analytical procedures, and reviewing selected accounting transactions. We also reviewed and tested compliance with selected state laws and department policies.

### **RECOMMENDATIONS:**

In this report, we issued the following recommendations:

To the department: 1

To the legislature: 0

The prior audit report contained no recommendations.

*(continued on back)*

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

[leg.mt.gov/lad](http://leg.mt.gov/lad)

Room 160, State Capitol  
PO Box 201705  
Helena, MT 59620-1705  
(406) 444-3122

The mission of the Legislative Audit Division is to increase public trust in state government by reporting timely and accurate information about agency operations, technology, and finances to the Legislature and the citizens of Montana.

To report fraud, waste, or abuse:

Online  
[www.Montanafraud.gov](http://www.Montanafraud.gov)

Email  
[LADHotline@legmt.gov](mailto:LADHotline@legmt.gov)

Call  
(Statewide)  
(800) 222-4446 or  
(Helena)  
(406) 444-4446

Text  
(704) 430-3930

#### **RECOMMENDATION #1 (page 9):**

##### *Internal Control Deficiency/State Noncompliance*

We recommend the Department of Revenue improve internal control procedures to ensure the timely recording of wires received in SABHRS and to comply with 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: 1

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

## Introduction

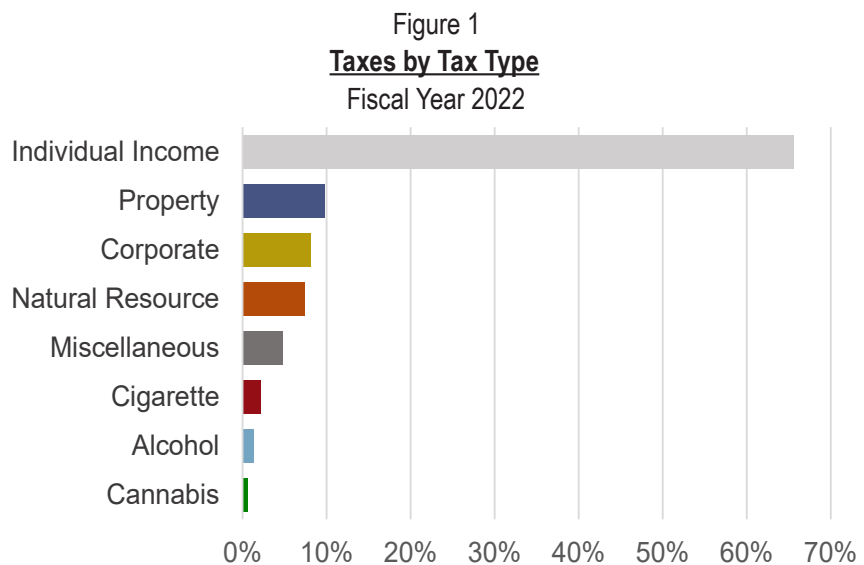
We performed a financial-compliance audit of the Department of Revenue (department) for the two fiscal years ended June 30, 2022. The objectives of our audit were to:

1. Determine whether the department's financial schedules present fairly the results of operations and changes in fund equity for fiscal years 2021 and 2022.
2. Obtain an understanding of the department's internal control system to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.
3. Determine whether the department complied with selected state laws and regulations during the audit period.

During the audit, we focused our work on the department's activities related to tax collections and distributions to local governments. This included testing individual income, corporate and property tax collections. Other testing included, but was not limited to, activity related to liquor taxes and expenses, oil and gas taxes, and accommodations taxes. Our audit work also included understanding the department's internal control policies and procedures, performing analytical procedures, and reviewing selected accounting transactions. We also reviewed and tested compliance with selected state laws and department policies.

## Department Financial Summary

The department is responsible for administering state tax laws and enforcing regulations for numerous state taxes and fees. Revenues collected by the department include but are not limited to, individual income, corporate income, natural resources, lodging facility use, accommodation, property, alcohol, and tobacco taxes. Department tax revenues are recorded primarily in the General, State Special Revenue, and Permanent Funds. Additionally, the department regulates the sale and distribution of alcoholic beverages and marijuana in the state. The enterprise and state special revenue funds record the associated taxes. Figure 1 shows the percentage of taxes collected by the department in fiscal year 2022 by type.

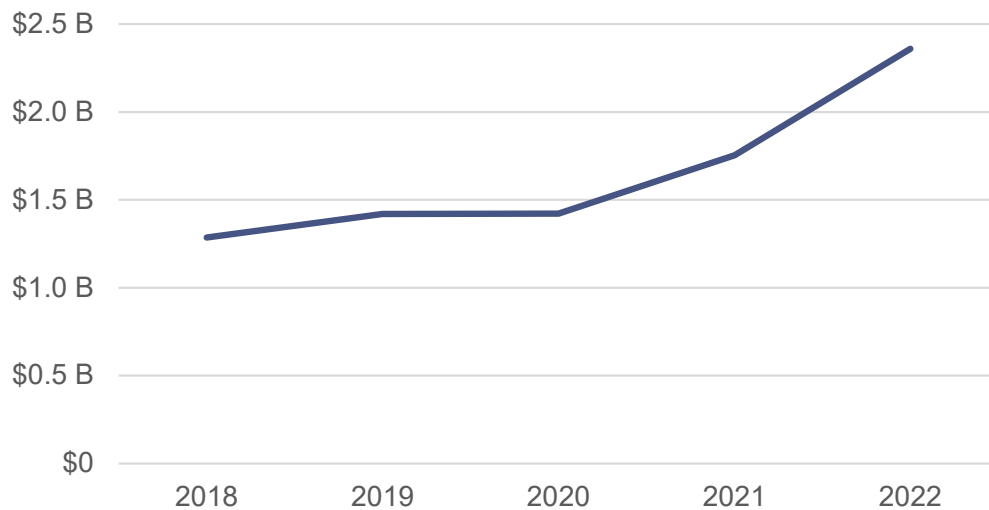


Over the past several years, department revenue collections have increased significantly. Individual

Source: Compiled by the Legislative Audit Division from State Accounting, Budgeting and Human Resource System (SABHRS) records.

Income Tax has increased from \$1.285 billion in fiscal year 2018 to \$2.360 billion in fiscal year 2022, representing an 84 percent increase. Figure 2 depicts this growth (in dollars).

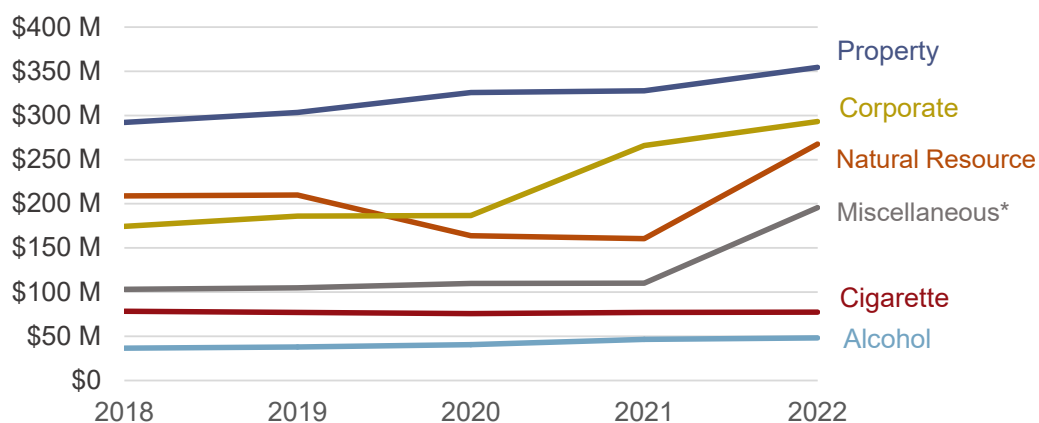
Figure 2  
**Individual Income Tax Growth**  
Fiscal Years 2018-2022



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

Over the same period, other tax types saw increases ranging from 21 percent (Property Tax) to 68 percent (Corporate Tax), with the only revenue decrease attributed to Cigarette Tax. Overall, tax revenues have increased 65 percent from fiscal year 2018 to 2022. Figure 3 highlights the growth of other forms of tax.

Figure 3  
**Other Tax Growth**  
Fiscal Years 2018-2022



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

\* Includes Cannabis Tax in 2022

Chapter 576 of the 2021 Legislative Session (House Bill 701) transferred authority over licensing, cultivation, and sale of medical marijuana to the department. Additionally, the legislation created separate license categories for cultivation, manufacturing, dispensing, and transporting marijuana, and provided for the sale and taxation of marijuana for recreational use. Sales began on January 1, 2022, resulting in a new tax revenue stream for the department. For more information on the program, including a breakdown of the division's revenues, see page 6.

The department also distributes various tax revenues based on requirements in the law. The two largest distributions relate to the local government's entitlement share revenue and oil and natural gas production taxes. The Director's Office records the entitlement share and the distributions of oil and natural gas production taxes to counties and school districts.

## **Department Organization and Functions**

For fiscal year 2022, the department employed a total of 663.17 full-time equivalent (FTE) employees. Effective for fiscal year 2022, the department acquired the cannabis control responsibilities for the state. The following summarizes the department's structure after this change.

**Director's Office (65.19 FTE)** supports the agency's director and performs the central administrative and legal services for the department in addition to the following offices:

- ▶ **Tax Policy and Research Office** – provides accurate and timely information for the Governor, the Legislature, and Montana citizens. This includes the compilation of basic tax data and the publication of the statutory biennial report.
- ▶ **Citizen Outreach Office** – communicates with internal and external stakeholders and is responsible for media relations, digital communications, design and branding, public education and outreach, and training and employee development. In addition, this office oversees the department's call center, e-Stop business licensing, and unclaimed property distribution.
- ▶ **Taxpayer Advocate** – works independently from the department's divisions to ensure citizens have an impartial advocate to hear their concerns and questions.
- ▶ **Office of Dispute Resolution** – independently hears and mediates cases between the department and taxpayers, liquor licensees, and other members of the public. The office provides an accessible, cost-effective means for taxpayers and licensees to appeal agency determinations or proposed department actions.

**Alcoholic Beverage Control Division (31.75 FTE)** administers the state's Alcoholic Beverage Code, which governs the control, sale, and distribution of alcoholic beverages, emphasizing customer service and public safety. The division includes licensing brokers, manufacturers, wholesalers, importers, and retailers and maintaining a distribution channel to fulfill the public's demand through agency liquor stores.

**Business & Income Taxes Division (131.36 FTE)** administers and collects 40 Montana taxes and fees, oversees tax audits, and verifies compliance with Montana tax laws for all state taxes. The division also oversees state revenue collection activity and completes appraisals and assessments of industrial and centrally assessed property.

**Information Management and Collections Division (75.45 FTE)** provides consistent service to Montana citizens, businesses, and nonresident taxpayers by collecting delinquent accounts. This includes providing collection services to other state agencies, local governments, universities, and colleges. The division also provides data and remittance processing operations of taxpayer information, payments, and data in electronic or paper form.

**Property Assessment Division (285.42 FTE)** is responsible for the valuation and classification of all taxable property. The division has a central office located in Helena and four regional offices. It ensures all property classes are valued uniformly and equally throughout the state. Classifications include but are not limited to residential and commercial property, agricultural and forestland, industrial facilities, exempt properties, business equipment, and personal property. The division also provides taxing jurisdictions with the total market and taxable value of property in each county. Local governments use these certified values to determine the number of mills necessary to levy for property tax billing.

**Technology Services Division (42.00 FTE)** is the technological foundation for the department. The division provides programing and maintenance as well as staff support and training for the department's hardware and software systems. The division also serves as the department's liaison with the IRS and secures all taxpayer information.

**Cannabis Control Division (32.00 FTE)** ensures the health and safety of all Montanans through fair administration, education, and enforcement of the Montana Marijuana Regulation and Taxation Act (MMRT). The Licensing Bureau is responsible for processing all worker, patient, business, and packing and labeling applications and renewals. The Inspection/Compliance Bureau protects the welfare and safety of the public by regulating marijuana laws uniformly and fairly. Additional information about this division is included in a section at the end of this chapter.

## **Advisory Councils, Boards, and Memberships**

The department is a member of the Multistate Tax Commission, the Federation of Tax Administrators, the Western States Association of Tax Administrators, the National Alcohol and Beverage Control Association, the International Association of Assessing Officers, and the National Association of Unclaimed Property Administrators. The department's advisory councils include:

**Agricultural Land Valuation Advisory Council** is created by §15-7-201(7), MCA, to advise the department concerning the valuation of agricultural property. This council must include a staff member from the Montana State University-Bozeman, College of Agriculture. This advisory council is not a policy-making body and has no rule-making authority.

**Board of Review** is established in §30-16-302, MCA, and provides policy direction to the department in establishing and operating the eStop business licensing program. The board is attached to the department for administrative purposes only and has separate rule-making authority under §30-16-104, MCA.

**Forest Land Taxation Advisory Council** is created by §15-44-103(10), MCA, to advise the department concerning the valuation of forest land property. The committee consists of seven members, four members with expertise in forest matters and three members appointed by the governor.

## **Internal Service Fund**

As required by §17-8-101(6), MCA, we analyzed the fees and charges for services and the fund equity of the department's internal service fund, which is used to provide delinquent debt collection services to state agencies. While department activities to collect debts are ongoing throughout the year, bad debt collections primarily occur during March through June when the department can offset the debts against requested tax refunds. Due to this business practice, we considered fees reasonable and commensurate with costs if a fund's working capital was positive and did not exceed 270 days of expense activity for the fund. Additionally, we considered fund equity to be reasonable if, once adjusted for non-cash liabilities for pension and Other Post-Employment benefits, the fund equity balance not associated with capitalized assets was positive and did not exceed 270 days of working capital.

Based on our analysis of the fund balances and activity at fiscal year-end 2021 and 2022, we determined fees were commensurate with costs for both fiscal years. Although the expenses exceeded revenues and the department's collection fee decreased in both years, the department was appropriately spending down the excess fund balance carried forward from previous years.

While the fund balance decreased between fiscal years 2020 and 2021, the balance was 117 days over the allowed 270 days of working capital on June 30, 2021. As such, we do not consider it reasonable. The fund balance decreased further in fiscal year 2022 and became reasonable by fiscal year-end.

Because the department has taken steps to reduce its fees and spend down its excess fund balance over the audit period, we make no recommendation.

## **Cannabis Control Division**

As required by Chapter 576, of the 2021 Legislative Session (House Bill 701), the Cannabis Control Division (CCD) moved from the Department of Public Health and Humans Services (PHHS) to the Department of Revenue (department) on July 1, 2021. On that date, PHHS transferred the outstanding cash balances of approximately \$3.8 million in the existing account within the state special revenue fund related to the medical marijuana program to the department. Then, on December 31, 2021, PHHS transferred about \$2.3 million of remaining activity. The department set up a new account within the state special revenue fund for the marijuana program as required by House Bill 701.

Most of the staff involved in the program performed their roles at PHHS before CCD moved to the department. When CCD was transferred, staff in the division and their associated 22 FTE also moved from PHHS. Additionally, House Bill 701 added 12 new FTE positions.



Table 1 shows the division's revenue in fiscal year 2022.

Table 1 <b><u>Cannabis Control Division Revenues</u></b> Fiscal Year Ended June 30, 2022	
License & Permit Fees	\$4,131,462
Recreational Marijuana Taxes	\$19,001,765
Medical Marijuana Taxes	\$7,212,083
Transfers	\$7,784,038
<b>Total</b>	<b>\$38,129,348</b>

**Source: Compiled by the Legislative Audit Division from SABHRS.**

Some of the duties of the CCD include, as required by House Bill 701:

- ◆ Receive, review, and issue licenses and permits for medical marijuana permits, worker permits, and business renewals.
- ◆ Provide online lists of licensed businesses.
- ◆ Receive, review, and approve packaging and labeling applications.
- ◆ Administer a hotline for complaints and questions.
- ◆ Develop and provide required training for worker permits, and other training as determined necessary.
- ◆ Perform inspections of licensed businesses.
- ◆ Provide a seed-to-sale tracking system.
- ◆ Collect the medical and recreation tax.
- ◆ Distribute the relevant local option taxes.
- ◆ At fiscal year-end distribute the collected taxes.

As part of our audit, we performed work over this division. We gained an understanding of the duties listed to determine what the department and the CCD were doing related to them.

After gaining our understanding, we performed work over the CCD, including the following:

- ◆ Reviewed the transactions moving CCD operations from PHHS to the department.
- ◆ Reviewed the transactions distributing local option taxes.
- ◆ Reviewed the fiscal year-end distribution of the taxes collected and confirmed it was consistent with the requirements in state law.
- ◆ Reviewed the states accounting system to determine whether taxes were collected in the appropriate time frame.
- ◆ Requested and reviewed some of the department's audits of the marijuana taxes.
- ◆ Confirmed there was an online registry of licensed business.



- ♦ Confirmed there was a seed-to-sale tracking system.
- ♦ Reviewed selected applications and confirmed the individual or business provided all required documents and was eligible for the license or permit that was issued.
- ♦ Reviewed selected inspections and confirmed inspections were occurring at least annually.
- ♦ Determined the required training programs were being offered.
- ♦ Confirmed there was a hotline.

Through the work we performed over the CCD, we did not identify any issues or noncompliance with state law.



## Chapter II – Finding and Recommendation

### Internal Control Over Wire Deposits

**The Department of Revenue should improve internal control procedures to ensure timely recording of wires received in SABHRS.**

As the primary tax revenue collector for the state, the Department of Revenue (department) receives daily payments from various sources, including wires sent directly to the state's US Bank account. The Department of Administration (DOA) receives wire information from US Bank three times a day, uploads it to the state's accounting system, SABHRS, and matches each wire to the individual agency to which it belongs. At this point, the money is in the state's bank account but not recorded on any agency's accounting records in SABHRS. State accounting policy requires agencies to run specific SABHRS reports to identify their assigned wires and create the accounting journal lines. Additionally, agencies must complete the accounting entry and approve it for processing to fully record the deposit in SABHRS; thus making the funds available for expenditure.

Daily, department staff run the required SABHRS report for the current and prior business day and record the deposit for each wire included in the query. The timing of this process varies based on the current workload.

While state accounting policy clearly defines DOA and the department's roles in the deposit process, there is conflicting information in the policy on how quickly the deposit process needs to be completed. Portions of policy state the process needs to occur on the same day the wire enters US Bank, while other portions state it should occur within five calendar days, and still, others state it should occur within five business days. DOA staff are aware of the conflicts in the policy and the need to update it. Using the broadest day range included in the policy of five business days, we identified multiple untimely deposits, as illustrated in Table 2.

Table 2  
**Summary of Noncompliance**  
Fiscal Years 2021 and 2022

Business days between wire receipt and SABHRS recording	FY21		FY22	
	Number of Wires	Total Amount	Number of Wires	Total Amount
6-10 days	7	\$149,342	5	\$353,717
11-20 days			1	\$5,847,373
20+ days			2	\$285,182
<b>Total</b>	<b>7</b>	<b>\$149,342</b>	<b>8</b>	<b>\$6,486,272</b>

**Source:** Compiled by the Legislative Audit Division from SABHRS records.

Using the two more restrictive time frames indicated in the policy would increase the number of instances of noncompliance for the audit period.

Department staff attributed the delays in the deposits to not being notified by DOA staff of the wires available in SABHRS. If the wire does not show up on their daily report, they wait until DOA directly notifies them of the wire's existence. Once notified, they promptly complete the SABHRS entry.

We considered this information, along with the department's current processes. We do not believe the department's processes are set up to allow them to comply with state policy requirements. The department limits its SABHRS wire report to only the current and prior business day, which will not allow personnel to identify and complete the deposits for wires that are not immediately assigned to them by DOA. DOA personnel indicated there sometimes is not enough information in the wire to readily attribute it to a specific agency, and it can take time to identify the appropriate agency to which the deposit belongs. However, they do not believe this is what happened in all instances we identified. Additionally, the department's process leaves them vulnerable to timing delays between when the wire is received by US Bank and uploaded to SABHRS.

State policy requires the department to establish internal controls over the accuracy of financial data, including deposits, and to ensure compliance with applicable laws and regulations. The wires belong to the department, and it is the department's responsibility to record their activity in SABHRS under the time frames required by state policy. Additionally, DOA has given the department the tools in SABHRS to accomplish timely deposits without the separate notification.

Without timely identification of wires received on behalf of the department, there is a risk of revenues not being recorded on SABHRS to the department's credit in the proper fiscal year. One wire crossed the fiscal year-end period in fiscal year 2022, resulting in an approximately \$5.3 million understatement of revenues on the department's fiscal year 2022 financial schedules. While this misstatement did not impact our opinion, given the importance of tax revenue collections for the state and the number of instances identified during the audit, we consider this a significant deficiency in internal controls at the department. This has been reported in our report on internal controls on page B-1. Timely deposits could also save the department time and effort as staff will not need to spend time tracking down deposits taxpayers submitted but are not yet recorded in SABHRS.

---

#### **RECOMMENDATION #1**

*We recommend the Department of Revenue improve internal control procedures to ensure timely recording of received wires in SABHRS and to comply with 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:

### REPORT ON THE AUDIT OF FINANCIAL SCHEDULES

#### *Opinions*

We have audited the financial schedules of the Department of Revenue, which are comprised of the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out for each of the fiscal years ended June 30, 2022, and 2021, and the related notes to the financial schedules.

#### *Unmodified Opinions on Regulatory Basis of Accounting*

In our opinion, the accompanying financial schedules, present fairly, in all material respects, the results of operations and changes in fund equity for each of the fiscal years ended June 30, 2022, and 2021, in conformity with the basis of accounting described in Note 1.

#### *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" section of our report, 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, 2022, and June 30, 2021, or changes in financial position or cash flows for the years then ended.

#### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Schedules" section of our report. We are required to be independent of the department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 of the financial schedules, the financial schedules are prepared by Department of Revenue 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 and pervasive.

### *Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the department's ability to continue as a going concern for twelve months beyond the financial schedule date, including any currently known information that may raise substantial doubt shortly thereafter.

### *Auditor's Responsibility for the Audit of the Financial Schedules*

Our objectives are to obtain reasonable assurance about whether the financial schedules as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial schedules.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- ♦ Exercise professional judgment and maintain professional skepticism throughout the audit.
- ♦ Identify and assess the risks of material misstatement of the financial schedules, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial schedules.
- ♦ Obtain an understanding of internal control relevant to the audit 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. Accordingly, no such opinion is expressed.
- ♦ Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial schedules.



- ♦ Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

##### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2022, on our consideration of the department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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

November 18, 2022

DEPARTMENT OF REVENUE  
SCHEDULE OF CHANGES IN FUND EQUITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Custodial Fund	Private Purpose Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2021	\$ <u>(75,462,845)</u>	\$ <u>35,956,275</u>	\$ <u>0</u>	\$ <u>1,212,693</u>	\$ <u>2,868,635</u>	\$ <u>8,625,625</u>	\$ <u>119,039</u>	\$ <u>0</u>	\$ <u>1,430,102</u>	\$ <u>1,346,406,592</u>
ADDITIONS										
Budgeted Revenues & Transfers-In	3,328,652,636	417,346,428	609,346		21,539,967	183,047,367	203,061			78,570,088
Nonbudgeted Revenues & Transfers-In	32,143,599	26,183,819	177	2,974,092		(908,774)		1,049,125	5,785,229	(34,946,696)
Prior Year Revenues & Transfers-In Adjustments	(12,807,531)	7,020,488		50,344	1,116,074	1,996			(97)	326,598
Direct Entries to Fund Equity	<u>(3,098,940,295)</u>	<u>(307,786,420)</u>		<u>(2,935,963)</u>	<u>(19,577,299)</u>	<u>(1,337,479)</u>				<u>(1,138,848)</u>
Total Additions	<u>249,048,409</u>	<u>142,764,315</u>	<u>609,522</u>	<u>88,473</u>	<u>3,078,742</u>	<u>180,803,109</u>	<u>203,061</u>	<u>1,049,125</u>	<u>5,785,131</u>	<u>42,811,142</u>
REDUCTIONS										
Budgeted Expenditures & Transfers-Out	205,090,984	94,668,960	609,278			173,584,545	248,450			
Nonbudgeted Expenditures & Transfers-Out	6,682,922	29,875,892			93	7,143,977	20,035	1,049,125	5,768,780	63,662,536
Prior Year Expenditures & Transfers-Out Adjustments	<u>(231,377)</u>	<u>210,520</u>				<u>(2,881)</u>			<u>(53)</u>	
Total Reductions	<u>211,542,530</u>	<u>124,755,372</u>	<u>609,278</u>	<u>0</u>	<u>93</u>	<u>180,725,641</u>	<u>268,485</u>	<u>1,049,125</u>	<u>5,768,726</u>	<u>63,662,536</u>
FUND EQUITY: June 30, 2022	\$ <u><u>(37,956,966)</u></u>	\$ <u><u>53,965,218</u></u>	\$ <u><u>244</u></u>	\$ <u><u>1,301,166</u></u>	\$ <u><u>5,947,284</u></u>	\$ <u><u>8,703,092</u></u>	\$ <u><u>53,614</u></u>	\$ <u><u>0</u></u>	\$ <u><u>1,446,507</u></u>	\$ <u><u>1,325,555,197</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

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

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2020	\$ 46,272,762	\$ 29,014,080	\$ (24)	\$ 846,730	\$ 2,724,525	\$ 7,533,141	\$ 135,135	\$ 1,400,820	\$ 1,340,833,143
ADDITIONS									
Budgeted Revenues & Transfers-In	2,581,330,521	318,892,859	780,543		13,698,125	172,966,507	208,019		63,196,235
Nonbudgeted Revenues & Transfers-In	900,884	1,741,257	347	2,750,968		599,279		4,422,482	1,876,269
Prior Year Revenues & Transfers-In Adjustments	(12,410,479)	(5,575,731)	95,931	88,073	(870,871)	(5,295)	240	(261)	(2,222,099)
Direct Entries to Fund Equity	(2,489,519,079)	(253,005,585)		(2,473,078)	(12,683,054)	(1,471,000)			(292,186)
Total Additions	80,301,848	62,052,800	876,821	365,963	144,200	172,089,491	208,259	4,422,220	62,558,219
REDUCTIONS									
Budgeted Expenditures & Transfers-Out	202,107,794	56,827,143	780,866			171,719,583	236,372		
Nonbudgeted Expenditures & Transfers-Out	59,463	(726)			91	(686,640)	(14,216)	4,393,267	56,984,770
Prior Year Expenditures & Transfers-Out Adjustments	(129,802)	(1,715,812)	95,931			(35,936)	2,199	(329)	
Total Reductions	202,037,455	55,110,605	876,797	0	91	170,997,007	224,354	4,392,938	56,984,770
FUND EQUITY: June 30, 2021	\$ (75,462,845)	\$ 35,956,275	\$ 0	\$ 1,212,693	\$ 2,868,635	\$ 8,625,625	\$ 119,039	\$ 1,430,102	\$ 1,346,406,592

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 REVENUE  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Custodial Fund	Private Purpose Trust Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS											
Licenses and Permits	\$ 3,675,632	\$ 98,114,059				\$ 5,653,130					\$ 107,442,820
Taxes	3,219,567,756	277,064,111		\$ 3,024,436	\$ 22,656,041	40,029,751				\$ 34,546,583	3,596,888,678
Charges for Services	399,853	18,127,968				5,730	\$ 203,061				18,736,611
Investment Earnings	(112)								\$ 1,667	(21,383,037)	(21,381,481)
Fines and Forfeits		3,500				159,801					163,301
Sale of Documents, Merchandise and Property						136,198,993					136,198,993
Grants, Contracts, and Donations	10,969,187	647,434							5,783,464		17,400,085
Transfers-in	86,035,097	49,389,372	\$ 115,420							30,786,443	166,326,333
Inception of Lease/Installment Contract	6,652,043										6,652,043
Federal Indirect Cost Recoveries	75,477		177								75,654
Miscellaneous	(884,925)	38,059				93,184		\$ 1,049,125			295,443
Federal	21,498,696	7,166,232	493,926								29,158,854
Total Revenues & Transfers-In	3,347,988,704	450,550,735	609,522	3,024,436	22,656,041	182,140,588	203,061	1,049,125	5,785,131	43,949,990	4,057,957,333
Less: Nonbudgeted Revenues & Transfers-In	32,143,599	26,183,819	177	2,974,092		(908,774)		1,049,125	5,785,229	(34,946,696)	32,280,570
Prior Year Revenues & Transfers-In Adjustments	(12,807,531)	7,020,488		50,344	1,116,074	1,996			(97)	326,598	(4,292,129)
Actual Budgeted Revenues & Transfers-In	3,328,652,636	417,346,428	609,346	0	21,539,967	183,047,367	203,061	0	0	78,570,088	4,029,968,892

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

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS										
Licenses and Permits	\$ 3,298,162	\$ 82,548,388				\$ 4,282,349				\$ 90,128,899
Taxes	2,487,337,784	180,010,654		\$ 2,839,041	\$ 12,827,254	38,135,613			\$ 20,585,816	2,741,736,161
Charges for Services	2,992	17,629,981				3,430	\$ 208,259			17,844,661
Investment Earnings	(7,260)							\$ 2,000	21,838,951	21,833,691
Fines and Forfeits						306,002				306,002
Sale of Documents, Merchandise and Property						130,782,127				130,782,127
Grants, Contracts, and Donations	10,838,442	680,363						4,420,220		15,939,025
Transfers-in	59,800,336	30,710,616	\$ 376,545						20,425,638	111,313,135
Inception of Lease/Installment Contract	3,091									3,091
Federal Indirect Cost Recoveries	77,713		347							78,060
Miscellaneous	(1,965,485)					50,970				(1,914,514)
Federal	10,435,152	3,478,384	499,929							14,413,464
Total Revenues & Transfers-In	2,569,820,927	315,058,385	876,821	2,839,041	12,827,254	173,560,490	208,259	4,422,220	62,850,405	3,142,463,802
Less: Nonbudgeted Revenues & Transfers-In	900,884	1,741,257	347	2,750,968		599,279		4,422,482	1,876,269	12,291,486
Prior Year Revenues & Transfers-In Adjustments	(12,410,479)	(5,575,731)	95,931	88,073	(870,871)	(5,295)	240	(261)	(2,222,099)	(20,900,493)
Actual Budgeted Revenues & Transfers-In	2,581,330,521	318,892,859	780,543	0	13,698,125	172,966,507	208,019	0	63,196,235	3,151,072,810

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 REVENUE SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT FOR THE FISCAL YEAR ENDED JUNE 30, 2022								
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Alcoholic Beverage Control Division	Business & Income Taxes Division	Cannabis Control Division	Director's Office	Information Management & Collections	Property Assessment Division	Technology Services Division	Total
Personal Services								
Salaries	\$ 1,814,977	\$ 7,328,720	\$ 1,593,262	\$ 4,173,624	\$ 3,123,758	\$ 13,940,245	\$ 2,952,352	\$ 34,926,939
Hourly Wages		(3,338)	(75,147)	(970)	(66)			(79,522)
Employee Benefits	548,495	2,594,193	539,966	1,348,050	1,202,570	5,286,112	921,635	12,441,019
Personal Services-Other	(15,781)				4,435			(11,346)
Total	2,347,690	9,919,575	2,058,081	5,520,704	4,330,697	19,226,357	3,873,987	47,277,090
Operating Expenses								
Other Services	272,045	807,585	1,028,395	589,733	421,859	784,491	1,049,973	4,954,081
Supplies & Materials	138,173	167,418	147,709	355,367	161,989	832,127	328,717	2,131,501
Communications	43,153	190,058	60,782	99,559	751,761	488,820	61,172	1,695,307
Travel	53,012	71,524	30,002	11,933	5,460	160,999	10,814	343,744
Rent	39,234	295,000	145,234	168,740	48,800	992,372	98,427	1,787,806
Utilities	54,389				26,812	100,224		181,425
Repair & Maintenance	55,218	150,339	6,276	197,970	40,639	121,950	4,098,543	4,670,936
Other Expenses	(239,577)	204,367	1,054,816	263,233	111,541	208,975	17,591	1,620,946
Goods Purchased For Resale	115,690,747							115,690,747
Total	116,106,395	1,886,292	2,473,215	1,686,534	1,568,861	3,689,957	5,665,238	133,076,492
Equipment & Intangible Assets								
Equipment	18,561				20,874	29,891	5,270	74,595
Intangible Assets					1,382,289	5,269,754	3,079,723	9,731,766
Total	18,561				1,403,162	5,299,645	3,084,993	9,806,361
Capital Outlay								
Other Improvements		28,691		(9,459)	27,000			46,232
Total		28,691		(9,459)	27,000			46,232
Local Assistance								
From State Sources				235,827,778				235,827,778
Total				235,827,778				235,827,778
Benefits & Claims								
From Other Sources				5,767,225				5,767,225
Total				5,767,225				5,767,225
Transfers-out								
Fund transfers	61,963,683		29,822,624	63,664,038				155,450,345
Total	61,963,683		29,822,624	63,664,038				155,450,345
Debt Service								
Loans	6,318							6,318
Lease Liability					251,230	847,411		1,098,641
Total	6,318				251,230	847,411		1,104,959
Post Employment Benefits								
Other Post Employment Benefits	53,740				7,096			60,836
Employer Pension Expense	(53,651)				18,121			(35,530)
Total	89				25,217			25,306
Total Expenditures & Transfers-Out	\$ 180,442,737	\$ 11,834,557	\$ 34,353,919	\$ 312,456,820	\$ 7,606,167	\$ 29,063,369	\$ 12,624,217	\$ 588,381,787
EXPENDITURES & TRANSFERS-OUT BY FUND								
General Fund		\$ 10,529,995		\$ 155,594,936	\$ 7,239,765	\$ 29,048,561	\$ 9,129,273	\$ 211,542,530
State Special Revenue Fund	\$ 50,124	809,585	\$ 33,304,794	87,266,969	70,607	14,290	3,239,002	124,755,372
Federal Special Revenue Fund	94,999	494,873		8,201	10,686	519		609,278
Capital Projects Fund		93						93
Enterprise Fund	180,297,614	10		155,452	16,623		255,942	180,725,641
Internal Service Fund					268,485			268,485
Custodial Fund			1,049,125					1,049,125
Private Purpose Trust Fund				5,768,726				5,768,726
Permanent Fund				63,662,536				63,662,536
Total Expenditures & Transfers-Out	180,442,737	11,834,557	34,353,919	312,456,820	7,606,167	29,063,369	12,624,217	588,381,787
Less: Nonbudgeted Expenditures & Transfers-Out	7,194,091	61,615	30,796,601	69,424,160	1,398,338	5,251,887	76,668	114,203,360
Prior Year Expenditures & Transfers-Out Adjustments	(2,881)	(228)		200,105	75	(472)	(220,390)	(23,791)
Actual Budgeted Expenditures & Transfers-Out	173,251,527	11,773,170	3,557,318	242,832,555	6,207,753	23,811,954	12,767,939	474,202,217
Budget Authority	173,377,817	12,265,753	3,558,281	248,952,509	6,258,862	23,915,218	12,837,767	481,166,208
Unspent Budget Authority	\$ 126,290	\$ 492,583	\$ 962	\$ 6,119,954	\$ 51,109	\$ 103,264	\$ 69,828	\$ 6,963,990
UNSPENT BUDGET AUTHORITY BY FUND								
General Fund		\$ 41,764		\$ 2,216,401	\$ 26,495	\$ 100,278	\$ 69,828	\$ 2,454,767
State Special Revenue Fund		40,659	\$ 962	3,879,553		2,986		3,924,161
Federal Special Revenue Fund		410,159		24,000				434,159
Enterprise Fund	\$ 126,290							126,290
Internal Service Fund					24,613			24,613
Unspent Budget Authority	\$ 126,290	\$ 492,583	\$ 962	\$ 6,119,954	\$ 51,109	\$ 103,264	\$ 69,828	\$ 6,963,990

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

	Alcoholic Beverage Control Division	Business & Income Taxes Division	Director's Office	Information Management & Collections	Property Assessment Division	Technology Services Division	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT							
Personal Services							
Salaries	\$ 1,800,511	\$ 7,713,813	\$ 5,075,884	\$ 3,172,430	\$ 13,609,194	\$ 2,382,759	\$ 33,754,590
Hourly Wages	(61,820)	(132,794)	(23,209)	(76,753)	(3,053)	(464,105)	(761,734)
Employee Benefits	591,440	3,060,264	1,788,139	1,330,224	5,749,131	799,506	13,318,705
Personal Services-Other	97,132			1,146			98,278
Total	2,427,263	10,641,284	6,840,814	4,427,047	19,355,272	2,718,160	46,409,840
Operating Expenses							
Other Services	358,267	735,968	666,209	294,962	511,738	1,155,166	3,722,310
Supplies & Materials	116,609	95,258	155,603	59,981	412,434	995,949	1,835,835
Communications	40,918	183,697	121,243	906,462	456,589	55,355	1,764,264
Travel	46	7,579	9,268	1,535	22,715	1,667	42,810
Rent	34,731	282,225	211,474	418,480	2,153,970	97,856	3,198,737
Utilities	51,449						51,449
Repair & Maintenance	92,563	26,772	58,175	21,531	14,643	2,145,290	2,358,975
Other Expenses	(770,194)	172,222	64,099	73,102	52,889	26,066	(381,816)
Goods Purchased For Resale	111,049,453						111,049,453
Total	110,973,842	1,503,721	1,286,072	1,776,053	3,624,978	4,477,350	123,642,017
Equipment & Intangible Assets							
Equipment	18,096			26,749			44,845
Intangible Assets						2,514,496	2,514,496
Total	18,096			26,749		2,514,496	2,559,342
Capital Outlay							
Other Improvements			(28,251)	4,114	470		(23,667)
Total			(28,251)	4,114	470		(23,667)
Local Assistance							
From State Sources			198,558,042	649,778			199,207,820
Total			198,558,042	649,778			199,207,820
Benefits & Claims							
To Individuals	5,710,959						5,710,959
From Other Sources			4,392,938				4,392,938
Total	5,710,959		4,392,938				10,103,897
Transfers-out							
Fund transfers	51,395,938		56,984,770				108,380,708
Total	51,395,938		56,984,770				108,380,708
Debt Service							
Loans	7,051						7,051
Capital Leases	208	9,500	5,912	3,740	12,771		32,132
Total	7,259	9,500	5,912	3,740	12,771		39,183
Post Employment Benefits							
Other Post Employment Benefits	112,880			(19,042)			93,838
Employer Pension Expense	199,439			11,600			211,039
Total	312,319			(7,442)			304,878
Total Expenditures & Transfers-Out	\$ 170,845,677	\$ 12,154,505	\$ 268,040,297	\$ 6,880,039	\$ 22,993,492	\$ 9,710,007	\$ 490,624,017
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund		\$ 10,986,167	\$ 152,185,564	\$ 6,524,558	\$ 22,971,941	\$ 9,369,225	\$ 202,037,455
State Special Revenue Fund	\$ 5,544	667,498	54,285,945	53,487	14,276	83,855	55,110,605
Federal Special Revenue Fund	271,144	500,750	35,627	61,016	7,276	985	876,797
Capital Projects Fund		91					91
Enterprise Fund	170,568,990		155,452	16,623		255,942	170,997,007
Internal Service Fund				224,354			224,354
Private Purpose Trust Fund			4,392,938				4,392,938
Permanent Fund			56,984,770				56,984,770
Total Expenditures & Transfers-Out	170,845,677	12,154,505	268,040,297	6,880,039	22,993,492	9,710,007	490,624,017
Less: Nonbudgeted Expenditures & Transfers-Out	(681,096)	(82,602)	61,354,829	(82,849)	39	227,688	60,736,009
Prior Year Expenditures & Transfers-Out Adjustments	(31,608)	(29)	(1,731,941)	2,199	(2,411)	(19,959)	(1,783,749)
Actual Budgeted Expenditures & Transfers-Out	171,558,381	12,237,137	208,417,409	6,960,689	22,995,865	9,502,278	431,671,758
Budget Authority	171,768,549	13,016,805	221,073,710	8,327,574	23,004,250	9,504,423	446,695,310
Unspent Budget Authority	\$ 210,168	\$ 779,668	\$ 12,656,301	\$ 1,366,885	\$ 8,385	\$ 2,145	\$ 15,023,552
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund		\$ 108,976	\$ 543,944	\$ 1,352,222	\$ 8,385	\$ 2,145	\$ 2,015,672
State Special Revenue Fund		46,079	12,112,357				12,158,436
Federal Special Revenue Fund		624,613					624,613
Enterprise Fund	\$ 210,168						210,168
Internal Service Fund				14,663			14,663
Unspent Budget Authority	\$ 210,168	\$ 779,668	\$ 12,656,301	\$ 1,366,885	\$ 8,385	\$ 2,145	\$ 15,023,552

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 Revenue

## Notes to the Financial Schedules

### For the Two Fiscal Years Ended June 30, 2022

## 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, Capital Projects, Debt Service, and Permanent). In applying the modified accrual basis, the department records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, except for 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 (Private-Purpose Trust and 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 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. The department records various tax receipts in the General Fund. The primary expenditures in the General Fund include department payroll costs and distribution of the General Fund entitlement share payments to cities and counties.
- ♦ **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 various earmarked tax accounts.

- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds relate to the Federal Mineral Royalty Audit Program and the Coronavirus Aid, Relief, and Economic Security (CARES) Act. In fiscal year 2022, the department received a Homeland Security Grant for \$24,000.
- ♦ **Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt of principal and interest. The department deposits coal, metal mine, and resource indemnity taxes into this fund type.
- ♦ **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. Coal severance tax and cigarette tax revenues collected by the department in support of the state Long Range Building Program are accounted for in capital project funds. A portion of lodging facility sales tax revenues are deposited into the Montana Heritage Center capital projects fund.
- ♦ **Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs. The department uses this fund to account for its activity in the Permanent Coal Trust Fund; the Cultural Trust Fund; the Coal Severance Tax Income and Bond Funds; the Resource Indemnity Trust and Income Funds; the Treasure State Endowment, Income Regional Water System, and Regional Water Income Funds; the Big Sky Economic Development Funds; and the School Facilities Fund and Income Fund.

### 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. The department's Internal Service Fund accounts for other agency debt collection activity.
- ♦ **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. The department's Enterprise Fund accounts for the Alcohol Beverage Control Division's administration of the alcoholic beverage code.

### Fiduciary Fund Category

- ♦ **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. Department Private-Purpose Trust Funds are used to account for unclaimed property, escheated property, and unlocated mineral owner interests.
- ♦ **Custodial Fund** – to account for resources held by the state in a custodial capacity. Custodial funds are only permitted to hold assets and liabilities related to entities or individuals that are legally separate from the State of Montana's financial reporting entity. The department custodial funds are used as clearing accounts to facilitate the distribution

of receipts from the administration of the eStop licensing program, the county collection reports, dishonored checks, treasury deposit and bank corrections, and Automated Clearing House (ACH) collections and reversals. Additionally, in fiscal year 2022, the department established a custodial fund to facilitate the distribution of the cannabis local-option tax. This fund is used to track payments received from dispensaries and distributed back to counties for those counties that elected a cannabis local-option tax.

## **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 placed in the fund, resulting in negative ending General Fund equity balance for the fiscal years ended June 30, 2021, and June 30, 2022. While the department is the primary tax collector for the state, a portion of the fiscal year 2021 and fiscal year 2022 expenditures reflect statutory obligations of the department. Pursuant to MCA 15-1-121, the department is required to distribute entitlement share payments to local governments. These budgeted expenditures were \$144.5 million and \$148.8 million in fiscal year 2021 and fiscal year 2022, respectively.

## **3. Direct Entries to Fund Equity**

Direct entries to fund equity represent a combination of manual and automated SABHRS entries. Direct entries to fund equity reflect the flow of resources within individual funds shared by separate agencies. Closing entries performed by Department of Administration contribute to the negative fund balance.

Since Department of Administration is the agency responsible for the general fund, closing entries transfer the cash collected by Department of Revenue to Department of Administration. These closing entries were approximately (\$2.5 billion) and (\$3.1 billion) in fiscal years 2021 and 2022, respectively. The following descriptions represent manual entries to fund equity: In fiscal year 2021, two adjustments totaling \$489,425 were recorded by Board of Investments in a permanent trust fund. These adjustments were related to the recovery of loans related to a previous fiscal year. Due to implementation of GASB 87 in fiscal year 2022, a direct entry to fund equity for \$645 was recorded in the enterprise fund to reflect the retirement of a leased copier.

## **4. Nonbudgeted Expenditures and Transfers-out**

Nonbudgeted and Prior Year Expenditures and Transfers Out Adjustments in the permanent fund, on the Schedule of Changes in Fund Equity & Property Held in Trust, is approximately \$56.9 million in fiscal year 2021 and \$63.7 million in fiscal year 2022. These amounts are also reflected on the Schedule of Total Expenditures & Transfers-Out and are related to the coal tax transfers required by state law. These include transfers from the Coal Tax Bond Fund, distributions of investment earnings in the Treasure State Endowment Funds, Big Sky Economic Development Fund, Resource Indemnity Trust Fund, School Facilities Fund, and the coal tax trust funds.

In fiscal year 2022, the department recorded \$7.7 million of the \$18.5 million liquor profit transfer to the general fund using nonbudgeted transfer accounts. Liquor sales were more than originally estimated. With increased liquor sales, liquor purchases, liquor tax revenue, and liquor profits all increased from previously estimated. The department did not have enough budget authority to record all these transfers to the general fund in budgeted accounts.

Fiscal year 2022 schedules reflect \$30.8 million in nonbudgeted expenditures in the Cannabis Control Division. These nonbudgeted expenditures represent the transfer of cannabis revenue to various state special revenue funds and the general fund. Legislation passed in the 2021 Legislative Session did not give the department transfer budget authority. Included in the \$30.8 million of nonbudgeted expenditures is the cannabis local-option tax payable distribution to the counties and the local-option tax payable accrual.

## **5. Unspent Budget Authority**

The Schedule of Total Expenditures & Transfers-out for fiscal year 2021 and fiscal year 2022 report unspent budget authority under the Director's Office for \$12,112,357 and \$3,879,553, respectively, in the State Special Revenue Fund. The Alcoholic Beverage Control Division had unspent budget authority in the Enterprise Fund in fiscal years 2021 and 2022 of \$210,168 and \$126,290, respectively.

The fiscal year 2021 and 2022 unspent budget authority in the Director's Office was created due to fiscal year 2021 and 2022 revenues collected or accrued and distributed to local governments being less than estimated. Fiscal years 2021 and 2022 combined oil and natural gas production tax estimates were created based on higher natural gas prices and production than were realized. In addition, distributions of bentonite taxes to Carbon and Carter counties for fiscal year 2021 was less than estimated.

The Alcohol Beverage Control Division receives language appropriations for funds necessary to maintain adequate inventories; pay freight charges; and transfer profits, taxes, and liquor licensing revenues to the appropriate accounts. In fiscal years 2021 and 2022, the division's language appropriation was not to exceed \$154.5 million and \$170.0 million, respectively. Fiscal year 2021 also consisted of an \$8 million supplemental appropriation. This supplemental appropriation was used to purchase merchandise and transfer a portion of the profit to the general fund. The language appropriation for the transfer of licensing revenues also includes appropriation authority for both the Department of Revenue and the Department of Justice to administer liquor licensing. By law, the transfer of the licensing revenue is net of the appropriation authority for the Department of Revenue and the Department of Justice and deferred revenues.

## **6. Prior Year Revenues**

On the Schedule of Changes in Fund Equity & Property Held in Trust and the Schedule of Total Revenues & Transfers-In for fiscal year 2021, the department recorded transactions that total (\$5,575,731) and \$7,020,488 in fiscal year 2022 in the State Special Revenue Fund; (\$12,410,479) and (\$12,807,531) in the General Fund for fiscal years 2021 and 2022, respectively; and (\$870,871) and \$1,116,074 in the capital projects fund for fiscal years 2021 and 2022, respectively. Additionally, the

department recorded prior year revenues in the Permanent Fund for fiscal years 2021 and 2022 for (\$2,222,099) and \$326,598, respectively. These differences are explained below:

- ♦ **General Fund** – The majority of this activity includes the difference between reversing estimated revenues accrued in the prior year versus reclassifying current year actual revenue collections as prior year revenues plus the reversal of accounts receivable revenues accrued in the prior year at fiscal year-end.
- ♦ **State Special Revenue Fund** -The majority of this activity includes the difference between reversing estimated revenues accrued in the prior year versus reclassifying current year actual revenue collections as prior year revenues plus the reversal of accounts receivable revenues accrued in the prior year at fiscal year-end. As of the end of fiscal year 2022, Department of Revenue had access to deposit revenue in approximately 92 different state special revenue funds on behalf of various state agencies. Additionally, the department was the primary business unit on approximately 17 additional state special revenue funds. The state special revenue funds include, but are not limited to, revenue deposited for taxes related to cannabis, lodging, coal, and distributions to local governments.
- ♦ **Capital Projects Fund** – Fiscal year 2021 and 2022 activity represents the difference between the estimated fiscal year 2021 and 2022 revenue accruals for coal severance tax, cigarette tax, and accommodations tax and reclassifying current year actual revenue collections as prior year revenue.
- ♦ **Permanent Fund** – This activity represents the difference between reversing estimated coal severance tax revenues accrued in the prior year versus reclassifying current year actual coal severance tax revenue collections as prior year revenues.

## 7. Financial Schedules Rounding

The financial schedules for the two fiscal years ended June 30, 2022, do not foot or cross-foot due to rounding. However, the rounding issue is immaterial, and the department considers the schedules an accurate representation of the financial activity reported in SABHRS by the department.

## 8. Reorganizations

In fiscal year 2022, the department moved 6.5 full-time equivalent (FTE) from the Business and Income Taxes Division to the Property Assessment Division (PAD). These industrial appraiser positions were moved to PAD to group like-duties/functions together. The department also moved 9 FTE to the Technology Services Division from the Director's Office and Information Management and Collections Division in fiscal year 2022. This reorganization was also to group like-duties/functions together in the Technology Services Division.

## 9. New Division

In fiscal year 2022, the department created the Cannabis Control Division (CCD). The division's mission is to ensure the health and safety of all Montanans through fair administration, education, and enforcement of the Montana Marijuana Regulation and Taxation Act. There are 32 FTE in this division. These FTE consist of an administrator; deputy administrator; and licensing, inspection, and administrative teams. The department also has two additional CCD-funded FTE, one in the Director's Office Legal Services, and one in the Business and Income Taxes Division. Expenditures in CCD totaled \$34.3 million in fiscal year 2022.

## **10. General Fund Tax Revenue Increase**

General fund tax revenues increased 29% from fiscal year 2021 to fiscal year 2022. A portion of this increase was attributable to an increase in income tax and income tax audit collections. Strong economic conditions of the state contributed to this increase in tax collections. Nominal wage growth, income growth, and employment growth increased over the last two years. Strong employment and wage growth resulted in strong withholding collections. Also, these same factors resulted in strong business growth, which affected the increase in pass-through entity tax collections. Other states, including surrounding states, have reported similarly large increases in their collections too.

A portion of oil and gas revenues increased due to an increase in the price of oil from the third quarter of calendar year 2020 through the second quarter of calendar year 2022. With an increase in oil prices, production increased as operators looked to maximize the benefit of the higher prices.

Fiscal year 2022 also saw higher revenues in the general fund as collections for lodging sales tax and rental vehicle tax increased. These tax types are largely affected by the tourism industry. With COVID-19 restrictions being lifted, the department saw an increase in the demand for lodging and rental vehicles. With the increase in demand, the prices of the product/services also increased.

## **11. Ongoing Litigation**

The department is involved with ongoing litigation related to a bankruptcy case. Mr. Blixseth filed an adversary proceeding against the Department of Revenue in the US Bankruptcy Court, District of Nevada, on December 23, 2021. Mr. Blixseth seeks costs, attorney fees, and proximate and punitive damages against the Department in relation to the involuntary bankruptcy proceeding the Department, and two other states, filed against Mr. Blixseth in the US Bankruptcy Court, District of Nevada, Case No. 11- 15010. However, the Complaint that Mr. Blixseth filed does not assert a monetary amount that Mr. Blixseth seeks against the Department, but he has made various claims of damages in the media. Regardless, Mr. Blixseth's counsel allege that damages could be in excess of \$10,000,000.

On January 25, 2022, the department filed a Motion to Dismiss the adversary proceeding asserting Eleventh Amendment sovereign immunity. On July 27, 2022, the Bankruptcy Court granted the department's Motion to Dismiss as to the punitive damages. However, the Bankruptcy Court denied the Department's Motion as to costs, attorneys fees, and proximate damages. On August 10, 2022, the Department filed a Notice of Appeal to the 9th Circuit Bankruptcy Appellate Panel. After briefing from both parties, the Bankruptcy Appellate Panel denied the Department's appeal on October 13, 2022. On November 4, 2022, the Department appealed the Bankruptcy Appellate Panel's dismissal to the 9th Circuit Court of Appeals.

## **12. GASB 87**

Fiscal year 2022 schedules reflect the implementation of Governmental Accounting Standards Board (GASB) 87. GASB 87 revised the accounting methodology for governmental lease accounting. Implementation of GASB 87 was immaterial to the department's financial statements. With passage of GASB 87, the department had to shift a portion of expenditures that were previously recorded as operating expenditures to debt service expenditures. The department total of these debt service



expenditures (principal and interest) in fiscal year 2022 was \$1,098,641.16. Additionally, as required by GASB 87, an expenditure and other financing source revenue was reported in the period the lease liability was initially recognized. This \$6.7 million adjustment to record Capital Outlay Expenditures and Other Financing Source Revenue was recorded in nonbudgeted revenue and expenditure accounts in the general fund in fiscal year 2022. Since the \$6.7 million nonbudgeted revenue and expenditure entry net to \$0 in the ACTUALS ledger, this entry has no effect on fund balance in the ACTUALS ledger.

### **13. Additional Disclosures**

The fiscal year 2021 Schedule of Total Revenues and Transfers and the Schedule of Changes in Fund Equity reflects an entry for the income tax payable accrual. The total amount accrued was \$197,271,426.96. However, there was a computation error, and the total payable amount accrued should have been \$216,254,544.41. As a result of this computation error, income tax revenues were overstated by \$18,983,117.45. Department of Administration was notified, and an adjustment was made to the 2021 Annual Comprehensive Financial Report (ACFR). The incorrect accrued amount of \$197,271,426.96 was reversed in October 2021, and the correct payable amount of \$216,254,544.41 was moved to the prior year.

Fiscal year 2021 reflects a \$5.7 million court-ordered judgement of damages and interest paid out of the enterprise fund.

A \$5.8 million wire was received from a county in fiscal year 2022 but was not recorded as revenue until fiscal year 2023. The error was not discovered until fiscal year 2023. Department of Administration was notified, and an adjustment will be made to the fiscal year 2022 ACFR. Additionally, a correcting entry will be made in fiscal year 2023 to move the revenue back to fiscal year 2022.

Computer programming issues caused a \$562,000 county payment to be recorded as fiscal year 2023 revenue instead of fiscal year 2022 revenue. The Department of Administration was notified, and an adjustment will be recorded in the fiscal year 2022 ACFR. The department will make a correcting entry in fiscal year 2023 to move the revenue to the proper fiscal year.

In fiscal year 2022, an error was made when recording a withholding tax accrual. \$13,801,266.02 instead of \$6,722,000.39 was recorded in the Allowance for Uncollectible Accounts. \$6,722,000.39 instead of \$13,801,266.02 was recorded in the Unavailable Inflow of Resources. Upon seeing the error, the department immediately notified Department of Administration so an adjustment could be made in the state's financials prior to the publication of the ACFR. The department will reverse the incorrect amounts at the end of fiscal year 2023. Going forward, the department has put additional internal controls in place to mitigate the risk of this mistake happening in the future. For example, the department will have another person review the information input into various spreadsheets before it is input into the SABHRS financials system. Also, the department will edit existing spreadsheets to create additional controls that will catch these mistakes. The department also plans to implement another review process of all material journal entries recorded in SABHRS financials after the fiscal year-end time frame and before publication of the ACFR.





# **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 Revenue for each of the fiscal years ended June 30, 2022, and 2021, and the related notes to the financial schedules, and have issued our report thereon dated November 18, 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 a significant deficiency.

As described in Recommendation #1, the department's controls were not sufficient to properly identify or timely record wire transactions.

*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 Revenue's Response to Findings*

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

*Purpose of this Report*

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

November 18, 2022

DEPARTMENT OF REVENUE

DEPARTMENT RESPONSE





GOVERNOR GREG GIANFORTE  
DIRECTOR BRENDAN BEATTY

January 23, 2023

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

RECEIVED  
JAN 26 2023  
LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver:

Thank you for the opportunity to respond to the Financial Compliance Audit Report recently completed for the two fiscal years ended June 30, 2022. This audit report includes one recommendation with which the department concurs. Our response to the recommendation is as follows:

**Recommendation #1:**

*The Department of Revenue should improve internal control procedures to ensure timely recording of wires received in SABHRS.*

Concur: The Department acknowledges that during the audit time frame, the deposit of seven to eight wires took longer than five days to complete from the date the wire was initiated. Since this is a multi-participant process which includes the public, Department of Administration (DOA), and the Department of Revenue (DOR), our internal controls only address the portion of the process within our control.

We will take two steps to ensure we are recording wires timely:

1. Work with DOA to improve business processes, clarify policy related to wire processing, and make necessary SABHRS system and reporting changes to track the actual date the agency received the wire. We will reach out to DOA within the next 30 days. Implementation is dependent upon what both agencies deem necessary to change as well as availability of resources.
2. We will increase our internal controls by expanding data parameters in queries and check for wires multiple times per day (this process is already in effect).

The department appreciated the opportunity to discuss the Financial-Compliance Audit Report with your staff during the exit conference on January 6, 2023. I also want to thank your audit staff for their professional approach and their fairness in working through the issues as they were raised.

Sincerely,

A handwritten signature in black ink, appearing to be 'Brendan Beatty', written over the word 'Sincerely,'.

Brendan Beatty  
Director  
Montana Department of Revenue  
PO Box 5801  
Helena, MT 59604-5801  
406.444.1900