



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Department of
Environmental Quality*
*For the Two Fiscal Years Ended
June 30, 2008*

OCTOBER 2008

LEGISLATIVE AUDIT
DIVISION

08-16

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

October 2008

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Environmental Quality for the two fiscal years ended June 30, 2008. Our report contains two recommendations related to improving compliance with federal regulations and state law and accounting policy.

We thank the department director and staff for their assistance and cooperation during the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

Department of Environmental Quality

Richard Opper, Director
 Tom Livers, Deputy Director
 Dean Rude, Chief Financial Officer
 John Arrigo, Enforcement Division Administrator
 Judy Hanson, Permitting and Compliance Division Administrator
 Art Compton, Planning, Prevention and Assistance Division Administrator
 Sandi Olsen, Remediation Division Administrator

Board of Environmental Review

		<u>Term Expires</u>
Joe Russell, Chairman	Kalispell	January 1, 2011
Heidi Kaiser	Park City	January 1, 2011
Don Marble	Chester	January 1, 2009
Larry Mires	Glasgow	January 1, 2011
Bill Rossbach	Missoula	January 1, 2009
Robin Shropshire	Helena	January 1, 2009
Gayle Skunkcap	Browning	January 1, 2009

Petroleum Tank Release Compensation Board

Greg Cross, Presiding Officer	Billings	June 30, 2010
Theresa Blazicevich	Stevensville	June 30, 2008*
Karl Hertel	Moore	June 30, 2010
A.J. King	Kalispell	June 30, 2008*
Adele Michels	Plentywood	June 30, 2009
Steve Michels	Raynesford	June 30, 2009
Roger Noble	Kalispell	June 30, 2010

*These individuals will continue to fulfill the duties of the office until a successor is named.

For additional information concerning the Department of Environmental Quality, contact:

Lisa Peterson, Public Affairs Coordinator
 Department of Environmental Quality
 PO Box 200901
 Helena MT 59620-0901
 e-mail: lpeterson@mt.gov

REPORT SUMMARY

Department of Environmental Quality

We performed a financial-compliance audit of the Department of Environmental Quality (department) for the two fiscal years ended June 30, 2008. We issued an unqualified opinion on the financial schedules contained in this report. The reader may rely on the financial information presented in the financial schedules and the supporting data on the state's accounting system.

This report contains two recommendations where the department could improve compliance with the federal regulations and state law and accounting policy. The previous audit report contained two recommendations. The department implemented one recommendation and partially implemented one recommendation.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the department, in conjunction with the Department of Natural Resources and Conservation:

- A. Establish and document control procedures appropriate to prevent, or detect and correct on a timely basis, material misstatements occurring on the accounting records and in preparation of the Drinking Water and Water Pollution Control State Revolving Fund Loan Programs' financial statements.
- B. Establish and document control procedures appropriate to ensure compliance with federal suspension and debarment requirements.7

Department Response: Concur..... B-4

Recommendation #2

We recommend the department, in conjunction with the Department of Natural Resources and Conservation, establish procedures to ensure financial transactions in shared accounts are recorded in accordance with state law and accounting policy.....9

Department Response: Concur..... B-4

Chapter I – Introduction and Background

Introduction

We performed a financial-compliance audit of the Department of Environmental Quality (department) for the two fiscal years ended June 30, 2008. The objectives of the audit were to:

1. Determine the department's compliance with selected state and federal laws and regulations.
2. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.
3. Determine the implementation status of prior audit recommendations.
4. Determine whether the department's financial schedules present fairly the results of operations and changes in fund balances for the two fiscal years ended June 30, 2008.

This report contains two recommendations to the department. In accordance with section 5-13-307, MCA, we analyzed and disclosed, if significant, the costs of implementing the recommendations made in this report. Other areas of concern deemed not to have a significant effect on the successful operations of the department are not specifically included in the report, but have been discussed with management.

As required by section 17-8-101(6), MCA, we audited and are reporting on the reasonableness of Internal Service Fund type fees and fund equity balances at the department. The statute requires fees and charges for services, which are deposited into Internal Service Funds, be based upon commensurate costs. The department has one Internal Service Fund, which funds the Central Management Program and is administered by the Office of Financial Services. We reviewed the Internal Service Fund activity and determined the rates are commensurate with costs and fund equity balances are reasonable for the operations of the fund.

Background

The 1995 Legislature created the department as part of a reorganization of the environmental and natural resources functions of state government. The department is organized along the functional lines of planning, permitting, enforcement, and remediation. Total full-time equivalent employees (FTE) for the department were 431.79 as of April 2008.

The **Planning, Prevention and Assistance Program** (83.50 FTE) develops air, water, waste management, and energy plans to protect Montana's resources. The program monitors environmental conditions, maintains data on the condition of Montana's environment, and encourages businesses and government units to adopt sound environmental practices.

The **Permitting and Compliance Program** (199.03 FTE) administers the permitting and compliance activities related to various federal and state statutes, including air quality, water quality, solid waste, hazardous waste, junk vehicle, mining, mine reclamation, public water supply, and sanitation in subdivision laws. The program reviews and assesses all environmental permit applications, prepares appropriate environmental impact documents, and inspects facilities to determine compliance with permit terms and the underlying laws and regulations. The division is also responsible for financial assurance activities relative to some of the permitting programs.

The **Enforcement Program** (15 FTE) implements and tracks the department's formal enforcement activities, investigates and validates citizen complaints, and ensures that spills are cleaned up. Environmental statutes administered by the department authorize administrative or judicial enforcement actions that may seek corrective actions and penalties for violations of permit requirements or standards. Enforcement actions are initiated against a wide range of regulated entities including public water suppliers, wastewater dischargers, air emissions sources, underground storage tank owners and operators, solid waste or hazardous waste management facilities, subdivisions, junk vehicle owners, asbestos abatement contractors, gravel pits, precious metal mines, and coal mines.

The **Remediation Program** (62.76 FTE) is responsible for overseeing investigation and cleanup activities at state and federal Superfund sites; reclaiming abandoned mine lands; regulating, permitting, and licensing underground storage tanks; implementing corrective actions at sites with leaking underground storage tanks; overseeing groundwater remediation at sites where agricultural and industrial chemical spills have caused groundwater contamination.

The **Central Management Program** (65.50 FTE) consists of the director's office, a financial services office, and an information technology office. The director's office includes the director's staff, the deputy director, an administrative officer, a public information officer, a centralized legal services unit, and a centralized personnel office. The financial services office provides budgeting, accounting, payroll, internal auditing, procurement and contract management support to other divisions. The information technology office provides information technology services support to other divisions.

The **Petroleum Tank Release Compensation Board** (6 FTE) oversees the Petroleum Tank Release Cleanup Fund, which reimburses eligible owners for the costs of petroleum release cleanup.

Prior Audit Recommendations

The prior financial-compliance audit report of the Department of Environmental Quality for the two fiscal years ended June 30, 2006, contained two recommendations. The department implemented one recommendation and partially implemented one recommendation. The partially implemented recommendation involves noncompliance with federal suspension and debarment requirements for the Drinking Water and Water Pollution Control State Revolving Fund programs. This issue is addressed on page 6 of this report.

Chapter II – Findings and Recommendations

Jointly Administered Programs

The Department of Environmental Quality can improve its compliance with federal regulations and state accounting policy governing programs jointly administered with the Department of Natural Resources and Conservation.

The Department of Environmental Quality (department) jointly administers the Drinking Water (DWSRF) and Water Pollution Control (WPCSRF) State Revolving Fund Loan programs, as well as the Reclamation and Development Grants program, with the Department of Natural Resources and Conservation (DNRC). Each of these programs was initially established in 1987. Since then, the department and DNRC have experienced agency reorganization and turnover in key positions. During our audit, we identified instances where the purpose behind certain financial transactions and the division of duties between the two agencies is not clearly understood or documented. The following paragraphs summarize areas where the department can improve compliance with state and federal laws and regulations, especially as it relates to the division of duties between the two departments.

State Revolving Fund Programs Internal Control Over Compliance

The department is the recipient of federal funds for the DWSRF and WPCSRF programs. The programs are designed to provide a permanent source of financing for wastewater treatment, nonpoint source pollution control, and public water system projects. Both programs provide at or below market interest rate loans to eligible Montana entities, including local governments, municipalities, and water and sewer districts. These programs are funded with capitalization grants from the U.S. Environmental Protection Agency (EPA) and are matched with the proceeds of state general obligation bonds. After loans are made, the borrower repayments provide cash to fund loans for future projects. Combined, these programs provided \$12,091,879 and \$10,957,918 million in federal funds during fiscal years 2006-07 and 2007-08, respectively, to loan recipients. Total loans outstanding were \$202,676,191 at June 30, 2007 and \$219,344,809 at June 30, 2008.

Program Financial Statements

As a condition of receiving DWSRF and WPCSRF federal assistance, the department is annually required to provide audited program financial statements to the EPA. Federal regulation 40 CFR 31.20(a)(1), requires the department to establish fiscal control and accounting procedures sufficient to permit preparation of those financial statements. The department contracts with DNRC for certain program related services, including preparation of annual financial statements.

In March 2008, we issued a separate report on the program financial statements (08-29) for the fiscal year ending June 30, 2007. That report disclosed material weaknesses in internal control over financial reporting. A material weakness adversely affects management's ability to fairly present its financial statements. We noted WPCSRF fund balances were not properly recorded on DNRC's portion of the primary accounting records or properly reported in the financial statements. We also identified numerous material financial statement compilation and classification errors, requiring adjustment to the financial statements and related disclosures. The existence of errors of this nature is indicative of an inadequate control system. These errors do not affect the financial schedules contained in this report.

The program financial statements have been prepared by DNRC personnel for several years with no oversight from the department. In January 2007, DNRC experienced turnover in the position responsible for preparing the financial statements. Detailed internal control documentation specific to the financial statement preparation process was not available at the time of our audit. We believe these factors contributed to the errors we identified. The department should work with DNRC to establish and document controls appropriate to prevent, or detect and correct on a timely basis, material misstatements occurring on the accounting records and in preparation of the program financial statements, as required by federal regulation. The availability of well-prepared internal control documentation can reduce or eliminate errors that can result from employee turnover.

Suspended and Debarred Parties

Federal regulations, 2 CFR 180.300 and 2 CFR 1532.220, prohibit the department from contracting with parties that are suspended or debarred from participating in federal programs. Office of Management and Budget (OMB) Circular A-133, Subpart C, paragraph .300(b), also requires the department to maintain internal control over these programs, providing reasonable assurance that the programs are managed in compliance with applicable federal regulations. In the prior audit, we reported that the department did not determine if loan recipients were suspended or debarred before disbursement of loan funds. Department personnel developed new checklists to ensure compliance with these federal regulations for fiscal year 2007-08.

During this audit, we determined the department did not consistently use the new checklists. We reviewed nine projects receiving an initial disbursement of loan funds in fiscal year 2007-08. Department personnel were unable to provide documentation that they used the checklist for six of the projects or evaluated the suspended or debarred status of five of the loan recipients. As a result, the department has not complied with federal regulations. We verified the five loan recipients were not suspended or debarred.

Department personnel noted old checklists were still being used in some situations. In addition, department personnel believed DNRC personnel were responsible for reviewing the suspended or debarred status of the loan recipients. We believe the consistent use of the new checklist by DEQ personnel is an efficient method for ensuring compliance.

RECOMMENDATION #1

We recommend the department, in conjunction with the Department of Natural Resources and Conservation:

- A. *Establish and document control procedures appropriate to prevent, or detect and correct on a timely basis, material misstatements occurring on the accounting records and in preparation of the Drinking Water and Water Pollution Control State Revolving Fund Loan Programs' financial statements.*
 - B. *Establish and document control procedures appropriate to ensure compliance with federal suspension and debarment requirements.*
-

Shared Accounts

During the audit, we identified instances where the department can improve compliance with state accounting policy applicable to the accounts it shares with DNRC. State accounting policy, Montana Operations Manual (MOM) 2-0820.00, allows the department to share accounts with other agencies. This arrangement allows multiple agencies to conduct business from a given account at the same time. Each shared account has a designated administering agency; the other agencies using the account are subagencies. Section 17-1-102(4), MCA, requires the department to process transactions on the accounting records in accordance with generally accepted accounting principles (GAAP). State accounting policy places responsibility on both the administering agency and the subagencies to ensure financial transactions are properly reflected in each agency's portion of the shared account.

Administering Business Unit

Currently, the department is the subagency and DNRC is the administering agency for three state special revenue fund accounts used to account for DWSRF and WPCSRF administrative costs. During the audit, we reviewed the department's three most recent contracts with DNRC for services provided under these programs. The contracts indicate the opposite relationship should exist; DNRC should be the subagency to the department's DWSRF and WPCSRF accounts, including administrative accounts. GAAP indicates the accounting system must be adapted to satisfy finance-related legal requirements, such as those outlined in the contract. Department personnel stated that because the three accounts

contain the state share, rather than the federal share, of repaid loans, it may be appropriate for DNRC to be the administering agency. If the contracts are correct, the department's fund balances in these accounts may be misstated. The department should reevaluate the administering agency assignment and determine which agency should be designated the administering agency for these shared accounts.

Cash With Fiscal Agent

DWSRF and WPCSRF program resources are held by a third party trustee, including resources spent by both the department and DNRC in administering the programs. Cash balances held by the trustee are recorded as Cash with Fiscal Agent. At June 30, 2007, the department had negative Cash with Fiscal Agent balances in three shared state special revenue fund accounts. State accounting policy, MOM 2-8125.41, requires negative Cash with Fiscal Agent amounts be corrected by fiscal year-end. Department personnel believed the negative balances were acceptable because they were offset by positive balances at DNRC. Personnel with the Department of Administration's State Accounting Division noted the policy is applied to the combined balance in the shared fund, but acknowledged the need to correct the negative balances. We believe the negative balances inaccurately infer that no cash is available to pay DEQ's administrative costs.

We believe the negative balances were a result of incomplete transaction processing in fiscal years 2005-06 and 2006-07. Prior to fiscal year 2005-06, DNRC personnel initiated a transaction to correct these negative balances at fiscal year-end. In fiscal years 2005-06 and 2006-07, no such transaction was initiated by DNRC. As a result, Cash with Fiscal Agent and Fund Balance in the State Special Revenue Fund are both understated by \$227,519 at July 1, 2006, and \$771,369 at June 30, 2007. After we notified them of the error, department personnel processed a correcting entry on the primary accounting system for fiscal year 2007-08. The department should establish and document procedures for ensuring Cash with Fiscal Agent transactions are complete.

Reclamation and Development Grants

The DNRC administers the state Reclamation and Development Grants program. The program provides funding to reclaim and mitigate environmental damage to public resources from nonrenewable resource extraction. Chapter 363, Laws of 2007, appropriated \$4,496,500 to DNRC for approved grants and projects. Of that amount, \$1,332,000 was designated for five of the department's mine reclamation and mitigation projects. Program activity is recorded in a shared account; DNRC is the administering agency and the department is a subagency.

The department recorded Grants, Contracts, Donations & Abandonments revenue of \$1,203,867 and \$537,817 related to these reclamation and mitigation projects in fiscal

years 2006-07 and 2007-08, respectively. DNRC recorded corresponding Grants from State Sources expenditures. These entries are not necessary in a shared account. In the department's State Special Revenue Fund, Grants, Contracts, Donations & Abandonments revenue is overstated by \$1,203,867 and \$537,817 and Direct Entries to Fund Balance are understated by \$903,867 and \$469,425 for the fiscal years ended June 30, 2007 and June 30, 2008, respectively. Fund Balance is overstated by \$300,000 at June 30, 2007 and \$68,392 at June 30, 2008.

Department personnel stated the activity was recorded in this manner for budgetary purposes. Personnel with the Department of Administration's State Accounting Division indicated no entry should be made to award a grant when both agencies spend from the same account. We believe the department should reevaluate the transactions processed in shared accounts to provide for compliance with state accounting policy.

RECOMMENDATION #2

We recommend the department, in conjunction with the Department of Natural Resources and Conservation, establish procedures to ensure financial transactions in shared accounts are recorded in accordance with state law and accounting policy.

Independent Auditor's Report and Department Financial Schedules

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Environmental Quality for each of the fiscal years ended June 30, 2008 and 2007. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Environmental Quality for each of the fiscal years ended June 30, 2008 and 2007, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

September 5, 2008

DEPARTMENT OF ENVIRONMENTAL QUALITY
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund
FUND BALANCE: July 1, 2007	\$ (1,101,866)	\$ 153,226,158	\$ (4,934,773)	\$ 558,379	\$ 868,294	\$ 6,151,147	\$ 2,526,935
ADDITIONS							
Budgeted Revenues & Transfers-In	12,932	20,007,262	26,416,666		5,298,442		
Nonbudgeted Revenues & Transfers-In	315,352	12,215,037	10,950,017	1,257,876	18,770	1,476,737	1,725,285
Prior Year Revenues & Transfers-In Adjustments		148,063	149,603	(3,800)	(1,405)		
Direct Entries to Fund Balance	4,999,188	14,222,509	817,474	293,406	(39,080)		
Total Additions	<u>5,327,472</u>	<u>46,592,871</u>	<u>38,333,760</u>	<u>1,547,482</u>	<u>5,276,727</u>	<u>1,476,737</u>	<u>1,725,285</u>
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	6,501,876	27,795,227	25,832,191		5,609,650		
Nonbudgeted Expenditures & Transfers-Out	250	11,673,712	12,226,942	1,508,220	291,422	596,147	
Prior Year Expenditures & Transfers-Out Adjustments	14,185	89,995	(66,070)		(117,883)		
Total Reductions	<u>6,516,311</u>	<u>39,558,934</u>	<u>37,993,063</u>	<u>1,508,220</u>	<u>5,783,189</u>	<u>596,147</u>	<u>0</u>
FUND BALANCE: June 30, 2008	\$ (2,290,705)	\$ 160,260,095	\$ (4,594,076)	\$ 597,641	\$ 361,832	\$ 7,031,737	\$ 4,252,220

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 ENVIRONMENTAL QUALITY
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund
FUND BALANCE: July 1, 2006	\$ <u>(1,370,552)</u>	\$ <u>157,096,061</u>	\$ <u>(5,701,458)</u>	\$ <u>344,601</u>	\$ <u>943,374</u>	\$ <u>4,272,225</u>	\$ <u>1,221,573</u>
ADDITIONS							
Budgeted Revenues & Transfers-In	1,050	19,730,471	20,895,379		4,481,287		
Nonbudgeted Revenues & Transfers-In	297,685	8,240,950	12,121,128	1,167,255	3,587	2,691,374	1,305,362
Prior Year Revenues & Transfers-In Adjustments	194	1,510,240	38,804		(126,882)		
Direct Entries to Fund Balance	4,209,133	10,447,934	(70,761)	290,462	(30,532)		
Total Additions	<u>4,508,062</u>	<u>39,929,595</u>	<u>32,984,550</u>	<u>1,457,717</u>	<u>4,327,460</u>	<u>2,691,374</u>	<u>1,305,362</u>
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	4,248,265	32,885,286	20,210,738		4,548,434		
Nonbudgeted Expenditures & Transfers-Out	(1,099)	11,423,089	12,160,518	1,209,233	(121,991)	812,452	
Prior Year Expenditures & Transfers-Out Adjustments	(7,790)	(508,877)	(153,391)	34,706	(23,903)		
Total Reductions	<u>4,239,376</u>	<u>43,799,498</u>	<u>32,217,865</u>	<u>1,243,939</u>	<u>4,402,540</u>	<u>812,452</u>	<u>0</u>
FUND BALANCE: June 30, 2007	\$ <u>(1,101,866)</u>	\$ <u>153,226,158</u>	\$ <u>(4,934,773)</u>	\$ <u>558,379</u>	\$ <u>868,294</u>	\$ <u>6,151,147</u>	\$ <u>2,526,935</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 ENVIRONMENTAL QUALITY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS								
Licenses and Permits	\$ 7,140	\$ 10,147,363						\$ 10,154,503
Taxes	782	2,132	\$ 1,963		\$ 123			5,000
Charges for Services		4,270,611		\$ 957,655	3,273,141			8,501,407
Investment Earnings		10,138,676		85,917		\$ 32,268	\$ 525,285	10,782,146
Fines, Forfeits and Settlements	316,329	1,680,791						1,997,120
Sale of Documents, Merchandise and Property		3,000	700					3,700
Rentals, Leases and Royalties		500	4,500					5,000
Contributions and Premiums					9,017			9,017
Miscellaneous	533	16,996			18,647			36,176
Grants, Contracts, Donations and Abandonments		1,698,274	46,390			1,444,469		3,189,133
Other Financing Sources	3,500	4,412,019		210,504			1,200,000	5,826,023
Federal			37,462,733					37,462,733
Federal Indirect Cost Recoveries					2,014,879			2,014,879
Total Revenues & Transfers-In	<u>328,284</u>	<u>32,370,362</u>	<u>37,516,286</u>	<u>1,254,076</u>	<u>5,315,807</u>	<u>1,476,737</u>	<u>1,725,285</u>	<u>79,986,837</u>
Less: Nonbudgeted Revenues & Transfers-In	315,352	12,215,037	10,950,017	1,257,876	18,770	1,476,737	1,725,285	27,959,074
Prior Year Revenues & Transfers-In Adjustments		148,063	149,603	(3,800)	(1,405)			292,461
Actual Budgeted Revenues & Transfers-In	<u>12,932</u>	<u>20,007,262</u>	<u>26,416,666</u>	<u>0</u>	<u>5,298,442</u>	<u>0</u>	<u>0</u>	<u>51,735,302</u>
Estimated Revenues & Transfers-In	309,099	25,230,841	30,180,895		5,546,743			61,267,578
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (296,167)</u>	<u>\$ (5,223,579)</u>	<u>\$ (3,764,229)</u>	<u>\$ 0</u>	<u>\$ (248,301)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (9,532,276)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS								
Licenses and Permits	\$ (3,358)	\$ (1,257,651)						\$ (1,261,009)
Taxes	(809)							(809)
Charges for Services	(50,792)	(2,014,066)	\$ (100,000)		\$ 131,200			(2,033,658)
Investment Earnings		(253,550)						(253,550)
Fines, Forfeits and Settlements	(241,208)	(178,995)						(420,203)
Sale of Documents, Merchandise and Property		(70)						(70)
Contributions and Premiums					(2,983)			(2,983)
Miscellaneous		(6,999)						(6,999)
Grants, Contracts, Donations and Abandonments		(87,326)	(16,210)					(103,536)
Other Financing Sources		(1,398,922)						(1,398,922)
Federal		(26,000)	(3,648,019)					(3,674,019)
Federal Indirect Cost Recoveries					(376,518)			(376,518)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (296,167)</u>	<u>\$ (5,223,578)</u>	<u>\$ (3,764,229)</u>	<u>\$ 0</u>	<u>\$ (248,301)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (9,532,276)</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 ENVIRONMENTAL QUALITY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS								
Licenses and Permits	\$ 1,050	\$ 10,591,507						\$ 10,592,557
Taxes	671	1,923	\$ 1,871		\$ 124			4,589
Charges for Services		3,790,579		\$ 751,000	2,738,379			7,279,958
Investment Earnings		8,873,838	2,056	200,187		\$ 40,882	\$ 105,362	9,222,325
Fines, Forfeits and Settlements	295,926	1,426,017						1,721,943
Sale of Documents, Merchandise and Property		2,100	6,250					8,350
Contributions and Premiums					(97,410)			(97,410)
Miscellaneous	1,282	16,928	39		3,462			21,711
Grants, Contracts, Donations and Abandonments		2,765,742	53,980			2,650,492		5,470,214
Other Financing Sources		2,013,027		216,068			1,200,000	3,429,095
Federal			32,991,115					32,991,115
Federal Indirect Cost Recoveries					1,713,437			1,713,437
Total Revenues & Transfers-In	298,929	29,481,661	33,055,311	1,167,255	4,357,992	2,691,374	1,305,362	72,357,884
Less: Nonbudgeted Revenues & Transfers-In	297,685	8,240,950	12,121,128	1,167,255	3,587	2,691,374	1,305,362	25,827,341
Prior Year Revenues & Transfers-In Adjustments	194	1,510,240	38,804		(126,882)			1,422,356
Actual Budgeted Revenues & Transfers-In	1,050	19,730,471	20,895,379	0	4,481,287	0	0	45,108,187
Estimated Revenues & Transfers-In	5,694	20,585,941	21,172,009		4,432,120			46,195,764
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (4,644)	\$ (855,470)	\$ (276,630)	\$ 0	\$ 49,167	\$ 0	\$ 0	\$ (1,087,577)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS								
Licenses and Permits	\$ (4,020)	\$ (244,707)						\$ (248,727)
Taxes	(624)							(624)
Charges for Services		(723,379)			\$ 48,787			(674,592)
Investment Earnings		138,230	\$ (844)					137,386
Fines, Forfeits and Settlements		(1,513)						(1,513)
Sale of Documents, Merchandise and Property		(70)						(70)
Contributions and Premiums					446			446
Grants, Contracts, Donations and Abandonments		(23,809)	(440)					(24,249)
Other Financing Sources		(222)						(222)
Federal			(275,346)					(275,346)
Federal Indirect Cost Recoveries					(66)			(66)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (4,644)	\$ (855,470)	\$ (276,630)	\$ 0	\$ 49,167	\$ 0	\$ 0	\$ (1,087,577)

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 ENVIRONMENTAL QUALITY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	CENTRAL MANAGEMENT PROGRAM	ENFORCEMENT DIVISION	PERMITTING & COMPLIANCE DIVISION	PETRO TANK RELEASE COMPENSATION BOARD	PLANNING, PREVENTION & ASSISTANCE DIVISION	REMEDIATION DIVISION	TOTAL
Personal Services							
Salaries	\$ 3,156,107	\$ 668,643	\$ 8,506,666	\$ 248,446	\$ 3,851,557	\$ 2,961,258	\$ 19,392,677
Hourly Wages	119						119
Employee Benefits	910,563	204,677	2,546,681	80,089	1,116,801	864,591	5,723,402
Personal Services-Other	51,903						51,903
Total	<u>4,118,692</u>	<u>873,320</u>	<u>11,053,347</u>	<u>328,535</u>	<u>4,968,358</u>	<u>3,825,849</u>	<u>25,168,101</u>
Operating Expenses							
Other Services	2,487,828	42,986	4,137,150	145,946	3,440,570	15,538,708	25,793,188
Supplies & Materials	281,202	22,225	458,613	9,834	139,977	166,054	1,077,905
Communications	51,194	14,023	249,093	4,486	81,887	77,033	477,716
Travel	62,000	9,265	309,039	12,280	224,992	118,025	735,601
Rent	1,205,079	13,574	136,612	3	47,360	59,868	1,462,496
Utilities	3,518		3,369		1,086	5,838	13,811
Repair & Maintenance	128,999	1,913	34,276	568	7,106	109,585	282,447
Other Expenses	958,398	232,764	2,752,103	78,656	1,369,496	1,090,422	6,481,839
Total	<u>5,178,218</u>	<u>336,750</u>	<u>8,080,255</u>	<u>251,773</u>	<u>5,312,474</u>	<u>17,165,533</u>	<u>36,325,003</u>
Equipment & Intangible Assets							
Equipment		96,675	215,641		9,970		322,286
Total		<u>96,675</u>	<u>215,641</u>		<u>9,970</u>		<u>322,286</u>
Capital Outlay							
Land & Interest In Land						490,338	490,338
Total						<u>490,338</u>	<u>490,338</u>
Grants							
From State Sources			1,846,066				1,846,066
From Federal Sources			24,350			4,396,814	4,421,164
Total			<u>1,870,416</u>			<u>4,396,814</u>	<u>6,267,230</u>
Benefits & Claims							
From State Sources				5,618,087			5,618,087
Other Postemployment Benefit Expenses	163,959						163,959
Total	<u>163,959</u>			<u>5,618,087</u>			<u>5,782,046</u>
From Other Sources							
Distribution from Private Purpose Trusts			596,147				596,147
Total			<u>596,147</u>				<u>596,147</u>
Transfers							
Accounting Entity Transfers			180,600		10,986,122	4,294,974	15,461,696
Total			<u>180,600</u>		<u>10,986,122</u>	<u>4,294,974</u>	<u>15,461,696</u>
Debt Service							
Bonds			179,600		1,057,305	265,194	1,502,099
Loans				40,918			40,918
Total			<u>179,600</u>	<u>40,918</u>	<u>1,057,305</u>	<u>265,194</u>	<u>1,543,017</u>
Total Expenditures & Transfers-Out	<u>\$ 9,460,869</u>	<u>\$ 1,306,745</u>	<u>\$ 22,176,006</u>	<u>\$ 6,239,313</u>	<u>\$ 22,334,229</u>	<u>\$ 30,438,702</u>	<u>\$ 91,955,864</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 1,383,893	\$ 520,869	\$ 1,057,132		\$ 2,908,893	\$ 645,524	\$ 6,516,311
State Special Revenue Fund	1,676,961	472,509	14,373,956	6,239,313	1,409,569	15,386,626	39,558,934
Federal Special Revenue Fund	620,292	313,367	5,964,705		16,954,341	14,140,358	37,993,063
Debt Service Fund			180,600		1,061,426	266,194	1,508,220
Internal Service Fund	5,779,723		3,466				5,783,189
Private Purpose Trust Fund			596,147				596,147
Total Expenditures & Transfers-Out	<u>9,460,869</u>	<u>1,306,745</u>	<u>22,176,006</u>	<u>6,239,313</u>	<u>22,334,229</u>	<u>30,438,702</u>	<u>91,955,864</u>
Less: Nonbudgeted Expenditures & Transfers-Out	287,956	123,675	1,222,020	11,780	12,133,065	12,518,198	26,296,694
Prior Year Expenditures & Transfers-Out Adjustments	74,431	439	(6,695)	(5,126)	(45,207)	(97,615)	(79,773)
Actual Budgeted Expenditures & Transfers-Out	9,098,482	1,182,631	20,960,681	6,232,659	10,246,371	18,018,119	65,738,943
Budget Authority	16,902,707	1,205,799	25,632,039	6,931,925	14,604,226	36,850,973	102,127,669
Unspent Budget Authority	<u>\$ 7,804,225</u>	<u>\$ 23,168</u>	<u>\$ 4,671,358</u>	<u>\$ 699,266</u>	<u>\$ 4,357,855</u>	<u>\$ 18,832,854</u>	<u>\$ 36,388,726</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 69,268	\$ 4,061	\$ 548,839		\$ 992,338	\$ 354,476	\$ 1,968,982
State Special Revenue Fund	2,744,015	10,119	2,417,463	699,266	985,373	5,182,383	12,038,619
Federal Special Revenue Fund	4,928,166	8,988	1,705,056		2,380,144	13,295,995	22,318,349
Internal Service Fund	62,776						62,776
Unspent Budget Authority	<u>\$ 7,804,225</u>	<u>\$ 23,168</u>	<u>\$ 4,671,358</u>	<u>\$ 699,266</u>	<u>\$ 4,357,855</u>	<u>\$ 18,832,854</u>	<u>\$ 36,388,726</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 ENVIRONMENTAL QUALITY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	CENTRAL MANAGEMENT PROGRAM	ENFORCEMENT DIVISION	PERMITTING & COMPLIANCE DIVISION	PETRO TANK RELEASE COMPENSATION BOARD	PLANNING, PREVENTION & ASSISTANCE DIVISION	REMEDIAATION DIVISION	TOTAL
Personal Services							
Salaries	\$ 3,107,275	\$ 586,198	\$ 7,361,309	\$ 235,991	\$ 3,773,296	\$ 2,681,775	\$ 17,745,844
Employee Benefits	857,064	175,379	2,134,705	68,932	1,098,767	763,704	5,098,551
Personal Services-Other	11,283						11,283
Total	<u>3,975,622</u>	<u>761,577</u>	<u>9,496,014</u>	<u>304,923</u>	<u>4,872,063</u>	<u>3,445,479</u>	<u>22,855,678</u>
Operating Expenses							
Other Services	1,471,801	29,630	3,822,425	242,820	4,524,614	17,850,286	27,941,576
Supplies & Materials	163,834	13,853	360,954	3,273	289,781	114,658	946,353
Communications	53,674	15,618	224,239	3,763	92,086	70,141	459,521
Travel	52,208	6,627	221,530	7,301	233,551	107,021	628,238
Rent	233,720	35,633	447,220	11,082	230,759	172,216	1,130,630
Utilities		10	2,799		3,967	1,761	8,537
Repair & Maintenance	82,775	547	25,247	466	17,656	6,528	133,219
Other Expenses	446,010	268,061	2,297,731	68,172	1,260,090	827,424	5,167,488
Total	<u>2,504,022</u>	<u>369,979</u>	<u>7,402,145</u>	<u>336,877</u>	<u>6,652,504</u>	<u>19,150,035</u>	<u>36,415,562</u>
Equipment & Intangible Assets							
Equipment	(186,571)		26,702		97,665	44,294	(17,910)
Total	<u>(186,571)</u>		<u>26,702</u>		<u>97,665</u>	<u>44,294</u>	<u>(17,910)</u>
Grants							
From State Sources			1,751,393				1,751,393
Total			<u>1,751,393</u>				<u>1,751,393</u>
Benefits & Claims							
From State Sources				7,554,982		2,050,000	9,604,982
Total				<u>7,554,982</u>		<u>2,050,000</u>	<u>9,604,982</u>
From Other Sources							
Distribution from Private Purpose Trusts			812,452				812,452
Total			<u>812,452</u>				<u>812,452</u>
Transfers							
Accounting Entity Transfers	8,026		178,663		12,371,585	1,521,339	14,079,613
Total	<u>8,026</u>		<u>178,663</u>		<u>12,371,585</u>	<u>1,521,339</u>	<u>14,079,613</u>
Debt Service							
Bonds			177,663		832,566	167,539	1,177,768
Loans				36,132			36,132
Total			<u>177,663</u>	<u>36,132</u>	<u>832,566</u>	<u>167,539</u>	<u>1,213,900</u>
Total Expenditures & Transfers-Out	<u>\$ 6,301,099</u>	<u>\$ 1,131,556</u>	<u>\$ 19,845,032</u>	<u>\$ 8,232,914</u>	<u>\$ 24,826,383</u>	<u>\$ 26,378,686</u>	<u>\$ 86,715,670</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 316,036	\$ 412,370	\$ 898,231		\$ 2,612,739		\$ 4,239,376
State Special Revenue Fund	1,035,180	357,874	13,172,140	8,232,914	1,602,790	19,398,600	43,799,498
Federal Special Revenue Fund	550,809	361,312	4,780,080		19,707,001	6,818,663	32,217,865
Debt Service Fund			178,663		903,853	161,423	1,243,939
Internal Service Fund	4,399,074		3,466				4,402,540
Private Purpose Trust Fund			812,452				812,452
Total Expenditures & Transfers-Out	<u>6,301,099</u>	<u>1,131,556</u>	<u>19,845,032</u>	<u>8,232,914</u>	<u>24,826,383</u>	<u>26,378,686</u>	<u>86,715,670</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(125,708)	97,857	1,293,259	11,717	13,271,274	10,933,804	25,482,203
Prior Year Expenditures & Transfers-Out Adjustments	(23,954)	(2,695)	(201,743)	(92,134)	2,364	(341,093)	(659,255)
Actual Budgeted Expenditures & Transfers-Out	6,450,761	1,036,394	18,753,516	8,313,331	11,552,745	15,785,975	61,892,722
Budget Authority	13,468,816	1,063,648	31,739,851	8,410,443	15,518,490	24,990,158	95,191,406
Unspent Budget Authority	<u>\$ 7,018,055</u>	<u>\$ 27,254</u>	<u>\$ 12,986,335</u>	<u>\$ 97,112</u>	<u>\$ 3,965,745</u>	<u>\$ 9,204,183</u>	<u>\$ 33,298,684</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 67,392	\$ 9,050	\$ 86,969		\$ 49,621		\$ 213,032
State Special Revenue Fund	4,076,956	5,340	7,941,872	97,112	853,891	3,035,835	16,011,006
Federal Special Revenue Fund	2,455,000	12,864	4,957,494		3,062,233	6,168,348	16,655,939
Internal Service Fund	418,707						418,707
Unspent Budget Authority	<u>\$ 7,018,055</u>	<u>\$ 27,254</u>	<u>\$ 12,986,335</u>	<u>\$ 97,112</u>	<u>\$ 3,965,745</u>	<u>\$ 9,204,183</u>	<u>\$ 33,298,684</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 Environmental Quality

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2008

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

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

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

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

- ◆ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include Petroleum Tank Release Cleanup, Air Quality Operating Fees, Montana Pollution Discharge Elimination System (MPDES) Permit Program, Montana Pole and Streamside Tailings Remedial Action, Subdivision Plat Review, Reclamation and Development, Orphan Share Fund, Junk Vehicle Disposal, Alternative Energy Revolving Loan Program, Hard Rock Mining Reclamation, trust funds initially funded with Office of Surface Mining grants, and various reclamation bond forfeiture and settlement accounts.
- ◆ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include federal assistance programs such as the Water Pollution Control and Drinking Water State Revolving Funds, Performance Partnership Grants, Abandoned Mine Lands Reclamation Grant, as well as other federal grants and agreements.
- ◆ **Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses this fund to record debt service principal and interest payments for state Hard Rock Mining Reclamation Bonds, Energy Conservation Bonds, and Comprehensive Environmental Response, Compensation and Liability Bonds.
- ◆ **Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's programs. The legislature created a trust fund in fiscal year 2005-2006 to cover the long-term costs of water treatment in the area of the Zortman-Landusky mines. The trust is financed from an annual transfer of \$1.2 million from the orphan share fund until fiscal year 2018 or until the balance reaches \$19.3 million.

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 includes indirect charges assessed against all units of the department by the Central Management Program for providing department-wide support functions and services.

Fiduciary Fund Category

- ◆ **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. The department's private-purpose trust funds include financial assurances held in trust related to permitting activities.

2. General Fund Balance

The negative fund 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 balances for each of the fiscal years ended June 30, 2007 and June 30, 2008.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General, State Special Revenue, Federal Special Revenue, Debt Service, and Internal Service funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

4. Accounting Entity Transfers

The accounting entity transfers of \$12 million and \$11 million in fiscal years 2006-2007 and 2007-2008, respectively, in the Planning, Prevention, and Assistance Division program are related to the Federal Drinking and Clean Water State Revolving Fund programs.

5. Fund Balance – State Special Revenue Fund

The fund balance in the State Special Revenue Fund includes investments related to the 1998 settlement with Atlantic Richfield Company to restore or replace damaged natural resources in the Butte-Silverbow area. The fund balances at June 30, 2007, and June 30, 2008, include approximately \$111 million of the Montana Pole and Streamside Tailings settlement funds. The settlement funds represent approximately 72 percent and 69 percent of the total fund balance in the State Special Revenue Fund at June 30, 2007, and June 30, 2008, respectively.

6. Gain Contingencies

At June 30, 2008, the department was involved in the bankruptcy proceedings of companies named as potentially liable parties for required remediation activities.

Since June 30, 2008, the department has settled a portion of their claim against W.R. Grace for cleanup costs at the Libby Asbestos Site for \$5,167,000. The amount will be received after W.R. Grace completes a plan of reorganization. These funds will be used for specific cleanup actions at the Libby Site. The department has reserved additional claims for an unspecified amount at the Libby Asbestos Site.

The department has filed an action asserting claims for cleanup costs at the Kalispell Pole & Timber/Reliance Refinery/Yale Oil Site against a variety of parties. The department has reached settlements with various parties for payment of their allocated share of costs. Cleanup costs are estimated to exceed \$28 million. The money would not necessarily come to the department.

In 2006, the department reached a settlement with Atlantic Richfield Company for the payment of present and future cleanup of the Clark Fork River amounting to \$83.3 million, plus interest. Interest has been accruing since 2006 and now approximates \$13 million. The settlement became final in August 2008. One-half of the principal and interest must be paid to the department within 90 days of court approval. The other half must be paid one year later.

The department has asserted claims against ASARCO Inc. and entered into settlements for the payment of \$44.8 million (\$8 million of which is to be paid by Arco for the Upper Blackfoot site) related to the Upper Blackfoot Mining Complex, Barker Hughesville Mining District, and Iron Mountain Mine Sites. In August 2008, the department received \$16 million (\$8 million from Arco and \$8 million from Asarco) for the Upper Blackfoot. In addition, ASARCO is placing certain properties and funds of \$29.4 million into custodial trusts to provide for the cleanup of the Upper Blackfoot Mining Complex, Black Pine/Combination Mine, and Iron Mountain Mine Sites, which would not be deposited into the state treasury. The funding of the custodial trusts and \$32.8 of the \$44.8million is subject to the approval of the bankruptcy court in connection with confirmation of the company's proposed plan of reorganization.

DEPARTMENT OF
ENVIRONMENTAL
QUALITY

DEPARTMENT RESPONSE



Montana Department of
ENVIRONMENTAL QUALITY

Brian Schweitzer, Governor

P.O. Box 200901 • Helena, MT 59620-0901 • (406) 444-2544 • www.deq.mt.gov

September 26, 2008

Ms. Tori Hunthausen
Legislative Auditor
Office of the Legislative Auditor
State Capitol, Room 160
Helena, Montana 59620-1705

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SEP 26 2008
LEGISLATIVE AUDIT DIV.

Dear Ms. Hunthausen:

By this letter, I am transmitting the Department of Environmental Quality's formal response to your Financial and Compliance Audit for the two years ending June 30, 2008.

I would like to personally thank your office and the audit staff assigned to this endeavor for their dedication, professionalism, and cooperative approach throughout the course of this audit. Their findings and subsequent recommendations have provided a valuable service and insight to department management relative to our fiscal-compliance responsibilities.

I will be available for the November meeting of the Legislative Audit Committee, as will appropriate department staff.

Sincerely,

Richard Oppen
Director

Dean Rude
Chief Financial Officer

Recommendation #1

We recommend the department, in conjunction with the Department of Natural Resources and Conservation:

- A. Establish and document control procedures appropriate to prevent, or detect and correct on a timely basis, material misstatements occurring on the accounting records and in the preparation of the Drinking Water and Water Pollution Control State Revolving Fund Loan Programs' financial statements.**
- B. Establish and document control procedures appropriate to ensure compliance with federal suspension and debarment requirements.**

DEQ concurs. DEQ will work with DNRC:

- A. To establish and document control procedures to prevent, or detect and correct on a timely basis, material misstatements occurring on the accounting records and in preparation of DWSRF and WPCSRF financial statements. These controls will be documented by June 30, 2009.
- B. To establish and document control procedures sufficient to ensure compliance with federal suspension and debarment requirements. These controls will be documented by December 31, 2008.

Recommendation #2

We recommend the department, in conjunction with the Department of Natural Resources and Conservation, establish procedures to ensure financial transactions in shared accounts are recorded in accordance with state law and accounting policy.

DEQ concurs. DEQ will work with DNRC to develop and document procedures to ensure financial transactions in shared accounts are recorded in accordance with state law and accounting policy. These procedures will be documented by June 30, 2009.