



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Justice
For the Two Fiscal Years Ended
June 30, 2008

OCTOBER 2008

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DIVISION

08-18

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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 for the Department of Justice for the two fiscal years ended June 30, 2008. Included in this report are recommendations related to errors in accounting for the Consumer Protection Office activity and improvements needed in internal controls. This report also includes a disclosure issue on the law requiring excess Consumer Protection funds be transferred to the General Fund.

The written response to the audit recommendations are included at the end of the audit report. We thank the Attorney General and the department staff for their cooperation and assistance during the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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ELECTED, APPOINTED, AND ADMINISTRATIVE OFFICIALS

Department of Justice Mike McGrath, Attorney General
 Larry Fasbender, Deputy Director/Chief of Staff
 Galen Hollenbaugh, Deputy Chief of Staff
 Chris Tweeten, Chief Civil Counsel
 John Connor, Chief Criminal Counsel

Division Administrators

Robert 'Skip' Culver, Central Services
 Roland Mena, Crime Control
 Bill Griffenberg, Information Technology Services
 Bill Unger, Forensic Science
 Colonel Paul K. Grimstad, Highway Patrol
 Mike Batista, Criminal Investigation
 Dean Roberts, Motor Vehicle
 Gene Huntington, Gambling Control

Montana Board of Crime Control

	<u>Representing</u>	<u>Term Expires January 1</u>
Mike Anderson, Chair	Local Government	2009
Mikie Baker-Hajek	Citizen Member of Community Organizations	2009
Jim Cashell	Local Law Enforcement	2009
Brenda Desmond	Judiciary System	2011
Lynn Erickson	Local Law Enforcement	2009
Mike Ferriter	State Law Enforcement	2011
Harold Hanser	Public	2009

Pam Kennedy	Local Government	2009
Rick Kirn	Tribal Government	2009
Steve McArthur	Community Corrections	2009
Mike McGrath	State Law Enforcement	2011
Sherry Matteucci	General Public	2011
Lois Menzies	Judicial System	2011
Nickolas Murnion	Local Law Enforcement	2009
Jim Oppedahl	General Public	2011
Godfrey Saunders	Education System	2011
Tracie Small	Tribal Court	2011
Bonnie Wallem	Juvenile Crime and Prevention Nonprofit Community Organizations	2009

For additional information concerning the Department of Justice, contact:

Robert 'Skip' Culver, Central Services Division Administrator
303 North Roberts
PO Box 201404
Helena, MT 59620-1404
(406) 444-5842
e-mail: sculver@mt.gov

REPORT SUMMARY

Department of Justice

This report documents the results of our financial-compliance audit of the Department of Justice (department) for the two fiscal years ended June 30, 2008. The previous audit report contained five recommendations. Of these, three were implemented and two were partially implemented.

This report contains five recommendations. The issues discussed include accounting misstatements related to Consumer Protection Office activity and areas where internal controls should be improved. This report also contains a disclosure issue related to Consumer Protection general fund transfers.

We issued an unqualified opinion on the financial schedules contained in this report. This means the reader can rely on the presented financial information and the supporting data on the state’s accounting records.

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:

- A. Record all consumer protection settlement activity on the accounting records in accordance with state law.
- B. Use an appropriation as required by the constitution for consumer protection expenditures.6

Department response: Concur B-3

Recommendation #2

We recommend the department comply with state law regarding timeliness of deposits.8

Department response: Concur B-4

Recommendation #3

We recommend the department segregate check receiving, custody, and recordkeeping functions at its Motor Vehicle, Gambling Control, and Highway Patrol Divisions.9

Department response: Concur B-4

Recommendation #4

We recommend the department implement control procedures to ensure transactions processed during fiscal year-end are accurate and complete. 11

Department response: ConcurB-5

Recommendation #5

We recommend the department implement procedures for monitoring and testing its internal control procedures as required by state policy. 12

Department response: ConcurB-5

Chapter I – Introduction

Introduction

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

1. Obtain an understanding of the department’s control systems to the extent necessary to support our audit of the department’s financial schedules and, if appropriate, make recommendations for improvement in the internal and management controls of the department.
2. Determine if the department complied with selected state and federal laws and regulations.
3. Determine the implementation status of prior audit recommendations.
4. Determine if the department’s financial schedules present fairly the results of the department for each of the fiscal years ended June 30, 2008, and June 30, 2007.

Auditing standards require us to communicate, in writing, control deficiencies we identified as a result of audit objective #1 above and considered to be significant or material. A control deficiency exists when the design or operation of a control does not allow management or employees to prevent or detect misstatements on a timely basis. A significant deficiency is one or more control deficiencies that affects management’s ability to accurately process transactions. A material weakness is one or more significant deficiencies that adversely affect management’s ability to fairly present its financial schedules.

Table 1 below outlines the status of significant deficiencies and material weaknesses we identified during this audit.

Subject	Significant Deficiency	Material Weakness	Page
Inadequate Control Procedures at Fiscal Year-End	Yes	No	10

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

As required by section 17-8-101(6), MCA, we analyzed the rates charged and fund equity in the department's Internal Service Fund. The Internal Service Fund contains the Agency Legal Services Bureau. Our audit work indicates the current rates are commensurate with costs.

Background

The Attorney General, who is elected to serve a four-year term, heads the department. The department's primary functions are to provide effective statewide law enforcement, legal services, and improve public safety.

The Board of Crime Control (board) is attached to the department for administrative purposes. The board is composed of 18 members appointed by the Governor and confirmed by the Senate. The board's operations are presented in the department's financial schedules as the Justice System Support Service Program.

The Youth Justice Advisory Council (council) was established by Executive Order. The council is responsible for administration and implementation of the federal Juvenile Justice and Delinquency Prevention Act of 1974. The council also advises the governor, the board, and the legislature on policy matters and legislation related to juvenile justice, juvenile delinquency, and compliance with federal regulations. The council's operations are also presented in the department's financial schedules as part of the Justice System Support Service Program.

The department's divisions are described below.

Legal Services (86.25 FTE) – provides legal research and analysis for the Attorney General; legal counsel for state government and state officials, bureaus, and boards; legal assistance to local governments; legal assistance, training, and support for county prosecutors; assistance through the office of Consumer Protection and Victim Services and legal advice and support for all state agencies. The Consumer Protection Program which operates in this division, moved from the Department of Administration to the Department of Justice at the start of fiscal year 2005-06. The Natural Resource Damage Litigation Program, which conducts litigation of claims arising from damages to natural resources in the Clark Fork River Basin between Butte and Milltown, operates in this division. It is attached to the department for administrative purposes.

Gambling Control (49.5 FTE) – licenses and regulates gambling activities and enforces gambling laws in the state of Montana. The division collects license fees, gambling taxes, and investigates applications and complaints relating to alcoholic beverage licensing.

Motor Vehicle (157 FTE) – licenses individual and commercial drivers; administers all driver license records, suspensions, revocations, and reinstatement actions including court-ordered suspensions and revocations; provides probationary driver licenses and driver license reinstatements; investigates special driver licensing problems; issues identification cards; issues motor vehicle registrations and titles; investigates motor vehicle titling and registration fraud; files and releases liens on motor vehicles; licenses and controls motor vehicle dealers; inspects and verifies vehicle identification numbers and provides training for county treasurers, motor vehicle dealers, and financial institutions. The Motor Vehicle Division (MVD) includes the Title and Registration Bureau in Deer Lodge and 49 driver licensing offices located statewide, as well as business partnerships with each of the 56 counties, the state’s information portal provider, and numerous private and governmental entities.

Highway Patrol (272.17 FTE) – enforces commercial vehicle regulations and general traffic laws, investigates accidents and auto thefts, inspects vehicles, and provides motorist assistance.

Criminal Investigation (83.08 FTE) – includes the administration, management, and coordination of criminal investigative services and training performed by the Investigations Bureau, the Narcotics Bureau, and the Law Enforcement Academy Bureau. Investigators conduct criminal investigations of homicide, fraud, robbery, assault, corruption, arson, organized crime, computer crime, dangerous drug activity, and other felony crimes.

Central Services (17.5 FTE) – provides centralized accounting, administrative, budgetary, personnel, payroll, and fiscal support for the department.

Information Technology Services (55 FTE) – provides a full range of services for the department and the criminal justice community. The division maintains several statewide criminal justice systems, including the state criminal history records system and the state criminal justice information network, that link law enforcement agencies in Montana with various state, regional, and national criminal justice databases. It also maintains several noncriminal justice computer systems, including the Vehicle Title and Registration System and the Driver Control System. The division provides project management for the Criminal Justice Information Services Project and the Motor Vehicle Information Technology System Project.

Forensic Sciences (33.75 FTE) – performs scientific analyses of evidence submitted by law enforcement officials, coroners, and state agencies and promotes forensic science training and scientific criminal investigations in the state and manages a statewide system of death investigations.

Crime Control Division (19.5 FTE) – prepares and implements an annual plan for strengthening Montana’s criminal and juvenile justice systems. The division provides support services to criminal justice agencies including data collection and research. The division is also responsible for the administration of various state and federal programs to help reduce crime and provide victim assistance and support.

Prior Audit Recommendations

Our office performed the department’s financial-compliance audit for the two fiscal years ended June 30, 2006. The report contained five recommendations. The department implemented three recommendations and partially implemented two. For both recommendations partially implemented, we determined the department has made substantial progress towards full implementation. As a result, no additional recommendations for these issues are included in this report.

Chapter II – Findings and Recommendations

Consumer Protection Program Accounting Errors

We found accounting errors and inconsistencies in the Consumer Protection financial activity.

The legislature moved the Office of Consumer Protection (OCP) to the Department of Justice (department) from the Department of Administration on July 1, 2005. During our audit period, the OCP received approximately \$2.951 million from settlement agreements with companies who have harmed Montana consumers. Section 17-1-102(4), MCA, requires agencies to record the transactions necessary to present the receipt, use, and disposition of all money and property in accordance with generally accepted accounting principles on the accounting records. The state's constitution in Article VIII, Section 14 states that no money shall be paid out of the treasury, except for interest paid on public debt, without an appropriation. The paragraphs below discuss errors and inconsistencies in how the settlement activity was recorded during the audit period. We also have a disclosure issue on page 13 regarding laws that require excess consumer protection funds be transferred to the General Fund. See table 2 for a summary of the financial misstatements.

Settlement funds of \$158,400 and \$585,000 received in fiscal year 2007 and 2008, respectively, were recorded as property held in trust. Property held in trust is defined in state policy as an asset that is held by the State for a third party in a fiduciary capacity. We reviewed the two settlement agreements that department personnel represented to us as the only ones that had any restrictions on the use of the settlement funds. We concluded the agreements do not contain any specific obligations to third parties or fiduciary relationship. As a result, we do not believe the funds should be recorded as property held in trust. These and all other settlement funds received during the audit period should have been recorded as settlement revenue on the accounting records.

Approximately \$50,000 in fiscal year 2007 and \$198,400 in fiscal year 2008 was expended from the OCP state special revenue fund account without charging expenditures or an appropriation. These payments reduced property held in trust or revenue rather than charging expenditures. Since the settlement agreements did not create any fiduciary obligations to the state, any payments from these funds are at the direction of the Attorney General and should be recorded as expenditures and charged against an appropriation in compliance with state law and the Montana Constitution.

Department officials indicated this is a new area for them and they have been searching for the correct way to account for the activity. The department took action to correct this issue after we brought it to their attention in June of 2008. Personnel processed a transaction to properly record the activity as revenue and expenditures, and budget authority was received to properly charge the expenditures against an appropriation. As a result, we determined the activity is properly recorded on the accounting records for fiscal year 2008 as shown on table 2.

Table 2
Summary of Financial Record Misstatements

	Fiscal Year 2007 (Over)/Under Statement	Fiscal Year 2008 (Over)/Under Statement
Revenue	\$208,400	-0-
Expenditures	50,000	-0-
Property Held in Trust	(158,400)	-0-

Source: Compiled by the Legislative Audit Division.

RECOMMENDATION #1

We recommend the department:

- A. *Record all consumer protection settlement activity on the accounting records in accordance with state law.*
- B. *Use an appropriation as required by the constitution for consumer protection expenditures.*

Internal Control

State law and accounting policy address legal requirements related to fiscal control and accountability. A properly implemented and effective control structure will allow the department to prevent, or detect in a timely manner, errors in its financial records or instances of noncompliance with state laws or accounting policies. The following sections outline areas in which the department could improve controls related to timely deposits, segregation of duties, fiscal year-end process, and monitoring and testing of controls.

Timely Deposits

Three divisions are not depositing receipts in the time period required by state law.

Motor Vehicle (MV), Gambling Control (GC), and Highway Patrol (HP) divisions do not always deposit checks/cash received in the time periods required by state law and policy. For all divisions at the department, cash and checks are received directly by the applicable division which then processes the cash/checks to prepare the funds for deposit. The deposits are then taken to Centralized Services Division (CSD) for deposit to the state treasury. At both MV and GC the checks/cash are entered into a computer system when received as a part of preparing them for deposit. Highway Patrol enters the checks/cash onto an electronic spreadsheet.

State law (section 17-6-105(6)) states “Except as otherwise provided by law and subject to subsection (8) all money, credits, evidences of indebtedness, and securities received by a state agency must be deposited with the state treasurer or in a depository approved by the state treasurer each day when the accumulated amount of coin and currency requiring deposit exceeds \$200 or total collections exceed \$750. All money, credits, evidences of indebtedness, and securities collected must be deposited at least weekly.” The reference to subsection (8) is referring to a provision in state law that allows agencies to propose a modified deposit schedule. No programs or divisions at the department have requested a modified schedule. State policy addresses deposit requirements as a part of an adequate internal control system. Timely deposits also maximize interest income on state funds.

Motor Vehicle Division

Motor Vehicle (MV) collected over \$130 million in checks from the counties through the monthly county collection process during fiscal year 2008. On July 1, 2007, the department took over this function from the Department of Revenue. We found the checks received from the counties on a monthly basis are generally not deposited to the state treasury that day as required by state law and policy. We tested 12 deposits in the latter part of fiscal year 2008 and found seven checks that were deposited between one and four days after the time required by law. Personnel indicated that when designing the system to be used for the county collections checks they did not see any way they could process the checks through their system and the state’s accounting system without the delay that causes the checks to not be deposited timely. We do not believe the design of the computer system itself prevents compliance with the deposit law.

Gambling Control

Gambling Control (GC) received over \$65 million in fiscal year 2008 that includes checks and electronic payments. We found that not all checks received by GC are deposited in the time period required by law. We found examples of noncompliance that occurred during

May and June of 2007. Division personnel and CSD personnel both indicated that during fiscal year-end 2007, the GC deposits caused significant problems for the Department of Administration in reconciling the state bank. Both GC and CSD personnel indicated that the problems that occurred in fiscal year 2007 have been corrected and they do not anticipate future problems.

Based on this information, we tested deposits from January through May of 2008. We found three out of four deposits tested were not deposited in the time period required by state law. They ranged from five to 22 days late. In addition, we found a check from June of 2008 that was deposited six days late because someone at the division was on vacation. Division personnel indicated they have made dramatic improvements in their process in the last year although some instances do occur that the checks are not deposited in a timely manner. In addition, as more gambling vendors go online the GC will receive fewer checks.

Highway Patrol Division

Highway Patrol Division receives cash and checks for various items throughout the state and at their main office in Helena. In fiscal year 2008 they collected approximately \$500,000. We found that until April 1 of fiscal year 2008 they did not deposit checks and cash on a daily and/or weekly basis as required by state law. Of eight deposits tested, we found five had instances of noncompliance ranging from cash and checks deposited four days late, to deposits being four weeks late, and one deposit being five weeks late. Division personnel indicated they were not aware of the requirement in state law or policy regarding timeliness of deposits. Since April 1 of fiscal year 2008 the division implemented procedures to ensure timely deposits and our review indicated they are now in compliance.

Summary

In some situations, checks are not always deposited timely at both MV and GC because of the design of their receipt process in conjunction with its computer systems. Some changes in their business process should be considered to ensure compliance with the state deposit law. Keeping copies of the checks for processing purposes and immediately sending the checks to CSD for deposit is one option to consider. The department should comply with the state deposit law to reduce the risk of theft or loss of checks and to maximize the interest earned on state funds.

RECOMMENDATION #2

We recommend the department comply with state law regarding timeliness of deposits.

Segregation of Duties

Three divisions do not adequately segregate key duties related to check handling.

State policy states that “segregation of duties is one of the most important features of an internal control plan.” Policy goes on to say that examples of incompatible duties include situations where the same individual (or small group of people) is responsible for:

- ◆ Managing both the operation of and recordkeeping for the same activity.
- ◆ Managing custodial activities and recordkeeping for the same assets.

We found that in MV, GC, and HP the same personnel who receive the checks and related reports at the divisions maintain physical custody of the checks, record the information on the respective computer systems, and prepare the checks that are taken to CSD for deposit to the State Treasury. As a result of these incompatible duties, the risk of errors or irregularities increases. Division personnel indicate that lack of segregation of duties is a resource issue and other controls exist to minimize the risk. However, we believe all three divisions, in conjunction with CSD, have adequate resources to segregate these functions and avoid placing employees in a position to perpetrate and conceal errors or irregularities in the normal course of their duties.

RECOMMENDATION #3

We recommend the department segregate check receiving, custody, and recordkeeping functions at its Motor Vehicle, Gambling Control, and Highway Patrol Divisions.

Fiscal Year-End Process

During approximately the first three weeks of July (fiscal year-end period) the department’s accounting staff is required to process a number of transactions to ensure that all activity related to the fiscal year ended June 30 is properly accounted for in accordance with state law and accounting policy. The following section discusses instances where we believe controls over this process at the department are not adequate to ensure the accounting records are accurate and complete.

Inadequate Control Procedures at the Department

The department made a number of errors during the fiscal year-end period that caused accounting record misstatements totaling over \$16 million.

During our audit we noted the following errors occurred during the 2007 fiscal year-end period.

- ◆ Approximately \$13 million in motor vehicle General Fund collections for fiscal year 2007 that had not been received as of June 30 were improperly recorded on the accounting records as 2007 cash. As a result, 2007 cash is overstated by approximately \$13 million. MV division personnel indicate their computer system was not designed to record cash received in the proper year during the closing period. CSD personnel were not aware of this problem until after it was too late to correct it on the accounting records for fiscal year 2007.
- ◆ Motor vehicle registrations and fees collected by the counties for June of each year are not required to be submitted to the department until the 25th of July. In order for the accounting records to be complete and include this June revenue, the department must record an estimate (accrual) of the amount of revenue they anticipate will be received for June. When recording this accrual transaction during the 2007 fiscal year-end period, an error was made because the amount of June revenue actually received from the counties before the close of the fiscal year-end period was not subtracted from the total June estimate. As a result, fiscal year 2007 revenue and receivables from local governments is overstated by approximately \$2.7 million. Approximately 90 percent of this misstatement is in the General Fund. CSD personnel said the error occurred because of a lack of experience within CSD and it was the first year the department had to record the accrual because MV fees were collected by the Department of Revenue in previous years.
- ◆ The department uses an agency fund to account for motor vehicle fees that are received by them through the county collection process but belong to other state agencies. State accounting policy requires that agency funds used for this type of activity have zero receivable and payable balances at fiscal year-end. When clearing balances in the agency fund during fiscal year-end 2007 as requested by the state Accounting Division personnel, the department erroneously cleared the balances in the agency fund by moving the balances in the General Fund. Since none of this activity is an asset or a liability of the General Fund those balances are overstated by almost \$600,000 in the General Fund. Department personnel indicated it was done on one of the last days of the fiscal year-end closing period and they did not have much time to determine the proper way to clear the balances out of the Agency Fund.

During our audit work on the fiscal year 2008 year-end process we did not find the type of errors discussed above. However, department personnel forgot to record an adjustment to revenue for \$3.8 million of gambling tax permits and fees received in June that should not have been recorded as revenue until 2009 based on state policy.

The department's controls did not identify the error on a timely basis. As a result fiscal year 2008 special revenue fund licenses and permits revenue is overstated by \$3.8 million.

Prior to the 2007 fiscal year-end closing period CSD incurred significant turnover and lost much knowledge and experience. Very limited written procedures existed to aid CSD personnel. Although a checklist of everything that needed to be processed during fiscal year-end period did exist, CSD personnel collectively lacked the overall knowledge and experience to ensure the activity was properly recorded on the accounting records. The department should implement controls to ensure the transactions processed during the fiscal year-end period are accurate and complete. These controls should include detailed written procedures, cross-training of personnel, timely review of the critical fiscal year-end transactions, and review of accounting system reports during fiscal year-end that show the department's activity and balances.

RECOMMENDATION #4

We recommend the department implement control procedures to ensure transactions processed during fiscal year-end are accurate and complete.

Monitoring and Testing of Internal Controls

The department has not monitored and tested internal controls as required by state policy.

State accounting policy outlines management's responsibility for establishing and maintaining agency internal controls to safeguard and account for the resources entrusted to them to carry out government programs. State policy requires agencies to implement internal control procedures to ensure all transactions necessary for compliance with generally accepted accounting principles are recorded on the state's accounting system. To assist agencies in the implementation process, the Department of Administration issued an Internal Control Guidebook. The guide includes an internal control evaluation and monitoring plan, which recommends agencies monitor and test its controls and evaluate and report the results of its testing.

We found during the course of our audit that the department has put significant effort towards documenting their control procedures. To accomplish this, a department-wide task force was created. Assessments were made of what constituted some of the

department's more risky activities. These risk assessments allowed personnel to focus control efforts on the more vulnerable activities first, such as cash.

Although the department has a plan to monitor its control procedures, no actual testing or monitoring has been completed. The department should continue its efforts to implement its planned monitoring procedures. The preceding three report sections related to internal controls are indications of some areas where control procedures may need to be improved and/or monitoring for compliance with control procedures needs to occur.

RECOMMENDATION #5

We recommend the department implement procedures for monitoring and testing its internal control procedures as required by state policy.

Chapter III – Disclosure Issue

Consumer Protection Office

Two state laws related to the Office of Consumer Protection (OCP) (sections 30-14-143, MCA, and section 30-14-226, MCA) have identical language that state “All civil fines, costs, and fees received or recovered by the department pursuant to this part must be deposited into a state special revenue account to the credit of the department and must be used to defray the expenses of the department in discharging its administrative and regulatory powers and duties in relation to this part. Any excess civil fines, costs, or fees must be transferred to the general fund.” Nothing in either law describes when or how often a transfer to the General Fund should occur or a definition of excess funds.

Since the OCP moved to the department at the beginning of fiscal year 2006, the state special revenue account balance has grown due mainly to increased settlement funds received. The ending fund balance recorded on the accounting records for the account are as follows:

June 30, 2006	\$420,012
June 30, 2007	\$1,859,455
June 30, 2008	\$2,367,280

A strict interpretation of these laws is that any revenue received that exceeds the operating costs of the office at the end of each state fiscal year should be transferred to the General Fund. Under that scenario, approximately \$2.3 million would have been transferred to the General Fund for fiscal years 2006 through 2008. This interpretation would not leave the office with any cash to pay for operating costs, so the department would have to request loans each year to pay operating expenses until sufficient revenue was received.

However, the department has not made any transfers to the General Fund in the three fiscal years it has had the office. Department personnel stated they are taking a very liberal interpretation of the law. In some documentation we reviewed, department officials indicated they would like to have a two-year operating budget reserve of \$1.3 million in the OCP fund that would provide the office operating stability in the event settlement dollars decline. Under this scenario, excess funds of \$1,067,280 should have been transferred to the General Fund for the year’s fiscal years 2006 through 2008.

Since state law does not provide any requirements on the timing of the transfer to the General Fund or what is considered excess, we make no recommendations to the department at this time. We are disclosing this issue for informational purposes only.

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 & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Justice 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, the 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/property held in trust of the Department of Justice for 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 3, 2008

DEPARTMENT OF JUSTICE
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Agency Fund</u>
FUND BALANCE: July 1, 2007	\$ 24,478,868	\$ 173,525,955	\$ 881,777	\$ 41,939	\$ (90,291)	\$ (98,082)	\$ 0
PROPERTY HELD IN TRUST: July 1, 2007							\$ 0
ADDITIONS							
Budgeted Revenues & Transfers-In	187,389,045	23,307,785	11,801,163		643,097	1,324,400	
Nonbudgeted Revenues & Transfers-In	297,842	11,935,259	21,706	3,269,244			
Prior Year Revenues & Transfers-In Adjustments	(2,505,887)	(240,335)	12,465		(10,155)		
Direct Entries to Fund Balance	(155,767,044)	25,994,581			978,800		
Additions to Property Held in Trust							14,804,686
Total Additions	<u>29,413,956</u>	<u>60,997,290</u>	<u>11,835,334</u>	<u>3,269,244</u>	<u>1,611,742</u>	<u>1,324,400</u>	<u>14,804,686</u>
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	30,372,480	42,332,503	11,940,733	2,166,837	1,461,709	1,239,905	
Nonbudgeted Expenditures & Transfers-Out	278,233	9,486,096	21,077		(1,040)	78,067	
Prior Year Expenditures & Transfers-Out Adjustments	(22,330)	(37,205)	5,562		(34,092)		
Reductions in Property Held in Trust							14,804,686
Total Reductions	<u>30,628,383</u>	<u>51,781,394</u>	<u>11,967,372</u>	<u>2,166,837</u>	<u>1,426,577</u>	<u>1,317,972</u>	<u>14,804,686</u>
FUND BALANCE: June 30, 2008	\$ 23,264,441	\$ 182,741,851	\$ 749,739	\$ 1,144,346	\$ 94,874	\$ (91,654)	\$ 0
PROPERTY HELD IN TRUST: June 30, 2008							

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

DEPARTMENT OF JUSTICE
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund
FUND BALANCE: July 1, 2006	\$ 21,009,232	\$ 167,187,865	\$ 155,098	\$ 146,235	\$ (271,588)	\$ (39,501)	\$ 0
PROPERTY HELD IN TRUST: July 1, 2006							\$ 0
ADDITIONS							
Budgeted Revenues & Transfers-In	188,663,078	21,491,438	15,858,943		560,668	1,335,745	
Nonbudgeted Revenues & Transfers-In	5,152	11,269,460	3,044	4,121,456	206	48	
Prior Year Revenues & Transfers-In Adjustments	(96,336)	(94,879)	35,410		(200)		
Direct Entries to Fund Balance	(158,364,097)	23,446,005	(25,000)		1,273,127		
Additions to Property Held in Trust							14,229,304
Total Additions	<u>30,207,797</u>	<u>56,112,024</u>	<u>15,872,397</u>	<u>4,121,456</u>	<u>1,833,801</u>	<u>1,335,793</u>	<u>14,229,304</u>
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	26,705,864	40,210,709	15,122,465	4,225,763	1,630,275	1,353,317	
Nonbudgeted Expenditures & Transfers-Out	(1,837)	9,572,431	(12,200)	(11)	22,217	26,677	
Prior Year Expenditures & Transfers-Out Adjustments	34,134	(9,206)	35,453		12	14,380	
Reductions in Property Held in Trust							14,229,304
Total Reductions	<u>26,738,161</u>	<u>49,773,934</u>	<u>15,145,718</u>	<u>4,225,752</u>	<u>1,652,504</u>	<u>1,394,374</u>	<u>14,229,304</u>
FUND BALANCE: June 30, 2007	<u>\$ 24,478,868</u>	<u>\$ 173,525,955</u>	<u>\$ 881,777</u>	<u>\$ 41,939</u>	<u>\$ (90,291)</u>	<u>\$ (98,082)</u>	<u>\$ 0</u>
PROPERTY HELD IN TRUST: June 30, 2007							

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

DEPARTMENT OF JUSTICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS								
Licenses and Permits	\$ 113,543,314	\$ 17,283,274			\$ 599,113	\$ 34,057		\$ 131,459,758
Taxes	63,147,207	14,433	\$ (41)	\$ 593				63,162,192
Charges for Services	3,656,298	4,098,911	10		33,829	1,290,343		9,079,391
Investment Earnings		11,067,738	58,053					11,125,791
Fines, Forfeits and Settlements	3,898,765	2,115,393						6,014,158
Sale of Documents, Merchandise and Property	268,303	9,044						277,347
Miscellaneous	323,775	301,318						625,093
Other Financing Sources	279,309	112,598	20,595	3,268,651				3,681,153
Grants, Contracts, Donations and Abandonments	5,683							5,683
Federal			11,689,131					11,689,131
Federal Indirect Cost Recoveries	58,346		67,586					125,932
Total Revenues & Transfers-In	185,181,000	35,002,709	11,835,334	3,269,244	632,942	1,324,400	0	237,245,629
Less: Nonbudgeted Revenues & Transfers-In	297,842	11,935,259	21,706	3,269,244				15,524,051
Prior Year Revenues & Transfers-In Adjustments	(2,505,887)	(240,335)	12,465		(10,155)			(2,743,912)
Actual Budgeted Revenues & Transfers-In	187,389,045	23,307,785	11,801,163	0	643,097	1,324,400	0	224,465,490
Estimated Revenues & Transfers-In	205,518,094	26,476,652	10,469,847		641,100	1,390,000	\$ 271,000	244,766,693
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (18,129,049)	\$ (3,168,867)	\$ 1,331,316	\$ 0	\$ 1,997	\$ (65,600)	\$ (271,000)	\$ (20,301,203)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS								
Licenses and Permits	\$ (17,202,397)	\$ 2,117,354			\$ 8,268	\$ (5,943)	\$ (271,000)	\$ (15,353,718)
Taxes	(520,150)	(7,187)						(527,337)
Charges for Services	396,465	(2,322,838)			(6,271)	(59,657)		(1,992,301)
Investment Earnings			\$ 12,450					12,450
Fines, Forfeits and Settlements	(294,305)	(893,655)						(1,187,960)
Sale of Documents, Merchandise and Property	(90,863)	(956)						(91,819)
Miscellaneous	(391,068)	(97,402)						(488,470)
Other Financing Sources	(4,924)	35,817						30,893
Federal			1,318,607					1,318,607
Federal Indirect Cost Recoveries	(21,807)		259					(21,548)
Capital Contributions		(2,000,000)						(2,000,000)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (18,129,049)	\$ (3,168,867)	\$ 1,331,316	\$ 0	\$ 1,997	\$ (65,600)	\$ (271,000)	\$ (20,301,203)

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

DEPARTMENT OF JUSTICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS								
Licenses and Permits	\$ 121,128,370	\$ 14,901,698			\$ 526,729			\$ 136,556,797
Taxes	60,187,683	598	\$ 1,921	\$ 266	206	\$ 48		60,190,722
Charges for Services	3,650,653	4,088,762			33,739	1,335,745		9,108,899
Investment Earnings		11,243,752	60,500					11,304,252
Fines, Forfeits and Settlements	2,963,612	2,026,152						4,989,764
Sale of Documents, Merchandise and Property	320,639	7,666						328,305
Miscellaneous	245,215	286,994						532,209
Other Financing Sources	1,482	110,397	35,381	4,121,190				4,268,450
Federal			15,741,614					15,741,614
Federal Indirect Cost Recoveries	74,240		57,981					132,221
Total Revenues & Transfers-In	<u>188,571,894</u>	<u>32,666,019</u>	<u>15,897,397</u>	<u>4,121,456</u>	<u>560,674</u>	<u>1,335,793</u>		<u>243,153,233</u>
Less: Nonbudgeted Revenues & Transfers-In	5,152	11,269,460	3,044	4,121,456	206	48		15,399,366
Prior Year Revenues & Transfers-In Adjustments	(96,336)	(94,879)	35,410		(200)			(156,005)
Actual Budgeted Revenues & Transfers-In	<u>188,663,078</u>	<u>21,491,438</u>	<u>15,858,943</u>	<u>0</u>	<u>560,668</u>	<u>1,335,745</u>		<u>227,909,872</u>
Estimated Revenues & Transfers-In	193,156,838	28,099,012	21,882,229		631,000	1,000,000	\$ 242,000	245,011,079
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (4,493,760)</u>	<u>\$ (6,607,574)</u>	<u>\$ (6,023,286)</u>	<u>\$ 0</u>	<u>\$ (70,332)</u>	<u>\$ 335,745</u>	<u>\$ (242,000)</u>	<u>\$ (17,101,207)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS								
Licenses and Permits	\$ (5,733,189)	\$ (7,371,347)			\$ 445,930		\$ (242,000)	\$ (12,900,606)
Taxes	766,644	(20,915)						745,729
Charges for Services	334,966	414,061			(516,262)	\$ 335,745		568,510
Investment Earnings			\$ 2,000					2,000
Fines, Forfeits and Settlements	(11,988)	557,169						545,181
Sale of Documents, Merchandise and Property	13,785	(17,334)						(3,549)
Miscellaneous	137,210	(171,306)						(34,096)
Other Financing Sources	(3,784)	2,098						(1,686)
Federal			(6,027,367)					(6,027,367)
Federal Indirect Cost Recoveries	2,596		2,081					4,677
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (4,493,760)</u>	<u>\$ (6,607,574)</u>	<u>\$ (6,023,286)</u>	<u>\$ 0</u>	<u>\$ (70,332)</u>	<u>\$ 335,745</u>	<u>\$ (242,000)</u>	<u>\$ (17,101,207)</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 JUSTICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Agency Legal Services	Central Services Division	County Attorney Payroll	Division of Criminal Investigation	Forensic Science Division	Gambling Control Division	Highway Patrol Division	Information Technology Service	Legal Services Division	Motor Vehicle Division	Office of Consumer Protection	Justice System Support Service	Total
Personal Services													
Salaries	\$ 805,502	\$ 709,478		\$ 3,838,500	\$ 2,072,127	\$ 1,968,444	\$ 12,912,509	\$ 1,682,915	\$ 3,384,331	\$ 4,088,408	\$ 322,553	\$ 836,115	\$ 32,620,882
Hourly Wages							128						128
Other Compensation												5,850	5,850
Employee Benefits	226,963	226,920		1,333,416	576,868	657,675	6,751,620	523,580	966,368	1,930,678	100,986	252,183	13,547,257
Personal Services-Other	27,363	6,884				(232)							34,015
Total	1,059,828	943,282		5,171,916	2,648,995	2,625,887	19,664,257	2,206,495	4,350,699	6,019,086	423,539	1,094,148	46,208,132
Operating Expenses													
Other Services	77,386	126,100		1,493,500	184,950	226,268	1,611,896	481,151	6,520,304	5,606,025	104,330	373,633	16,805,543
Supplies & Materials	17,114	16,416		940,331	347,928	127,546	2,869,620	515,642	81,819	1,030,375	6,584	94,085	6,047,460
Communications	12,763	13,065		173,852	38,916	64,627	433,343	52,473	106,644	864,882	17,046	37,032	1,814,643
Travel	6,523	523		258,652	72,568	60,723	675,819	7,253	230,895	154,429	15,184	153,444	1,636,013
Rent	63,470	62,778		615,526	328,567	241,200	535,593	110,444	252,259	715,055	25,448	96,082	3,046,422
Utilities				108,348	80,849	82	16,244	1,604		25,797			232,924
Repair & Maintenance	4,511	10,017		593,293	144,390	26,075	584,830	27,068	19,675	84,111	935	56	1,494,961
Other Expenses	8,352	4,044		199,090	81,621	29,649	184,186	59,408	140,381	71,068	10,627	29,356	817,782
Total	190,119	232,943		4,382,592	1,279,789	776,170	6,911,531	1,255,043	7,351,977	8,551,742	180,154	783,688	31,895,748
Equipment & Intangible Assets													
Equipment				391,825	309,014	126,672	1,811,394	98,134		293,328			3,030,367
Capital Leases-Equipment-Nonbu				20,595	278,233								298,828
Intangible Assets							138,579						138,579
Total				412,420	587,247	126,672	1,949,973	98,134		293,328			3,467,774
Capital Outlay													
Land & Interest In Land									42,523				42,523
Total									42,523				42,523
Local Assistance													
From State Sources			\$ 2,421,431			1,974,318							4,395,749
Total			2,421,431			1,974,318							4,395,749
Grants													
From State Sources												924,812	924,812
From Federal Sources								35,394				6,786,846	6,822,240
From Other Sources												50,000	50,000
Total								35,394				7,761,658	7,797,052
Benefits & Claims													
To Individuals									936,990		198,000		1,134,990
OPEB Expenses	48,412												48,412
Total	48,412								936,990		198,000		1,183,402
Transfers													
Accounting Entity Transfers										3,269,133			3,269,133
Total										3,269,133			3,269,133
Debt Service													
Loans									130,111	733,643			863,754
Capital Leases				7,236	154,596	3,436							7,236
Installment Purchases													158,032
Total				7,236	154,596	3,436			130,111	733,643			1,029,022
Total Expenditures & Transfers-Out	\$ 1,298,359	\$ 1,176,225	\$ 2,421,431	\$ 9,974,164	\$ 4,670,627	\$ 5,506,483	\$ 28,525,761	\$ 3,559,672	\$ 12,847,694	\$ 18,866,932	\$ 801,693	\$ 9,639,494	\$ 99,288,535
EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund		\$ 432,761	\$ 2,421,431	\$ 4,752,204	\$ 3,889,236		\$ 1,477,977	\$ 3,208,431	\$ 4,988,512	\$ 7,131,610		2,326,221	\$ 30,628,383
State Special Revenue Fund		670,152		3,597,375	303,204	\$ 4,555,381	26,160,729	121,769	6,793,057	8,660,950	801,693	117,084	51,781,394
Federal Special Revenue Fund				1,624,585	478,187		887,055	216,151	1,066,125	499,080		7,196,189	11,967,372
Capital Projects Fund										2,166,837			2,166,837
Enterprise Fund		60,219						6,801		408,455			1,426,577
Internal Service Fund	\$ 1,298,359	13,093						6,520					1,317,972
Total Expenditures & Transfers-Out	1,298,359	1,176,225	2,421,431	9,974,164	4,670,627	5,506,483	28,525,761	3,559,672	12,847,694	18,866,932	801,693	9,639,494	99,288,535
Less: Nonbudgeted Expenditures & Transfers-Out	75,774	6,884		20,595	278,233	(5,631)			6,170,215	3,266,364		50,000	9,862,434
Prior Year Expenditures & Transfers-Out Adjustments		2,026		970	197	(1,567)	(23,625)	553	1,019	(57,632)	(10,007)		(88,066)
Actual Budgeted Expenditures & Transfers-Out	1,222,585	1,167,315	2,421,431	9,952,599	4,392,197	5,513,681	28,549,386	3,559,119	6,676,460	15,658,200	811,700	9,589,494	89,514,167
Budget Authority	1,321,188	2,028,506	2,421,431	12,597,067	4,625,123	6,952,338	32,373,889	4,498,189	11,186,657	25,322,637	887,662	31,783,946	135,998,633
Unspent Budget Authority	\$ 98,603	\$ 861,191	\$ 0	\$ 2,644,468	\$ 232,926	\$ 1,438,657	\$ 3,824,503	\$ 939,070	\$ 4,510,197	\$ 9,664,437	\$ 75,962	\$ 22,194,452	\$ 46,484,466
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund		\$ 160,481		\$ 1,199,206	\$ 113,079		\$ 26,312	\$ 9,542	\$ 3,148,576	\$ 375,795		54,313	\$ 5,087,304
State Special Revenue Fund		316,068		747,170		\$ 1,294,458	2,065,146	90	103,889	3,476,399	75,962	32,692	8,111,874
Federal Special Revenue Fund		351,978		698,092	119,847		1,733,045	929,438	1,257,732	687,901		22,107,447	27,885,480
Capital Projects Fund										5,004,362			5,004,362
Enterprise Fund		32,629				144,199		0		119,980			296,808
Internal Service Fund	\$ 98,603	35						0					98,638
Unspent Budget Authority	\$ 98,603	\$ 861,191	\$ 0	\$ 2,644,468	\$ 232,926	\$ 1,438,657	\$ 3,824,503	\$ 939,070	\$ 4,510,197	\$ 9,664,437	\$ 75,962	\$ 22,194,452	\$ 46,484,466

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DEPARTMENT OF JUSTICE
 SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	AGENCY LEGAL SERVICES	CENTRAL SERVICES DIVISION	COUNTY ATTORNEY PAYROLL	DIVISION OF CRIMINAL INVESTIGATION	FORENSIC SCIENCE DIVISION	GAMBLING CONTROL DIVISION	HIGHWAY PATROL DIVISION	INFORMATION TECHNOLOGY SERVICE	LEGAL SERVICES DIVISION	MOTOR VEHICLE DIVISION	OFFICE OF CONSUMER PROTECTION	JUSTICE SYSTEM SUPPORT SERVICE	TOTAL
Personal Services													
Salaries	\$ 782,845	\$ 856,879	\$ 1,689,966	\$ 3,288,015	\$ 1,661,728	\$ 1,887,064	\$ 11,742,898	\$ 2,033,075	\$ 2,920,240	\$ 3,903,004	\$ 311,178	\$ 733,544	\$ 31,810,436
Other Compensation											4,000	4,600	8,600
Employee Benefits	218,021	211,590	271,177	1,136,190	465,829	608,677	6,115,297	651,124	861,698	1,799,734	93,512	217,308	12,650,157
Personal Services-Other	26,767					22,336							49,103
Total	1,027,633	1,068,469	1,961,143	4,424,205	2,127,557	2,518,077	17,858,195	2,684,199	3,781,938	5,702,738	408,690	955,452	44,518,296
Operating Expenses													
Other Services	232,521	117,330		803,547	199,219	865,930	1,606,202	1,684,948	7,020,549	7,416,945	37,871	276,307	20,261,369
Supplies & Materials	12,965	83,203		578,124	331,738	106,191	3,493,731	256,305	62,347	785,356	17,772	32,872	5,760,604
Communications	16,081	11,342		130,384	37,989	66,239	339,972	60,000	91,569	474,739	12,615	31,071	1,272,001
Travel	7,956	686		262,601	59,819	58,574	521,777	26,765	161,831	112,586	14,178	85,051	1,311,824
Rent	60,763	51,599		340,045	565,810	205,232	414,304	87,950	190,518	609,579	7,707	74,556	2,608,063
Utilities				98,079	28,552		9,709	1,808		24,369			162,517
Repair & Maintenance	4,194	3,256		110,767	69,283	44,409	525,131	213,341	19,243	151,359	1,013	236	1,142,232
Other Expenses	8,931	2,650		187,941	49,043	12,420	83,773	44,750	119,483	44,030	4,827	31,876	589,724
Total	343,411	270,066		2,511,488	1,341,453	1,358,995	6,994,599	2,375,867	7,665,540	9,618,963	95,983	531,969	33,108,334
Equipment & Intangible Assets													
Equipment				136,340	694,526	78,974	2,014,487	187,312	34,598	7,130			3,153,367
Capital Leases-Equipment-Nonbu				34,258									34,258
Intangible Assets								18,118					18,118
Total				170,598	694,526	78,974	2,014,487	205,430	34,598	7,130			3,205,743
Capital Outlay													
Land & Interest In Land									41,945				41,945
Buildings				107,247									107,247
Total				107,247					41,945				149,192
Local Assistance													
From State Sources						2,070,941							2,070,941
Total						2,070,941							2,070,941
Grants													
From State Sources												1,889,255	1,889,255
From Federal Sources									2,847,838			5,462,273	8,310,111
Total									2,847,838			7,351,528	10,199,366
Benefits & Claims													
To Individuals									739,292				739,292
Total									739,292				739,292
Transfers													
Accounting Entity Transfers							365			4,121,190		166	4,121,721
Total							365			4,121,190		166	4,121,721
Debt Service													
Loans				299					116,968	628,086			745,353
Capital Leases				(12,200)									(12,200)
Installment Purchases				23,604	3,664	4,879				52,258			84,405
Total				11,703	3,664	4,879			116,968	680,344			817,558
Total Expenditures & Transfers-Out	\$ 1,371,044	\$ 1,338,535	\$ 1,961,143	\$ 7,225,241	\$ 4,167,200	\$ 6,031,866	\$ 26,867,646	\$ 5,265,496	\$ 15,228,119	\$ 20,130,365	\$ 504,673	\$ 8,839,115	\$ 98,930,443
EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund		\$ 507,369	\$ 1,961,143	\$ 3,819,451	\$ 2,992,017		\$ 1,003,569	\$ 3,079,187	\$ 5,695,157	\$ 5,938,567		\$ 1,741,701	\$ 26,738,161
State Special Revenue Fund		774,141		1,836,698	303,203	\$ 4,928,720	25,038,083	1,515,797	6,107,081	8,680,556	\$ 504,673	84,982	49,773,934
Federal Special Revenue Fund				1,569,092	871,980		825,994	657,191	3,425,881	783,148		7,012,432	15,145,718
Capital Projects Fund										4,225,752			4,225,752
Enterprise Fund		40,215				1,103,146		6,801		502,342			1,652,504
Internal Service Fund	\$ 1,371,044	16,810						6,520					1,394,374
Total Expenditures & Transfers-Out	1,371,044	1,338,535	1,961,143	7,225,241	4,167,200	6,031,866	26,867,646	5,265,496	15,228,119	20,130,365	504,673	8,839,115	98,930,443
Less: Nonbudgeted Expenditures & Transfers-Out	26,677	(71)	(101)	(13,007)	(238)	21,926	(3,701)	(239)	5,190,927	4,385,341	(35)	(198)	9,607,281
Prior Year Expenditures & Transfers-Out Adjustments	14,380	1,311		38,122	9,879	8,867	38,357	(5,204)	160,144	(191,084)			74,772
Actual Budgeted Expenditures & Transfers-Out	1,329,987	1,337,295	1,961,244	7,200,126	4,157,559	6,001,073	26,832,990	5,270,939	9,877,048	15,936,108	504,708	8,839,313	89,248,390
Budget Authority	1,408,906	2,065,936	1,961,244	8,124,281	4,897,656	7,557,999	27,837,547	6,649,040	11,097,205	21,760,842	528,963	30,236,115	124,125,734
Unspent Budget Authority	\$ 78,919	\$ 728,641	\$ 0	\$ 924,155	\$ 740,097	\$ 1,556,926	\$ 1,004,557	\$ 1,378,101	\$ 1,220,157	\$ 5,824,734	\$ 24,255	\$ 21,396,802	\$ 34,877,344
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund		\$ 118,736	\$ 8,201	\$ 4,427		\$ 410,993	\$ 35,759	\$ 130,539	\$ 190,428	\$ 1,400	\$ 26,825	\$ 927,308	
State Special Revenue Fund		379,418	74,706	1,448,747	60,008	481,362	272,289	516,115	22,855	8,501	3,264,001		
Federal Special Revenue Fund		230,355	841,248	735,670	533,556	860,980	817,329	875,463		21,361,476	26,256,077		
Capital Projects Fund								4,181,196			4,181,196		
Enterprise Fund		132				108,179		0		61,532	169,843		
Internal Service Fund	\$ 78,919					0		0			78,919		
Unspent Budget Authority	\$ 78,919	\$ 728,641	\$ 0	\$ 924,155	\$ 740,097	\$ 1,556,926	\$ 1,004,557	\$ 1,378,101	\$ 1,220,157	\$ 5,824,734	\$ 24,255	\$ 21,396,802	\$ 34,877,344

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

Department of Justice
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 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, and Capital Projects). In applying the modified accrual basis, the department records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

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

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

Basis of Presentation

The financial schedule format 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. The department General Fund activities include motor vehicle and gambling activities.

- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include Highway Patrol operations, collections of gambling license revenues, Montana Law Enforcement Academy operations, Natural Resources Damage Litigation Program, Consumer Protection Program, and Motor Vehicle Information Technology System account.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include Federal Motor Carrier Safety, Homeland Security, Federal Crime Victims Benefits, and Medicaid Fraud Control Unit.
- ♦ **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund to account for the costs related to developing the information technology system related to the production and maintenance of motor vehicle title and registration records and driver's license records.

Proprietary Fund Category

- ♦ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. Department Internal Service Funds is for the Agency Legal Services Bureau, which provided requested legal services to other state agencies.
- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Department Enterprise Funds include MVD State Information Portal, MVD Electronic Commerce, and the Liquor Division, which is used to fund part of the Gambling Division's operations, and is administered by the Department of Revenue.

Fiduciary Fund Category

- ♦ **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end. The department agency funds include county collections.

2. General Fund Balance

The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department's total assets placed in the fund exceed

outstanding liabilities, resulting in positive ending General Fund balances for each of the fiscal years ended June 30, 2007, and June 30, 2008. These balances reflect the results of the activity of the department and not the fund balance of the statewide General Fund.

3. Direct Entries to Fund Balance

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

4. Natural Resource Damage Litigation Settlements

The Natural Resource Damage Program (NRDP) oversees the natural resource damage (NRD) litigation and restoration activities at sites in the Upper Clark Fork River Basin (UCFRB) and other sites in Montana. The NRD litigation expenses were authorized by the legislature and funded with money loaned from the General Fund and Coal Tax Trust Fund by the state's Board of Investments. The Natural Resource Damage Program administers environmental restoration contracts to assure the terms of these settlements are followed.

On June 26, 1998, DOJ received \$15 million from ARCO for administrative, scientific, and legal costs associated with the litigation. In July 1999, the department received an additional \$129 million settlement to be used for environmental restoration work. Of that, \$119 million was deposited in the UCFRB Restoration Fund and \$10 million was deposited in the Silver Bow Creek Reserve Fund.

In April 2006, DOJ received a \$2.5 million initial payment from NorthWestern Corporation for restoration activities at the Milltown site. NorthWestern will provide additional payments of \$1.4 to meet their obligation under the Milltown Consent Decree of a total payment of \$3.9 million.

In August 2008, the state received \$8 million from ARCO and \$8 million from ASARCO for restoration work to be conducted by the NRDP and remediation work to be conducted by the Department of Environmental Quality (DEQ) at the Upper Blackfoot Mining Complex/Mike Horse site. The State expects to receive an additional \$30 million for additional work at the Upper Blackfoot site at the conclusion of the ASARCO Bankruptcy.

On August 25, 2008, a federal court approved a settlement of the final NRD claims for the UCFRB lawsuit with ARCO that provides for a total payment of \$168 million to the state. Of that, \$72.5 million will be awarded to DOJ for restoration work and \$95.5 million will be awarded to DEQ for remediation projects in the UCFRB. Payments to the state will begin within 90 days of court approval.

A pending settlement of \$138.2 million with ASARCO Bankruptcy Custodial Trust Settlement for ASARCO Owned Property was agreed to on July 1, 2008. The proposed settlement to be put in custodial trust controlled by the State of Montana and the United States for cleanup of ASARCO's owned, but nonoperating, industrial and mining sites in Montana. The settlement is probable to be finalized by the courts at an undetermined time.

5. Licenses and Permit Revenue

The fiscal year 2008 Schedule of Total Revenues and Transfers-In includes \$3,914,862 of Gambling license and permit revenue received in fiscal year 2008 that should not have been recognized as revenue in fiscal year 2008 since it is related to fiscal year 2009 license and permit fees.

DEPARTMENT OF JUSTICE

DEPARTMENT RESPONSE

ATTORNEY GENERAL
STATE OF MONTANA

B-3

Mike McGrath
Attorney General



Department of Justice
215 North Sanders
PO Box 201401
Helena, MT 59620-1401

RECEIVED

OCT 15 2008

LEGISLATIVE AUDIT DIV.

October 14, 2008

Tori Hunthausen
Legislative Auditor
Legislative Audit Division

Dear Tori:

The staffs of the Department of Justice and the Board of Crime Control wish to express our appreciation for the professional manner in which your staff conducted our financial compliance audit. Your willingness to schedule around our staffs' busy work schedules was important to our operation. The audit provides us with valuable and timely information that allows us to make compliance changes to more accurately and fully conform to state laws and generally accepted accounting principles.

Following are the responses of the Department of Justice and the Crime Control Division to the audit recommendations presented in your audit report covering fiscal years 2007 and 2008.

Recommendation #1

We recommend the department:

- A. Record all consumer protection settlement activity on the accounting records in accordance with state law.**
- B. Use an appropriation as required by the constitution for consumer protection expenditures.**

We concur. We had not encountered this type of transaction prior to the period covered in this report and were unsure of the proper accounting treatment. Before the end of FY08 the Central Services division fiscal staff sought an appropriation and corrected the accounting records.

Recommendation #2

We recommend the department comply with the state law regarding timeliness of deposits.

We concur. The Department of Justice has implemented procedural changes regarding the timely deposits of checks in the Motor Vehicle Division, Gambling Control Division and Highway Patrol Division.

Motor Vehicle Division will reconfigure the new software and computer application system, Montana Enhanced Registration and Licensing Information Network [MERLIN] to allow adjusting entries to be made without uploading to the state's accounting system [SABHRS] thus allowing for corrections to revenue if the check remitted by a county is not correct. From now on the staff at Motor Vehicle will submit checks to the treasurer daily.

Gambling Control has already made changes in the handling of checks. Additional staff has been trained thereby allowing the processing of all checks immediately regardless of staff taking leave.

Highway Patrol is now depositing all checks in compliance with state laws. New staff at the division has been trained. Internal controls have been put in place to assure that all checks logged in as received are taken to Central Services Division. This new procedure provides evidence that no checks have been misplaced or lost.

Recommendation #3

We recommend the department segregate check receiving, custody, and recordkeeping functions at its Motor Vehicle, Gambling Control, and Highway Patrol Divisions.

We concur. Changes have been put in place at all three divisions to minimize the risk of loss, misplacement or theft.

The Motor Vehicle Division is hiring an accounting technician that will receive the checks but not maintain custody.

Gambling Control has limited staff. The new Gentax software application has reduced the number and size of checks received. The majority of all transactions are processed with an electronic file transfer of funds. However, further analysis of the business processes may require the division to develop additional procedures to minimize the risk and segregate the duties.

Highway Patrol has implemented new processes to segregate the duties regarding the handling of checks. The receptionist opens the mail and logs in the checks. The checks

are then given to the fiscal staff for completing the deposit ticket. The deposits are logged and then taken to Central Services for deposit to the state treasurer.

Recommendation #4

We recommend the department implement internal control procedures to ensure transactions processed during fiscal year-end are accurate and complete.

We concur. The incomplete conversion of two new computer application systems during 2007 and 2008 made it very difficult for limited staff to analyze the tracking of revenue and the timing of uploads to the state accounting system [SABHRS].

The following changes have been made to limit errors during the fiscal year-end period:

1. More meetings will be scheduled with division fiscal staff and CSD fiscal staff at year-end to discuss potential problems.
2. The division fiscal staff must certify that the SABHRS accounting records have been reviewed (at mid-month) and are accurate.
3. New department policy requires that key division fiscal staff not take vacation leave during the critical fiscal year-end period.

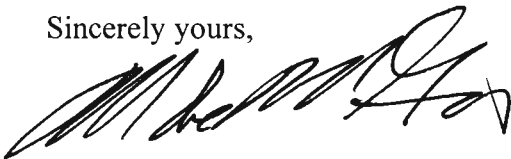
Recommendation #5

We recommend the department implement procedures for monitoring and testing its internal control procedures as required by state policy.

We concur. The department has made significant progress in the development of an internal control plan. An Internal Control Committee was established in January 2008. This committee has identified and documented the controls that are in place at each division. The final monitoring plan is being developed by the department's Internal Controls Committee.

The department will be in compliance by January 2009.

Sincerely yours,



MIKE MCGRATH
Attorney General