



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

# *Department of Livestock*

*For the Two Fiscal Years Ended  
June 30, 2013*

MAY 2014

LEGISLATIVE AUDIT  
DIVISION

13-22

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**FINANCIAL-COMPLIANCE AUDITS**

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2013, was issued March 28, 2014. The Single Audit Report for the two fiscal years ended June 30, 2015, will be issued by March 31, 2016. Copies of the Single Audit Report can be obtained by contacting:

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# LEGISLATIVE AUDIT DIVISION

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May 2014

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Livestock (department) for the two fiscal years ended June 30, 2013. The report contains two recommendations to the department and the Department of Commerce, related to a conflict of interest at the Board of Horse Racing and a material weakness in internal controls over verification of simulcast wagering information for the Board of Horse Racing. The report also contains three recommendations to the department concerning compliance with state laws related to issuing payments only upon an appropriation made by law, setting livestock per capita fees, and using deferred revenues to fund current year operations.

This report includes the department's financial schedules. The financial schedule presentation is intended to provide the legislative body with information necessary for decision-making purposes; it is not intended to conform to the financial reporting requirements established in generally accepted accounting principles (GAAP). The financial schedule presentation has not changed, but audit reporting standards have changed. Auditing standards require us to clearly communicate that the financial schedule presentation is not intended to, and does not, conform to GAAP reporting requirements. The Independent Auditor's Report on page A-1 contains language to this effect in the section titled "Adverse Opinions on U.S. Generally Accepted Accounting Principles." This section does not imply the amounts presented on the department's financial schedules are not fairly stated. Page A-1 also communicates the extent to which the user can rely on the information contained in the financial schedules in the sections titled "Qualified Opinions on Regulatory Basis of Accounting" and "Unmodified Opinions on Regulatory Basis of Accounting."

The departments' written responses to the audit recommendations are included in the audit report beginning at page B-1. We thank the Executive Officer and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA  
Legislative Auditor



## TABLE OF CONTENTS

Figures and Tables.....	ii
Appointed and Administrative Officials .....	iii
Report Summary .....	S-1
<b>CHAPTER I – INTRODUCTION.....</b>	<b>1</b>
Introduction .....	1
Background.....	2
Prior Audit Recommendations .....	3
<b>CHAPTER II – FINDINGS AND RECOMMENDATIONS.....</b>	<b>5</b>
Board of Horse Racing.....	5
Conflict of Interest.....	6
Controls Over Simulcast Revenue Verification .....	7
Unconstitutional Payments from the Treasury.....	9
Per Capita Fee Setting.....	11
Deferred Revenue Use.....	12
<b>INDEPENDENT AUDITOR’S REPORT AND DEPARTMENT FINANCIAL SCHEDULES</b>	
Independent Auditor’s Report .....	A-1
Schedule of Changes in Fund Equity & Property Held in Trust for the Fiscal Year Ended June 30, 2013.....	A-5
Schedule of Changes in Fund Equity & Property Held in Trust for the Fiscal Year Ended June 30, 2012.....	A-6
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2013.....	A-7
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2012.....	A-8
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2013.....	A-9
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2012.....	A-10
Notes to the Financial Schedules .....	A-11
<b>DEPARTMENT RESPONSES</b>	
Department of Livestock.....	B-1
Department of Commerce .....	B-3

## FIGURES AND TABLES

### Tables

Table 1	Summary of Deficiencies in Internal Control .....	1
Table 2	Disbursements from the Treasury Without an Appropriation .....	10

## APPOINTED AND ADMINISTRATIVE OFFICIALS

			<u>Industry Represented</u>	<u>Term Expires March 1</u>
<b>Board of Livestock</b>	Jan French, Chair	Hobson	Cattle	2015
	Linda Nielsen, Vice Chair	Nashua	Cattle	2017
	John Scully	Ennis	Cattle	2019
	Brett DeBruycker	Dutton	Cattle	2015
	Ed Waldner	Chester	Swine	2017
	Jeffrey Lewis	Corvallis	Dairy	2017
	John H. Lehfeldt	Lavina	Sheep	2019

### **Department of Livestock**

Christian Mackay, Executive Officer

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

Margie Kelly, Alternative Livestock Program

Centralized Services Division  
     George H. Harris, Administrator  
     Patti Thompson, Bureau Chief, Milk Control Bureau  
     George Edwards, Executive Secretary, Livestock Loss Board

Dr. Bill Layton, DVM, DACVP, Administrator, Diagnostic Laboratory Division

John Grainger, Administrator, Brands Enforcement Division and  
     Coordinator, Livestock Crimestoppers Commission

Dan Turcotte, Bureau Chief, Milk and Egg Inspection Bureau

Gary Hamel, Bureau Chief, Meat and Poultry Inspection Bureau

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# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL-COMPLIANCE AUDIT

### Department of Livestock

For the Two Fiscal Years Ended June 30, 2013

MAY 2014

13-22

REPORT SUMMARY

The audit identified a conflict of interest at the Board of Horse Racing, as well as a material weakness in internal controls over simulcast revenues. Chapter 402, Laws of 2013, transferred the Board of Horse Racing from the Department of Livestock to the Department of Commerce, effective July 1, 2013. This report contains recommendations to both departments related to these issues.

### Context

State law tasks the Department of Livestock (department) with controlling and eradicating animal diseases, preventing the transmission of such diseases to humans, protecting livestock from predatory animals, regulating producer pricing of the milk industry, and performing meat, milk, and egg inspections.

The department's operations are funded primarily by collections made in the state special revenue fund, including brand license fees, per capita livestock taxes, and various charges for services. The department also receives federal grant awards and general fund appropriations. The department expended approximately \$18.23 million through the state special revenue fund, \$3.58 million through the federal special revenue fund, and \$2.25 million through the general fund, during fiscal years 2012 and 2013 combined.

### Results

The report contains two recommendations to the Department of Livestock and the Department of Commerce, related to a conflict of interest at the Board of Horse Racing and a material weakness in internal

controls over verification of simulcast wagering information for the Board of Horse Racing. As a result of these issues, we were unable to obtain sufficient, appropriate audit evidence on the accuracy and completeness of simulcast revenues during the audit period, which resulted in modified opinions on four of the six financial schedules included in this report.

The report also contains three recommendations to the Department of Livestock concerning compliance with state laws related to issuing payments only upon an appropriation made by law, setting livestock per capita fees, and using deferred revenues to fund current year operations.

Recommendation Concurrence	
Concur	4
Partially Concur	1
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (13-22) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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# Chapter I – Introduction

## Introduction

We performed a financial-compliance audit of the Department of Livestock (department) for the two fiscal years ended June 30, 2013. 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 whether the department complied with selected applicable laws and regulations.
3. Determine whether the department's financial schedules fairly present the results of operations and changes in fund equity and property held in trust for each of the two fiscal years ended June 30, 2013, and June 30, 2012.
4. Determine the implementation status of prior audit recommendations.

Auditing standards require us to communicate, in writing, deficiencies in internal control we identified as a result of audit objective #1 above and considered to be significant or material. A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or detect and correct misstatements on a timely basis. A material weakness is one or more deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A significant deficiency is one or more deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Table 1 outlines the status of a material weakness we identified during this audit.

Our consideration of internal control was not for the purpose of expressing an opinion on the effectiveness of internal controls.

Therefore, material weaknesses or significant deficiencies may exist that were not identified.

Subject	Type of Deficiency	Page
Simulcast Revenue Verification	Material Weakness	7

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

## **Background**

The Department of Livestock, established by §2-15-3101, MCA, provides for the control and eradication of animal diseases, the prevention of transmission of animal diseases to humans, and the protection of livestock from theft and predatory animals. The department also regulates the state milk industry and oversees the Livestock Loss Board.

The department is governed by a seven-member Board of Livestock (board). The members of the board are appointed by the Governor and confirmed by the senate to serve six-year terms. The board appoints an executive officer who is responsible for the operations of the department and ensuring board policies, directives, and rules are carried out. The department is organized into five divisions that correspond to the program expenditures in the department's Schedules of Total Expenditures & Transfers-Out on pages A-9 and A-10.

**Centralized Services Division (20.78 FTE)** – provides budgeting, accounting, payroll, legal, purchasing, and data processing services to the department. This division also includes the Milk Control Bureau, Milk Control Board, Predator Control Program, and Livestock Loss Board. The Milk Control Board is responsible for the regulation of milk producer pricing. The Predator Control Program contracts with the U.S. Department of Agriculture to control predators that injure or kill domestic livestock. The Livestock Loss Board, also administratively attached to the department, provides financial reimbursement to producers for losses caused by wolves and works to decrease the risk of wolf-caused losses.

**Brands Enforcement Division (57.21 FTE)** – includes the Inspection and Control Program, which is responsible for brand inspections, recording livestock brands, market dealer licensing, and livestock theft investigations. This program has employees in 13 market centers and 18 districts throughout the state. The state livestock inspectors in these districts are department employees. The fees charged for inspections by state livestock inspectors are department revenues. There are approximately 550 deputy state livestock inspectors. These inspectors are not department employees. They retain their inspection fees, and their permits and inspection reports are processed by the division. The Livestock Crimestoppers Commission is administratively attached to the department. This commission provides a reward program for information used in the detection of livestock-related crimes.

**Animal Health Division (16.01 FTE)** – responsible for the control and eradication of animal diseases and the prevention of transmission of animal diseases to humans.

**Diagnostic Laboratory (21.76 FTE)** – provides laboratory support for the Disease Control Program, Milk and Egg Program, veterinarians, and livestock producers. The Diagnostic Laboratory operates on the Bozeman campus of Montana State University.

**Milk and Egg Inspection Bureau (6.50 FTE)** – ensures eggs, milk, and milk products sold or manufactured in the state are fit for human consumption.

**Meat and Poultry Inspection Bureau (20.50 FTE)** – ensures meat, poultry, meat products, and poultry products slaughtered, processed, and/or stored in the state meet state and federal requirements.

### **Prior Audit Recommendations**

The prior financial-compliance audit of the department contained three recommendations to the department. The department fully implemented one of the recommendations, and partially implemented the other two.

The first partially implemented recommendation relates to establishing and implementing effective internal controls to ensure transactions are recorded on the state accounting records in accordance with state law and accounting policy. The department is in the process of establishing and implementing internal controls over processing financial transactions. Based on the progress made to date, we make no further recommendation to the department at this time.

The second partially implemented recommendation relates to timely deposits. The prior audit report contained a two-part recommendation to the department regarding compliance with deposit requirements in state law for brand re-record collections and compliance with deposit requirements in state accounting policy for third-party collections made by livestock markets. The first portion of the recommendation, related to brand re-record deposits, was fully implemented during the current audit period. The second portion of the recommendation, related to third-party collections, was partially implemented during the current audit period. The department took steps to improve the timeliness of deposits of inspection fees collected by the markets, but the audit identified isolated instances where deposits were not made in a timely manner. Because the department has taken steps to improve the timeliness of deposits, we make no further recommendation to the department at this time.



## Chapter II – Findings and Recommendations

### **Board of Horse Racing**

The Board of Horse Racing (board) is responsible for regulating the horse racing industry in Montana, including simulcast parimutuel race activities. The board was administratively attached to the Department of Livestock (department) in fiscal years 2012 and 2013, the period of time covered by this audit. The board's financial activity was recorded on the department's accounting records by department personnel in a state special revenue account, and is included in the department's financial schedules starting on page A-5 of this report. The board's total revenues were \$443,203 and \$225,224 in fiscal years 2012 and 2013, respectively. These revenues are primarily attributed to simulcast parimutuel race activities, which constitute \$369,978 and \$165,340 of the reported revenues for each respective fiscal year.

Under state law, the board can either license a simulcast parimutuel network provider or operate the simulcast network internally. The board did both during the audit period. The following information summarizes the simulcast parimutuel race operational structure in place during the audit period, including a brief description of services provided by outside parties.

- ◆ From October 2010 to March 2012, the board operated the simulcast parimutuel network internally. The board contracted with an outside company (Contractor A) to provide the wagering system, including wagering terminals and data transmission, used at bars and casinos approved by the board to offer simulcasting. Contractor A's records contain detail on wagers placed at the bars and casinos, which is the basis for simulcast revenues due to the board. The board also contracted with a second outside company (Contractor B) to provide simulcast reporting services. Contractor B accessed simulcast wagering information in Contractor A's records, and compiled the wagering information into reports summarizing the wagers placed at each bar and casino and the related money due to the board for the wagers placed. The board compensated both Contractors A and B for these services.
- ◆ In April 2012, the board licensed a private individual (Contractor C) to serve as the simulcast parimutuel network provider. Contractor C served as the sole simulcast network provider for the remainder of fiscal year 2012 and all of fiscal year 2013. Contractor C utilized the same services of Contractors A and B, as outlined above, in operating the simulcast parimutuel network. Contractor C compensated both Contractors A and B for the services they provided.

As part of the audit, we reviewed select portions of the simulcast parimutuel race operations at the board. Through this review, we identified a conflict of interest at the board and a material weakness in internal controls at the department related to verification of the completeness of simulcast revenues collected on behalf of the board.

These issues are discussed in the following two report sections. Chapter 402, Laws of 2013, administratively attached the board to the Department of Commerce, effective July 1, 2013. Because the board was administratively attached to the Department of Livestock during the audit period, and is currently attached to the Department of Commerce, the report sections contain recommendations to both state agencies.

## **Conflict of Interest**

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### **In fiscal year 2013, the department, acting on behalf of the board, entered into an employment contract with an outside party creating a conflict of interest.**

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In March 2013, the department, acting on behalf of the board, executed a new contract with Contractor B (from page 5) to perform the duties of the board's Executive Secretary. The board compensated Contractor B for serving as the contracted Executive Secretary. Under the Executive Secretary contract, one of the Contractor B's responsibilities was to work with the simulcast network provider (Contractor C from page 5) to expand simulcasting opportunities and increase revenues generated for the board.

At the time the department negotiated and signed the Executive Secretary contract with Contractor B, the contractor was already engaged in a separate business arrangement with Contractor C to provide simulcast wager reporting services. The Executive Secretary contract placed Contractor B in position of conflict, because it required the contractor to work with and oversee the activities of Contractor C, an entity with which Contractor B had a pre-existing business arrangement within the simulcast network operations.

Under state law, the board's contracted Executive Secretary is considered to be a public employee. State law prohibits public employees from engaging in substantial financial transactions for their private business purposes with a person who the employee inspects or supervises in the course of official duties. During the period of time in which Contractor B served as the contracted Executive Secretary and provided simulcast reporting services to Contractor C, Contractor B was compensated by both the board and Contractor C for services rendered. By requiring Contractor B to work with Contractor C, an entity with which Contractor B was already engaged in a separate business arrangement, the department created a conflict of interest for Contractor B.

Department staff indicated Contractor B is a leading expert in the horse racing industry and in simulcast operations, and without this expertise in the Executive



Secretary position, the board would have faced significant operational difficulties. While we acknowledge Contractor B's experience, the statutory rules of conduct for public employees are in place to prohibit conflicts of interest between public duty and private interest. When such conflicts exist, there is increased risk of improper activity occurring.

Although the conflict of interest was created by the Department of Livestock, corrective action should be taken by the Department of Commerce, given the board is currently administratively attached to the Department of Commerce. Therefore, the recommendation below is directed solely to the Department of Commerce.

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**RECOMMENDATION #1**

*We recommend the Department of Commerce work with the Board of Horse Racing to comply with state law by eliminating the conflict of interest within the Board of Horse Racing.*

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## **Controls Over Simulcast Revenue Verification**

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**The department did not have controls in place to ensure the completeness and accuracy of simulcast wagering information obtained from contractors and used in financial reporting.**

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As outlined on page 5, the board and Contractor C used the services of Contractors A and B in operating the simulcast parimutuel network during the audit period. The department relied on simulcast wagering information maintained by Contractor A and reported by Contractor B to verify the completeness of simulcast revenues remitted to the department by outside parties during the audit period. However, the department had no procedures in place to verify the accuracy of the information maintained and reported by the contractors.

State accounting policy requires agencies to develop internal controls to ensure programs operate in conformance with laws and regulations, and that the related transactions are accurate. The department did not have procedures in place to ensure the completeness and accuracy of simulcast wagering information from the contractors, which was used by the department for financial reporting purposes. Therefore, the department cannot confirm all of the money due to the board for simulcast wagering activities was actually remitted to the board during the audit period. The department does not know

if simulcast revenues received for the board, recorded on the state's accounting records, and presented on the department's financial schedules are complete and accurate. We consider this be a material weakness in internal controls, because there is a reasonable possibility that a material misstatement of simulcast revenues would not be prevented, or detected and corrected, by the department on a timely basis.

Department personnel stated they did not have enough knowledge of the horse racing industry to verify the information provided. Additionally, department personnel relied on the involvement of Contractor B, including the contractor's experience in the horse racing industry, to gain comfort on the activities performed by Contractor A. As the previous report section discusses, we identified a conflict of interest with Contractor B's involvement in both providing simulcast wager reporting services and serving as the board's Executive Secretary for a portion of fiscal year 2013.

In response to the lack of controls at the department, we performed additional procedures intended to provide evidence regarding the completeness and accuracy of the simulcast revenues recorded on the state's accounting records and reported on the department's financial schedules.

- ◆ We contacted various bars and casinos approved by the board to determine the amounts of wagers placed at each facility, with the goal of re-calculating the amounts due to the board based on the wagers placed and percentages outlined in state law. Some of the bars and casinos were able to provide the information requested independently of Contractor B, while others had to obtain the information we requested from Contractor B.
- ◆ We inquired with Contractor A about the availability of a service organization report covering the contractor's activities. The contracts between Contractor A and the simulcast network providers did not require Contractor A to furnish copies of the service organization reports. Copies of the reports would be made available for a cost of approximately \$4,000 per year. The department chose not to request the reports, due to the budgetary impact.

As a result, we were unable to obtain sufficient, appropriate audit evidence on the accuracy and completeness of simulcast revenues during the audit period, which resulted in modified opinions on four of the six financial schedules included in this report. This is outlined in the Independent Auditor's Report starting on page A-1. To avoid similar situations in the future, the department should monitor the activities of contracted entities whose records are used in financial reporting.

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## **RECOMMENDATION #2**

We recommend:

- A. *The Department of Livestock establish controls to monitor the activities of contract organizations whose records are used in financial reporting.*

*Because we have not had the opportunity to audit controls over Board of Horse Racing activities at the Department of Commerce, we recommend:*

- B. *The Department of Commerce:*
- i. *Determine if internal controls are adequate to ensure the completeness and accuracy of simulcast revenues.*
  - ii. *If controls are determined to be inadequate, develop and implement controls to ensure the completeness and accuracy of simulcast revenues.*
- 

## **Unconstitutional Payments from the Treasury**

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**During fiscal years 2012 and 2013, the department disbursed approximately \$197,000 from the state treasury without charging an appropriation as required by the constitution and state law.**

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The Montana State Constitution Article VIII, Section 14 states, “ ... Except for interest on the public debt, no money shall be paid out of the treasury unless upon an appropriation made by law and a warrant drawn by the proper officer in pursuance thereof.” In addition §17-8-101, MCA, states, “...(1) For purposes of complying with Article VIII, section 14, of the Montana constitution, money deposited in the general fund, the special revenue fund type ... may be paid out of the treasury only on appropriation made by law.” The law provides an exception to this requirement for refunds of money received by error or under circumstances where the state is not legally entitled to retain the money.

The legislature authorizes and limits spending by state agencies through appropriations, which are entered into the Statewide Accounting, Budgeting, and Human Resources System (SABHRS). The normal process for disbursing funds from the state treasury is to process an expenditure transaction on SABHRS, which reduces remaining appropriation authority and creates a payment. Our audit identified instances where the department disbursed funds out of the state treasury without recording an expenditure transaction on the accounting records, and therefore without charging an appropriation at the time the funds were disbursed. As part of the audit, we reviewed

certain disbursements made in this manner, as summarized in Table 2. None of the disbursements reviewed were refunds.

For each of the disbursements in Table 2, the department used a pre-paid expense account to issue the initial payment. A prepaid expense is an asset account, and recording a transaction to an asset account does not charge an appropriation. Since none of the disbursements reviewed were related to issuing a refund, all of the disbursements in Table 2 were in violation of the state constitution and state law. The department eventually charged an appropriation for the disbursements. However, a delay occurred between the date the funds were disbursed from the state treasury and the date an appropriation was charged.

Type of Payments and from Which Fund	Amount of Disbursements	Length of Time Between Disbursement of Funds and Charge to an Appropriation
Laboratory Equipment and Supplies from the State Special Revenue Fund	\$ 5,530	19 days
Simulcast Wager Software and Support from the State Special Revenue Fund	\$ 3,525	59 days
Minor Equipment Purchases from the Federal Special Revenue Fund	\$ 95,110	70 days
	\$ 93,283	130 - 241 days
<b>Total</b>	<b>\$197,448</b>	

**Source: Compiled by the Legislative Audit Division from Statewide Accounting, Budgeting, and Human Resources System.**

In situations where the budget authority has not been entered on SABHRS, but payment is due, the accounting staff issue payments without charging an expenditure. Before fiscal year-end, the department works with the Governor's Office to make necessary budgetary changes, allowing the department to establish budget authority properly on SABHRS. Once the budget authority is properly entered on SABHRS, the accounting staff make separate accounting entries to charge the activity to an expenditure, and therefore, an appropriation.

For the \$188,393 of disbursements from the Federal Special Revenue Fund in Table 2, the department purchased the equipment using grant funds awarded by another state agency. At the time the equipment was purchased, the appropriation authority for the purchase had not yet been established at the department. Department staff stated it took longer to establish the authority than originally anticipated, which resulted in the delays between when payments were made for the equipment and when appropriations were charged.

The department's business practices, outlined in the preceding paragraphs, are contrary to the state constitution and state law. Additionally, they increase the risk the department may exceed appropriated spending limits established by the legislature. The department should not make disbursements from the state treasury before making a corresponding appropriation charge.

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***RECOMMENDATION #3***

*We recommend the Department of Livestock only disburse funds from the state treasury when charging an appropriation, in accordance with the Montana State Constitution and state law.*

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## **Per Capita Fee Setting**

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### **The department used incorrect revenues as a basis for calculating the 2012 livestock per capita fee, resulting in noncompliance with state law.**

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State law requires the Board of Livestock establish the annual per capita fee assessed against livestock classes in the state. The department assesses per capita fees on a variety of animals, in accordance with state law. Per capita fees are due in November each year. The fees assessed in calendar years 2011 and 2012 are recorded as revenues on the state's accounting records in fiscal years 2012 and 2013, respectively.

Section 15-24-922(2), MCA, states "The per capita fee must be calculated each year to provide not more than 110% of the average annual revenue that was generated in the 3 previous years." In calendar years 2009, 2010, and 2011, the department based the per capita fee calculation on average annual per capita fee collections generated in the three previous fiscal years.

In 2012, the department based the calculation on all revenues in the per capita state special revenue account, not just those revenues attributed to per capita fee collections. We believe this change is contrary to state law. As a result, the department collected approximately \$158,000 of revenues in excess of the 110 percent allowed in law in fiscal year 2013.

Department staff believe there is ambiguity in the definition of "average annual revenue" in statute. It is their interpretation that all revenues in the per capita state special revenue account can be used as a basis for the calculation. This interpretation allowed the department to maximize revenues. However, a majority of the non-per

capita fee collection revenues in the account are attributed to indirect cost recoveries collected for expenditures accumulated in and paid from the account, and are not revenues generated from the per capita fee. As such, we believe it is contrary to state law to include them in the calculation of the per capita fee.

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**RECOMMENDATION #4**

*We recommend the Department of Livestock include only per capita fee collections in the basis for calculating the annual maximum per capita fee increase, in accordance with state law.*

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## **Deferred Revenue Use**

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**During fiscal years 2012 and 2013, the department spent cash associated with deferred revenue to fund current year operations, contrary to state law.**

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Calendar year 2011 was the most recent brand re-record year. Once recorded, a brand is valid until the next re-record year, which occurs every 10 years. Under state accounting policy, the proceeds received from multi-year brands are required to be deferred and recognized over the brand term. In accordance with state accounting policy, the department deferred a significant portion of the calendar year 2011 re-record proceeds at June 30, 2012, and June 30, 2013. The department also deferred revenue related to new and transferred brands that are valid until the 2021 re-record year.

State law defines deferred revenue as funds received in one fiscal year but properly allocable and recorded as revenue in subsequent fiscal years, and with the exception of the Montana Historical Society magazine subscription fees, stipulates no agency may expend deferred revenues for current fiscal year operations. Accordingly, deferred revenue is a liability until earned, not a revenue source. We compared the deferred revenue balances on the accounting records in the state special revenue account used to account for Brands Division activities to the combined cash and investment balances in the account at June 30, 2012, and June 30, 2013. In both instances, the deferred revenue balances exceeded the cash and investments balances in the account, indicating the department used deferred revenues to fund current year operations. Deferred revenues exceeded cash and investments, as recorded on the accounting records, by \$495,215 at June 30, 2012, and by \$468,927 at June 30, 2013.

The proceeds of brand recording and re-recording are one funding mechanism for the Brands Division. Other significant revenues generated by the Brands Division relate

primarily to brand inspection fees and brand mortgage fees. Department accounting staff indicated the revenues generated by the Brands Division are not sufficient to support its operations. As a result, the department has historically used per capita fees to fund some Brands Division operations, as is allowed in state law.

In fiscal year 2011, the department transferred approximately \$637,000 of per capita cash from the Centralized Services Division to the Brands Division state special revenue account at year-end. This transfer allowed the department to invest cash in the account equal to the deferred revenue in the account at June 30, 2011. The transfer was allowable under the state law governing the use of per capita fees. However, because of questions the department received related to the fiscal year 2011 transfer, they chose not to make similar transfers in fiscal years 2012 and 2013.

In May 2013, the Board of Livestock voted to increase the fee charged for new and transferred brands from \$100 to \$200. The board also voted to increase the brand inspection fee from \$0.50 per head to \$0.75 per head. These fee increases became effective July 1, 2013. The department estimates the increase in inspection fees will generate approximately \$800,000 a year. While these fee increases will provide additional revenues for the Brands Division, the department should continue to monitor the funding mechanism of the division to ensure deferred revenues are not used to fund current year operations.

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***RECOMMENDATION #5***

*We recommend the Department of Livestock comply with state law and not use deferred revenues to fund current year operations.*

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# Independent Auditor's Report and Department Financial Schedules



## LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
Angus Maciver

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

### *Introduction*

We have audited the accompanying Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Livestock for each of the fiscal years ended June 30, 2013, and 2012, and the related notes to the financial schedules.

### *Management's Responsibility for the Financial Schedules*

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the department's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles***

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets and liabilities.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***Adverse Opinions on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Department of Livestock as of June 30, 2013, and June 30, 2012, or changes in financial position for the years then ended.

***Basis for Qualified Opinions on Regulatory Basis of Accounting***

Board of Horse Racing simulcast revenues are recorded in a state special revenue account, and approximated \$370,000 and \$165,000 in fiscal years 2013 and 2012, respectively. These revenues are presented in or have an impact on the following line items on the department's financial schedules:

**Schedules of Changes in Fund Equity & Property Held in Trust**

- ◆ Budgeted Revenue
- ◆ Total Additions
- ◆ Fund Equity

**Schedules of Total Revenues & Transfers-In**

- ◆ Charges for Services
- ◆ Total Revenues & Transfers-In
- ◆ Actual Budgeted Revenues & Transfers-In

We were unable to obtain sufficient appropriate audit evidence on the completeness and accuracy of the Board of Horse Racing simulcast revenues recorded on the department's accounting records and presented on the department's financial schedules. Consequently, we were unable to determine if the financial schedule line items in the table above contain undetected misstatements.

*Qualified Opinions on Regulatory Basis of Accounting*

In our opinion, except for the possible effects of the matter described in the “Basis for Qualified Opinions” paragraph, the Schedules of Changes in Fund Equity & Property Held in Trust and Schedules of Total Revenues & Transfers-In present fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Department of Livestock for each of the fiscal years ended June 30, 2013, and 2012, in conformity with the basis of accounting described in Note 1.

*Unmodified Opinions on Regulatory Basis of Accounting*

In our opinion, the Schedules of Total Expenditures & Transfers-Out, present fairly, in all material respects, the results of operations of the Department of Livestock for each of the fiscal years ended June 30, 2013, and 2012, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

*/s/ Cindy Jorgenson*

Cindy Jorgenson, CPA  
Deputy Legislative Auditor

April 1, 2014



DEPARTMENT OF LIVESTOCK  
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Agency Fund
FUND EQUITY: July 1, 2012	\$	\$	\$	\$
PROPERTY HELD IN TRUST: July 1, 2012	<u>(47,378)</u>	<u>212,670</u>	<u>(196,517)</u>	<u>0</u>
				<u>\$ 27,595</u>
<b>ADDITIONS</b>				
Budgeted Revenues & Transfers-In	4,064	8,789,243	1,856,056	
Nonbudgeted Revenues & Transfers-In		82,927	29,958	
Prior Year Revenues & Transfers-In Adjustments	(20)	233,421	112,184	
Direct Entries to Fund Equity	1,126,501	97,161	39,574	
Additions to Property Held in Trust				827,211
Total Additions	<u>1,130,545</u>	<u>9,202,751</u>	<u>2,037,772</u>	<u>827,211</u>
<b>REDUCTIONS</b>				
Budgeted Expenditures & Transfers-Out	1,165,893	8,264,990	1,761,328	
Nonbudgeted Expenditures & Transfers-Out	(328)	400,149	5,751	
Prior Year Expenditures & Transfers-Out Adjustments		(1,411)	41,005	
Reductions in Property Held in Trust				802,232
Total Reductions	<u>1,165,565</u>	<u>8,663,728</u>	<u>1,808,084</u>	<u>802,232</u>
FUND EQUITY: June 30, 2013	\$	\$	\$	\$
PROPERTY HELD IN TRUST: June 30, 2013	<u>(82,398)</u>	<u>751,693</u>	<u>33,170</u>	<u>0</u>
				<u>\$ 52,574</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 LIVESTOCK  
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Agency Fund
FUND EQUITY: July 1, 2011	\$ (46,302)	\$ 994,544	\$ (334,515)	\$ 0
PROPERTY HELD IN TRUST: July 1, 2011				\$ 47,522
<b>ADDITIONS</b>				
Budgeted Revenues & Transfers-In	3,799	7,814,974	1,822,022	
Nonbudgeted Revenues & Transfers-In		110,258	9,089	
Prior Year Revenues & Transfers-In Adjustments		747,933	84,723	
Direct Entries to Fund Balance	1,083,270	109,524	(8,761)	
Additions to Property Held in Trust				815,603
Total Additions	<u>1,087,069</u>	<u>8,782,690</u>	<u>1,907,072</u>	<u>815,603</u>
<b>REDUCTIONS</b>				
Budgeted Expenditures & Transfers-Out	1,087,074	8,935,736	1,685,549	
Nonbudgeted Expenditures & Transfers-Out	(258)	368,253	(349)	
Prior Year Expenditures & Transfers-Out Adjustments	1,328	260,576	83,875	
Reductions in Property Held in Trust				835,531
Total Reductions	<u>1,088,144</u>	<u>9,564,564</u>	<u>1,769,074</u>	<u>835,531</u>
FUND EQUITY: June 30, 2012	\$ (47,378)	\$ 212,670	\$ (196,517)	\$ 0
PROPERTY HELD IN TRUST: June 30, 2012				<u>\$ 27,595</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 LIVESTOCK  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Total</u>
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>				
Licenses and Permits	\$ 4,044	\$ 1,070,469		\$ 1,074,513
Taxes		4,744,374	630	4,745,004
Charges for Services		2,453,044		2,453,044
Investment Earnings		12,296		12,296
Fines and Forfeits		1,341		1,341
Sale of Documents, Merchandise and Property		19,960		19,960
Grants, Contracts, and Donations		53,780	1,600	55,380
Transfers-in		609,120	162,276	771,396
Capital Asset Sale Proceeds		8,600	15,165	23,765
Federal Indirect Cost Recoveries		106,015		106,015
Miscellaneous		26,591		26,591
Federal			1,818,527	1,818,527
<b>Total Revenues &amp; Transfers-In</b>	<u>4,044</u>	<u>9,105,590</u>	<u>1,998,198</u>	<u>11,107,832</u>
Less: Nonbudgeted Revenues & Transfers-In		82,927	29,958	112,884
Prior Year Revenues & Transfers-In Adjustments	(20)	233,421	112,184	345,585
<b>Actual Budgeted Revenues &amp; Transfers-In</b>	<u>4,064</u>	<u>8,789,243</u>	<u>1,856,056</u>	<u>10,649,363</u>
Estimated Revenues & Transfers-In	7,125	12,409,275	2,547,105	14,963,505
<b>Budgeted Revenues &amp; Transfers-In Over (Under) Estimated</b>	<u><u>\$(3,061)</u></u>	<u><u>\$(3,620,032)</u></u>	<u><u>\$(91,049)</u></u>	<u><u>\$(4,314,142)</u></u>
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>				
Licenses and Permits	\$ (286)	\$ (485,284)		\$ (485,570)
Taxes		(1,176,941)		(1,176,941)
Charges for Services		(1,803,058)		(1,803,058)
Investment Earnings		(122,937)		(122,937)
Fines and Forfeits	(2,525)	(2,509)		(5,034)
Sale of Documents, Merchandise and Property		(10,312)		(10,312)
Grants, Contracts, and Donations	(250)		600	350
Transfers-in			(233)	(233)
Capital Asset Sale Proceeds		(10,000)		(10,000)
Federal Indirect Cost Recoveries		6,015		6,015
Miscellaneous		(7)		(7)
Federal			(691,416)	(706,416)
<b>Budgeted Revenues &amp; Transfers-In Over (Under) Estimated</b>	<u><u>\$(3,061)</u></u>	<u><u>\$(3,620,032)</u></u>	<u><u>\$(91,049)</u></u>	<u><u>\$(4,314,142)</u></u>

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

DEPARTMENT OF LIVESTOCK  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>				
Licenses and Permits	\$ 3,799	\$ 1,013,840		\$ 1,017,639
Taxes		4,408,869	489	4,409,358
Charges for Services		2,406,167		2,406,167
Investment Earnings		11,454		11,454
Fines and Forfeits		66,531		66,531
Sale of Documents, Merchandise and Property		6,605		6,605
Grants, Contracts, and Donations		52,514		52,514
Transfers-in		582,247	136,661	718,908
Capital Asset Sale Proceeds		23,864	8,600	32,464
Federal Indirect Cost Recoveries		95,379		95,379
Miscellaneous		5,695		5,695
Federal			1,770,084	1,770,084
Total Revenues & Transfers-In	<u>3,799</u>	<u>8,673,166</u>	<u>1,915,834</u>	<u>10,592,798</u>
Less: Nonbudgeted Revenues & Transfers-In		110,258	9,089	119,347
Prior Year Revenues & Transfers-In Adjustments		747,933	84,723	832,656
Actual Budgeted Revenues & Transfers-In	<u>3,799</u>	<u>7,814,974</u>	<u>1,822,022</u>	<u>9,640,795</u>
Estimated Revenues & Transfers-In	<u>7,125</u>	<u>12,159,108</u>	<u>2,556,900</u>	<u>14,723,133</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u><u>(3,326)</u></u>	<u><u>(4,344,134)</u></u>	<u><u>(734,878)</u></u>	<u><u>(5,082,338)</u></u>
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>				
Licenses and Permits	\$ (551)	\$ (1,007,224)		\$ (1,007,775)
Taxes		(1,135,403)		(1,135,403)
Charges for Services		(1,962,491)		(1,962,491)
Investment Earnings		(124,669)		(124,669)
Fines and Forfeits	(2,525)	(62,937)		(65,462)
Sale of Documents, Merchandise and Property		(18,174)		(18,174)
Grants, Contracts, and Donations				(250)
Transfers-in			96,766	96,766
Capital Asset Sale Proceeds		(10,000)		(10,000)
Federal Indirect Cost Recoveries		(5,359)		(5,359)
Miscellaneous		(2,878)		(2,878)
Federal		(15,000)	(831,644)	(846,644)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u><u>(3,326)</u></u>	<u><u>(4,344,134)</u></u>	<u><u>(734,878)</u></u>	<u><u>(5,082,338)</u></u>

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

DEPARTMENT OF LIVESTOCK  
 SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Animal Health Division	Brands Enforcement Division	Centralized Services Division	Diagnostic Laboratory Division	Meat/Poultry Inspection	Milk & Egg Program	Total
Personal Services							
Salaries	\$ 677,006	\$ 1,932,098	\$ 765,492	\$ 885,204	\$ 664,361	\$ 228,950	\$ 5,153,111
Other Compensation			4,950				4,950
Employee Benefits	239,232	805,481	272,931	344,419	294,105	80,804	2,036,973
Total	<u>916,238</u>	<u>2,737,579</u>	<u>1,043,373</u>	<u>1,229,623</u>	<u>958,466</u>	<u>309,754</u>	<u>7,195,033</u>
Operating Expenses							
Other Services	661,826	72,963	504,202	74,881	18,534	19,090	1,351,496
Supplies & Materials	122,788	266,550	71,985	522,105	6,708	16,830	1,006,966
Communications	44,871	76,498	28,091	34,937	8,440	4,705	197,543
Travel	23,336	25,310	29,146	7,332	43,236	8,977	137,338
Rent	89,730	320	141,561	12,529	124,860		369,000
Utilities		11,700		32,558			44,258
Repair & Maintenance	65,817	60,513	3,973	51,863	13,882	4,155	200,203
Other Expenses	76,992	73,395	67,756	123,095	95,452	10,771	447,461
Total	<u>1,085,361</u>	<u>587,248</u>	<u>846,715</u>	<u>859,301</u>	<u>311,112</u>	<u>64,528</u>	<u>3,754,265</u>
Equipment & Intangible Assets							
Equipment		28,710		21,328			50,038
Total		<u>28,710</u>		<u>21,328</u>			<u>50,038</u>
Benefits & Claims							
From State Sources			114,868				114,868
Total			<u>114,868</u>				<u>114,868</u>
Transfers-out							
Fund transfers	6,193	54,512	437,471				498,176
Total	<u>6,193</u>	<u>54,512</u>	<u>437,471</u>				<u>498,176</u>
Debt Service							
Capital Leases				24,998			24,998
Total				<u>24,998</u>			<u>24,998</u>
Total Expenditures & Transfers-Out	<u>\$ 2,007,791</u>	<u>\$ 3,408,049</u>	<u>\$ 2,442,427</u>	<u>\$ 2,135,249</u>	<u>\$ 1,269,578</u>	<u>\$ 374,282</u>	<u>\$ 11,637,377</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 139,099	\$ 687	\$ 71,309	\$ 312,929	\$ 641,541		\$ 1,165,565
State Special Revenue Fund	889,550	3,276,577	2,371,118	1,759,370	5,717	\$ 361,396	8,663,728
Federal Special Revenue Fund	979,143	130,786		62,950	622,320	12,886	1,808,084
Total Expenditures & Transfers-Out	2,007,791	3,408,049	2,442,427	2,135,249	1,269,578	374,282	11,637,377
Less: Nonbudgeted Expenditures & Transfers-Out	5,666	52,787	348,473	(608)	(595)	(150)	405,573
Prior Year Expenditures & Transfers-Out Adjustments		24,932		14,662			39,594
Actual Budgeted Expenditures & Transfers-Out	2,002,125	3,330,330	2,093,954	2,121,196	1,270,174	374,431	11,192,211
Budget Authority	2,756,000	3,391,527	3,526,456	2,257,202	1,280,901	549,506	13,761,592
Unspent Budget Authority	<u>\$ 753,875</u>	<u>\$ 61,196</u>	<u>\$ 1,432,502</u>	<u>\$ 136,006</u>	<u>\$ 10,727</u>	<u>\$ 175,075</u>	<u>\$ 2,569,382</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 258,217	\$ 2,943	\$ 9,027	\$ 178	\$ 4,411		\$ 274,776
State Special Revenue Fund	186,061	56,282	1,423,475	57,528		\$ 159,078	1,882,424
Federal Special Revenue Fund	309,597	1,971		78,300	6,317	15,997	412,182
Unspent Budget Authority	<u>\$ 753,875</u>	<u>\$ 61,196</u>	<u>\$ 1,432,502</u>	<u>\$ 136,006</u>	<u>\$ 10,727</u>	<u>\$ 175,075</u>	<u>\$ 2,569,382</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 LIVESTOCK  
 SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Animal Health Division	Brands Enforcement Division	Centralized Services Division	Diagnostic Laboratory Division	Meat/Poultry Inspection	Milk & Egg Program	Total
Personal Services							
Salaries	\$ 611,797	\$ 1,925,354	\$ 850,223	\$ 872,764	\$ 654,610	\$ 231,282	\$ 5,146,031
Other Compensation			6,450				6,450
Employee Benefits	217,093	811,492	291,696	340,211	289,141	77,089	2,026,722
Total	<u>828,890</u>	<u>2,736,846</u>	<u>1,148,370</u>	<u>1,212,975</u>	<u>943,751</u>	<u>308,371</u>	<u>7,179,203</u>
Operating Expenses							
Other Services	760,043	112,566	1,152,565	77,191	21,589	14,281	2,138,235
Supplies & Materials	118,367	282,171	70,430	469,396	12,702	19,403	972,469
Communications	46,652	86,203	34,648	31,453	8,773	4,327	212,057
Travel	18,427	23,830	54,802	9,112	37,900	12,968	157,040
Rent	38,808	538	118,393	(11,967)	120,712		266,484
Utilities		11,700		36,403			48,103
Repair & Maintenance	10,042	26,324	100,724	33,344	13,920	3,486	187,840
Other Expenses	66,232	88,040	228,577	132,082	96,559	11,278	622,769
Total	<u>1,058,571</u>	<u>631,374</u>	<u>1,760,139</u>	<u>777,014</u>	<u>312,154</u>	<u>65,744</u>	<u>4,604,996</u>
Equipment & Intangible Assets							
Equipment			7,149	11,590		23,896	42,635
Total			<u>7,149</u>	<u>11,590</u>		<u>23,896</u>	<u>42,635</u>
Benefits & Claims							
From State Sources			87,773				87,773
Total			<u>87,773</u>				<u>87,773</u>
Transfers-out							
Fund transfers		32,247	425,997				458,244
Total		<u>32,247</u>	<u>425,997</u>				<u>458,244</u>
Debt Service							
Capital Leases				48,932			48,932
Total				<u>48,932</u>			<u>48,932</u>
Total Expenditures & Transfers-Out	<u>\$ 1,887,461</u>	<u>\$ 3,400,467</u>	<u>\$ 3,429,428</u>	<u>\$ 2,050,511</u>	<u>\$ 1,255,906</u>	<u>\$ 398,011</u>	<u>\$ 12,421,783</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 74,220	\$ 3,156	\$ 69,305	\$ 303,048	\$ 638,416		\$ 1,088,144
State Special Revenue Fund	873,973	3,283,736	3,360,123	1,673,843	5,926	\$ 366,964	9,564,564
Federal Special Revenue Fund	939,268	113,575		73,620	611,564	31,048	1,769,074
Total Expenditures & Transfers-Out	1,887,461	3,400,467	3,429,428	2,050,511	1,255,906	398,011	12,421,783
Less: Nonbudgeted Expenditures & Transfers-Out	(412)	30,893	338,252	(503)	(469)	(115)	367,646
Prior Year Expenditures & Transfers-Out Adjustments	79,564	1,172	265,083	(778)		738	345,778
Actual Budgeted Expenditures & Transfers-Out	1,808,309	3,368,402	2,826,092	2,051,792	1,256,375	397,388	11,708,359
Budget Authority	2,672,368	3,428,215	3,563,751	2,216,258	1,276,336	518,138	13,675,067
Unspent Budget Authority	<u>\$ 864,059</u>	<u>\$ 59,813</u>	<u>\$ 737,659</u>	<u>\$ 164,466</u>	<u>\$ 19,961</u>	<u>\$ 120,750</u>	<u>\$ 1,966,708</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 338,279	\$ 687	\$ 12,255	\$ 10,202	\$ 996		\$ 362,418
State Special Revenue Fund	156,738	59,126	725,405	62,428		\$ 120,355	1,124,052
Federal Special Revenue Fund	369,042			91,836	18,965	395	480,238
Unspent Budget Authority	<u>\$ 864,059</u>	<u>\$ 59,813</u>	<u>\$ 737,659</u>	<u>\$ 164,466</u>	<u>\$ 19,961</u>	<u>\$ 120,750</u>	<u>\$ 1,966,708</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 Livestock  
Notes to the Financial Schedules  
For the Two Fiscal Years Ended June 30, 2013**

## **1. Summary of Significant Accounting Policies**

### **Basis of Accounting**

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, and Federal Special Revenue). In applying the modified accrual basis, the department records:

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

The department uses accrual basis accounting for its Fiduciary (Agency) fund category. Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

### **Basis of Presentation**

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment. (Consequently, these schedules do not agree in all cases to final state accounting system summary reports.

The department uses the following funds:

### **Governmental Fund Category**

- ◆ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ◆ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include the Diagnostic Laboratory, Brand Inspection and Control, Board of Horse Racing, Animal Health, Milk and Egg, Milk Control, Predatory Animal, LLB Restricted and Per Capita, which funds the department operations.

- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include Meat and Poultry Inspection, Bison Trap, National Animal Identification System (NAIS), and Homeland Security.

### **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 Beef Check-Off and the Producers Milk Pool.

## **2. General Fund Equity Balance (Negative Balances)**

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2012 and June 30, 2013.

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

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

Direct entries to fund equity in the General, State Special Revenue, and Federal Special Revenue Funds also include: correction of an error from a previous period that occurred at least two fiscal years prior.

## **4. Prior Period Revenues**

Revenues are recognized when they are realizable, measurable, earned, and available. In fiscal year 2013, \$165,704 brand re-record revenues for fiscal year 2012 meeting the above criteria was recognized, increasing revenues and fund balance in the State Special Revenue Fund. Also, in fiscal year 2012, \$634,759 revenues new brands and transfer revenues and re-record revenues for fiscal year 2011 meeting the above criteria was recognized, increasing revenues and fund equity in the State Special Revenue Fund.

## **5. Prior Period Expenditures**

Expenditures are recognized for valid obligations when the department incurs the related liability and it is measurable. In fiscal 2012, \$264,900 horse racing expenditures for fiscal year 2011 were recognized, increasing expenditures and decreasing fund equity in the State Special Revenue Fund.

## **6. Board of Horse Racing**

In the 2013 legislative session, SB215 passed moving the Board of Horse Racing from the Department of Livestock to the Department of Commerce effective 7/1/13. \$136,492 in assets, \$502,893 in liabilities, and \$366,401 in negative fund equity was transferred to the Department of Commerce.





DEPARTMENT RESPONSES

DEPARTMENT OF  
LIVESTOCK

DEPARTMENT OF  
COMMERCE



## STATE OF MONTANA

STEVE BULLOCK, GOVERNOR

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



DEPARTMENT OF LIVESTOCK (406) 444-7323  
EXECUTIVE OFFICE (406) 444-9321  
FAX (406) 444-4316

April 30, 2014

RECEIVED  
MAY 02 2014  
LEGISLATIVE AUDIT DIV.

Tori Hunthausen, Legislative Auditor  
Legislative Audit Division  
PO Box 201705  
Helena, MT 59620

Dear Ms. Hunthausen,

Thank you for the opportunity to respond to the most recent financial audit of the Department of Livestock. Please consider this our formal response.

Recommendation #2 – We recommend the Department of Livestock establish controls to monitor the activities of contract organizations whose records are used in financial reporting.

We concur. MDOL is working to ensure proper controls are established to monitor contract organizations.

Recommendation #3 – We recommend the Department of Livestock only disburse funds from the state treasury when charging an appropriation, in accordance with the Montana State Constitution and state law.

We concur. In the future MDOL will ensure that funds are not expended without established authority.

Recommendation #4 – We recommend the Department of Livestock include only per capita fee collections in the basis for calculating the annual maximum per capita fee increase, in accordance with state law.

Partially concur. 15-24-922(2) states: "The per capita fee must be calculated each year to provide not more than 110% of the average annual revenue that was generated in the previous three years." The Department interprets revenue to include all sources in the per capita revenue account including interest, cost recovery, etc. However, we do understand the interpretation made by Audit staff and we will take the Auditor's recommendation to the Board of Livestock prior to setting the per capita fee at the September board meeting.

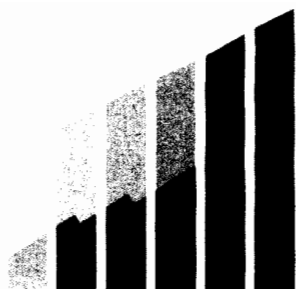
Recommendation #5 - We recommend the Department of Livestock comply with state law and not use deferred revenues to fund current year operations.

We concur. Going forward MDOL will invest cash to match deferred revenue.

Sincerely,

Christian Mackay, Executive Officer  
Montana Department of Livestock





**MONTANA**  
DEPARTMENT OF COMMERCE

RECEIVED

APR 22 2014

LEGISLATIVE AUDIT DIV.

DIRECTOR'S OFFICE

April 17, 2014

Ms. Tori Hunthausen  
Legislative Auditor  
Legislative Audit Division  
Room 160, State Capitol  
P.O. Box 201705  
Helena, Montana 59620-1705

Dear Ms. Hunthausen:

We have reviewed recommendations 1 and 2B pertaining to the Department of Livestock's Financial-Compliance Audit for the two fiscal years ended June 30, 2013. Our response is as follows:

**RECOMMENDATION #1**

**We recommend the Department of Commerce work with Board of Horse Racing to comply with state law by eliminating the conflict of interest within the Board of Horse Racing.**

Response:

The department concurs. The department is working with the Board to address the conflict of interest.

**RECOMMENDATION #2B**

**Because we have not had the opportunity to audit controls over Board of Horse Racing activities at the Department of Commerce, we recommend:**

**B. The Department of Commerce:**

- i. Determine if internal controls are adequate to ensure the completeness and accuracy of simulcast revenues.**
- ii. If controls are determined to be inadequate, develop and implement controls to ensure the completeness and accuracy of simulcast revenues.**

MEG O'LEARY, DIRECTOR

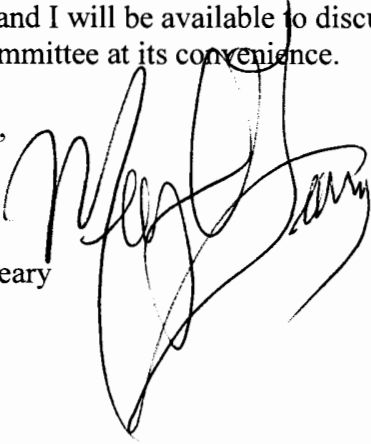
STEVE BULLOCK, GOVERNOR

Response:

The department concurs. Written internal control procedures are being developed that will ensure the accuracy of simulcast revenues based upon reports from United Tote. United Tote, wholly owned subsidiary of Churchill Downs Incorporated, is a leading supplier of totalisator systems, equipment and technology that process wagers and payouts, and is a provider of pari-mutuel tote services to racing operations such as leading racetracks Arlington International, Churchill Downs, Keeneland and The Fairgrounds. Churchill Downs Incorporated (CDI) is a publicly traded company. At this time, we feel we can rely on the information from United Tote. We have requested a Statement on Standards for Attestation Engagements 16.

My staff and I will be available to discuss the audit and recommendations with the Legislative Audit Committee at its convenience.

Sincerely,



Meg O'Leary  
Director

**MEG O'LEARY, DIRECTOR**

**STEVE BULLOCK, GOVERNOR**