



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Livestock

*For the Two Fiscal Years Ended
June 30, 2017*

JUNE 2018

LEGISLATIVE AUDIT
DIVISION

17-22

FINANCIAL-COMPLIANCE AUDITS

LEGISLATIVE AUDIT COMMITTEE

REPRESENTATIVES

KIM ABBOTT

Rep.Kim.Abbott@mt.gov

DAN BARTEL

Danbartel2@gmail.com

RANDY BRODEHL

Randybrodehl57@gmail.com

TOM BURNETT, VICE CHAIR

Burnett.tom@gmail.com

VIRGINIA COURT

virginacourt@yahoo.com

DENISE HAYMAN

Rep.Denise.Hayman@mt.gov

SENATORS

DEE BROWN

senatordee@yahoo.com

TERRY GAUTHIER

Mrmac570@me.com

BOB KEENAN

Sen.Bob.Keenan@mt.gov

MARGARET MACDONALD

Sen.Margie.MacDonald@mt.gov

MARY McNALLY, CHAIR

McNally4MTLeg@gmail.com

GENE VUCKOVICH

Sen.Gene.Vuckovich@mt.gov

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

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by Government Auditing Standards. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

AUDIT STAFF

CHRIS G. DARRAGH

NATALIE H. GIBSON

GLEND A G. WALDBURGER

JOHN FINE

KATIE MAJERUS

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

June 2018

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report of the Department of Livestock for the two fiscal years ended June 30, 2017. The report contains three recommendations to the department concerning compliance with state law and accounting policies. Recommendations relate to per capita fee activity, transfers between funds, federal revenues, revenue estimates, and agency fund activity.

Our audit effort focused on Personal Services, Other Services, Taxes, Charges for Services, Transfers, and Property Held in Trust. We issued unmodified opinions on two of the department's financial schedules. We issued qualified opinions on the Schedules of Changes in Fund Equity & Property Held in Trust and Schedules of Revenues & Transfers-In for both fiscal years 2017 and 2016; the reader should use caution when using these financial schedules for decision making purposes. The modified opinions are the result of accounting misstatements identified during the audit. These misstatements were the result of noncompliance with state law and state accounting policy. Overall, the department made decisions without fully considering state law and accounting policy applicable to their financial operations.

The department's written response to the audit recommendations are included in the audit report beginning at page C-1. We thank the Board of Livestock and its staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

TABLE OF CONTENTS

Appointed and Administrative Officials	ii
Report Summary	S-1
CHAPTER I – INTRODUCTION.....	1
Introduction	1
Background.....	2
Prior Audit Recommendations.....	3
CHAPTER II – FINDINGS AND RECOMMENDATIONS.....	5
Introduction	5
Per Capita Fee Collections	5
Collection Revenue	5
Collection Fee	6
Statutory Transfer Between Funds.....	7
Other Accounting Misstatements	8
Federal Revenue Receivable.....	8
Revenue Estimate Error	9
Agency Fund Revenue Error	9
INDEPENDENT AUDITOR’S REPORT AND DEPARTMENT FINANCIAL SCHEDULES	
Independent Auditor’s Report	A-1
Schedule of Changes in Fund Equity & Property Held in Trust for the Fiscal Year Ended June 30, 2017.....	A-5
Schedule of Changes in Fund Equity & Property Held in Trust for the Fiscal Year Ended June 30, 2016.....	A-6
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2017.....	A-7
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2016.....	A-8
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2017.....	A-9
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2016.....	A-10
Notes to the Financial Schedules	A-11
REPORT ON INTERNAL CONTROL AND COMPLIANCE	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance with <i>Government</i> <i>Auditing Standards</i>	B-1
DEPARTMENT RESPONSE	
Department of Livestock.....	C-1

APPOINTED AND ADMINISTRATIVE OFFICIALS

			Industry <u>Represented</u>	Term Expires <u>March 1</u>
Board of Livestock	John H. Lehfelddt, Chair	Lavina	Sheep	2019
	John Scully, Vice Chair	Ennis	Cattle	2019
	Nina Baucus	Wolf Creek	Cattle	2023
	Brett DeBruycker	Dutton	Cattle	2021
	Lila Taylor	Busby	Cattle	2021
	Ed Waldner	Chester	Swine	2023
	Susan Brown	Belgrade	Dairy/Poultry	2023

Department of Livestock

Mike Honeycutt, Executive Officer (effective February 2016)

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

Centralized Services Division

George H. Harris, Administrator (through June 2017)

Evan Waters, Acting Administrator (effective July 2017)

Chad Lee, Bureau Chief, Milk Control Bureau

George Edwards, Executive Secretary, Livestock Loss Board

Dr. Bill Layton, DVM, DACVP, Administrator, Diagnostic Laboratory Division
(through December 2017)

Leslie Doely, Administrator, Brands Enforcement Division and Coordinator,
Livestock Crimestoppers Commission (effective January 2016)

Dan Turcotte, Bureau Chief, Milk and Egg Inspection Bureau

Gary Hamel, Bureau Chief, Meat and Poultry Inspection Bureau

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

Mike Honeycutt, Executive Officer, Centralized Services Division

Department of Livestock

P.O. Box 202001

Helena, MT 59620-2001

(406) 444-4994

e-mail: mhoneycutt@mt.gov



MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Department of Livestock

For the Two Fiscal Years Ended June 30, 2017

JUNE 2018

17-22

REPORT SUMMARY

The Department of Livestock's mission includes controlling and eradicating animal diseases and protecting livestock. Funding for the department's operations primarily consists of fees related to brand licenses, per capita fees, local and market inspections, and laboratory testing. The audit identified multiple instances of noncompliance with state law and accounting policy related to per capita fee activity, transfers between funds, and other accounting misstatements. Identified misstatements resulted in modified opinions on four of the department's six financial schedules.

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 pricing of milk, and performing meat, milk, and egg inspections.

The department's operations are funded primarily by revenue collections in the state special revenue fund, including brand license fees, per capita livestock fees, and various charges for services. The department also receives federal grant awards and general fund appropriations. The department expended approximately \$17.4 million through the state special revenue fund, \$4.2 million through the federal special revenue fund, and \$5.0 million through the general fund during fiscal years 2016 and 2017 combined.

We focused our audit efforts on the department's activity related to Personal Services, Other Services, Taxes, Charges for Services, Transfers, and Property Held in Trust. Our audit procedures included gaining an understanding of the department's internal control policies and procedures. We also tested compliance with selected state laws and federal regulations.

Results

The report contains three recommendations to the department related to compliance with state law and accounting policies. Recommendations relate to per capita fee activity, transfers between funds, federal revenues, revenue estimates, and agency fund activity. There were multiple misstatements identified that resulted in modified opinions on four of the department's six financial schedules. The reader should use caution when using these financial schedules for decision-making purposes. We consider the misstatements we identified to also represent material noncompliance with state accounting policy. The instances of material noncompliance are discussed further in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters on page B-1.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (17-22) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail lad@mt.gov.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Department of Livestock (department) for the two fiscal years ended June 30, 2017. 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, 2017, and June 30, 2016.
4. Determine the implementation status of prior audit recommendations.

Our audit work included gaining an understanding of the department's internal control policies and procedures and analysis of significant financial activity at the fund and program level. Audit work of financial activity included department activity related to:

- ◆ Inspection fees
- ◆ Laboratory fees
- ◆ Per capita livestock fees
- ◆ Brand re-record revenue
- ◆ Federal revenue
- ◆ Operating expenses
- ◆ Personal Services
- ◆ Producer Milk Pool
- ◆ Transfers-In and Transfers-Out

We also reviewed and tested compliance with selected state laws. Laws tested during the audit period were related to duties and powers of the department, recording brands, establishing fees, livestock inspection, predatory animal control, livestock markets, and beef promotion and marketing.

The report contains three recommendations to the department related to compliance with state law and state accounting policy. Recommendations address the recognition of per capita fee revenue, statutory transfers between funds, federal revenue recognition, revenue estimates, and agency fund activity. These findings represent

multiple misstatements that were the result of noncompliance with state law and state accounting policy. The instances of material noncompliance are discussed further in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters starting on page B-1 of the report. Several of our previous audit reports of the department also contained findings related to accounting misstatements, indicating this is a recurring issue.

Background

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

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

Animal Health Division (14.25 FTE): responsible for the control and eradication of animal diseases and the prevention of transmission of animal diseases to humans.

Brands Enforcement Division (53.11 FTE): includes the Inspection and Control Program, which is responsible for brand inspections, recording livestock brands, market dealer licensing, and livestock theft investigations. This program 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 inspection by state livestock inspectors are department revenues. There are also 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 allocated to the department for administrative purposes. This commission provides a reward program for information used in the detection of livestock-related crimes.

Centralized Services Division (17.00 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 allocated to the department for administrative purposes, provides financial reimbursement to producers for losses caused by wolves or grizzly bears and works to decrease the risk of wolf- or grizzly bear-caused losses.

***Diagnostic Laboratory** (21.51 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.

***Meat and Poultry Inspection Bureau** (22.50 FTE): ensures meat, poultry, meat products, and poultry products that are slaughtered, processed, and/or stored in the state meet state and federal requirements.

***Milk and Egg Inspection Bureau** (7.25 FTE): ensures eggs, milk, and milk products sold or manufactured in the state are fit for human consumption.

*Legislative changes restructured the department effective July 1, 2017. As part of the restructuring, the Diagnostic Laboratory, Meat and Poultry Inspection Bureau, and Milk and Egg Inspection Bureau were moved under the Animal Health Division. The effects of the restructuring will be reflected in the fiscal year 2018 financial schedules in our next audit report.

Prior Audit Recommendations

The prior financial-compliance audit contained three recommendations to the department. The department fully implemented the three recommendations related to the use of per capita fees, multi-year license unearned revenue, and stray animal funds.

Chapter II – Findings and Recommendations

Introduction

During the audit, we identified multiple accounting misstatements. Our recommendations address the recognition of per capita fee revenue and collection fees, statutory transfers between funds, federal revenue recognition, revenue estimates, and agency fund activity. These misstatements were the result of noncompliance with state law and state accounting policy. As described in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters starting on page B-1 of the report, we consider four of these misstatements to be material noncompliance. Several of our previous audit reports of the Department of Livestock (department) also contained findings related to accounting misstatements, indicating this is a recurring issue.

Overall, the recommendations in this report address errors resulted from decisions being made without considering all requirements in state law and state accounting policy. Management should be aware of applicable compliance requirements, including those contained in state accounting policy, as they are important for proper operation of the department. Compliance with state accounting policy is necessary to ensure the accounting records are maintained in accordance with Generally Accepted Accounting Principles, a requirement of §17-1-102, MCA. It is imperative for staff to be knowledgeable of state law and accounting policy impacting financial operations, and for those staff members with knowledge of those requirements to be included in the decision-making process. The following paragraphs summarize instances where financial decisions were made without fully considering state law and accounting policy.

Per Capita Fee Collections

The department incorrectly deferred per capita fee collection revenue to the following year and inappropriately accounted for related collection fees.

Collection Revenue

The department imposes a per capita fee on all livestock owned in the state each year. Livestock owners submit head counts to the department by February 1 of each year. The per capita fee is billed to owners based on the head counts and the fee is collected by the Department of Revenue. The 2015 Legislature passed legislation changing the per capita fee collection date from November to May, six months earlier. This change resulted in two collections occurring in fiscal year 2016, the first in November of 2015, and then another in May of 2016.

The livestock per capita fee is considered a tax on property. Per state accounting policy, property tax revenue must be recognized when it meets certain revenue recognition criteria. The revenue was realizable and measurable since the revenue was collected and the amount collected was known. The revenue was available because it was collected in the current year. Lastly, property tax revenue must be recorded in the fiscal year for which the taxes are levied. Since the fee is levied based on head counts submitted in February, the revenue should be recorded and recognized in the same fiscal year.

The per capita fee revenue is an important funding source for the department. As a result, in fiscal year 2016, when two years of collections were made, the department deferred recognition of the per capita fee revenue of the second collection to the following year in order to keep the reporting of revenues consistent with prior years. The department indicated they needed to use the fees collected in May for the following year's expenses. The department did not want the fees available to be spent in fiscal year 2016, as this could cause cash flow issues in the following year, since revenue would not be collected again until May of the next fiscal year. Similarly, the department also deferred recognition of the May 2017 collection to fiscal year 2018 to be consistent with the prior year.

Regardless of when the cash from the collection will be used, the per capita revenue meets the revenue recognition criteria in both fiscal years and should have been recorded as such in the accounting records. As a result, Taxes Revenue was understated by \$4,755,597 and \$46,957 in fiscal years 2016 and 2017, respectively. Additionally, Unearned Revenue was overstated by \$4,755,597 and \$4,802,555 in fiscal years 2016 and 2017, respectively.

Collection Fee

In addition, the department pays the Department of Revenue two percent of the per capita fees collected as a collection fee. Since the department deferred the corresponding revenue to the following year in both fiscal years, the department paid the expenditure in the following fiscal year to match the expense to the revenue.

Per state accounting policy, an accrual must be recorded for any services received before June 30 for which the payment will not be made by fiscal year-end. Since the service of collecting the fees was provided by the Department of Revenue prior to June 30, an accrual should be recorded and the expenditure recognized.

As a result, the collection fee was recognized incorrectly in both fiscal years. In fiscal year 2016, Transfers-Out expenditures were understated by \$95,326. In fiscal year 2017, Transfers-Out were understated by \$2,066.

The errors described above contributed to the opinion qualification described in the Independent Auditor's Report on page A-1. The errors also resulted in material noncompliance with state accounting policy. This is discussed further in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters starting on page B-1 of the report.

RECOMMENDATION #1

We recommend the Department of Livestock comply with state accounting policy by:

- A. Recognizing per capita fee revenue in the fiscal year it is collected.*
 - B. Recording the collection fees paid to the Department of Revenue in the fiscal year the collection service is provided.*
-

Statutory Transfer Between Funds

The department did not make a required statutory transfer in fiscal year 2016, and transferred an incorrect amount in fiscal year 2017.

Per state law, on June 30 of each year, any unencumbered funds in the livestock loss mitigation fund in excess of \$300,000 must be transferred to the livestock loss reduction fund. This requirement was effective for fiscal year 2016. The department failed to make the transfer in fiscal year 2016, and therefore was not in compliance with state law.

Per discussion with department staff, the department did not make the transfer in fiscal year 2016 because the transfer was not statutorily appropriated, and the department had no authority to spend the funds out of the livestock loss reduction fund once the transfer was made. The 2017 Legislature established a statutory appropriation in the livestock loss reduction fund, so the department made the transfer for the fiscal year 2016 amount in the following fiscal year.

According to a 1991 Attorney General's opinion, 44 Op. Att'y Gen. No 43, when a statute authorizes a transfer of moneys between accounts within the state treasury, a statutory appropriation is not required. As a result, the department did not need a statutory appropriation in the livestock loss mitigation fund to make the transfer in fiscal year 2016. Additionally, the transfer should have been made even though they were not authorized to spend out of the receiving fund at that time.

The department made the transfer in fiscal year 2017, however, the transfer was based on unencumbered funds as of June 30, 2016, instead of June 30, 2017. The calculation of unencumbered funds should be based on the current fiscal year's activity, not prior year activity.

As a result, Transfers-In and Transfers-out in the Centralized Services Division were understated in the state special revenue fund by \$164,299 in fiscal year 2016 and overstated by \$63,042 in fiscal year 2017. This error contributed to the opinion qualification described in the Independent Auditor's Report on page A-1. We also consider this error to be material noncompliance with state law, which is discussed further in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters starting on page B-1 of the report.

RECOMMENDATION #2

We recommend the Department of Livestock comply with state law by transferring unencumbered funds in excess of \$300,000 as of June 30 to the livestock loss reduction fund.

Other Accounting Misstatements

Noncompliance with state accounting policy and errors in recording activity on the state's accounting system resulted in misstatements related to federal revenue, revenue estimates, and agency fund activity.

Through review of financial activity and support, we identified three additional accounting misstatements. The following paragraphs describe the misstatements identified.

Federal Revenue Receivable

Per state accounting policy, for federal reimbursable grants, reimbursements must be accrued if they are not received by fiscal year-end. At fiscal year-end 2017, the department had not been reimbursed for incurred federal expenditures. The department did not accrue this revenue in fiscal year 2017 as required by state accounting policy. The department received the reimbursement in fiscal year 2018. Once the revenue was received, they recorded the revenue as a prior-year revenue adjustment.

Since the expenditures were incurred, but the department had not received reimbursement, the department should have recognized the revenue and recorded a receivable from the federal government. As a result, Federal Revenues and receivables are understated by \$290,705 in fiscal year 2017 in the federal special revenue fund. This error contributed to the opinion qualification described in the Independent Auditor's Report on page A-1.

Revenue Estimate Error

Within the state's accounting system, agencies are required to record revenue estimates by fund and account type in order for revenue to be recorded on the system. Through review of the department's revenue estimates, we identified instances where the department entered revenue estimates, but entered them as negative amounts instead of positive amounts in the accounting system. We identified eight instances in fiscal year 2016 and eleven instances in fiscal year 2017.

This error resulted in Estimated Revenues & Transfers-In being understated and Budgeted Revenues & Transfers-In Over (Under) Estimated being overstated in both fiscal years. Department staff acknowledges that this was an error made when entering the revenue estimates into the state's accounting system. Misstatements in the state special revenue fund totaled \$113,840 and \$2,190,000 in fiscal years 2016 and 2017, respectively. Misstatements in the federal special revenue fund totaled \$251,560 and \$290,000 in fiscal years 2016 and 2017, respectively. This error contributed to the opinion qualification described in the Independent Auditor's Report on page A-1.

Agency Fund Revenue Error

In the prior blue cover report, we made a recommendation to the department to move stock estray property held in trust activity from a state special revenue fund to an agency fund. The department implemented the recommendation and moved the property held in trust activity to an Agency Fund in fiscal year 2017. As part of moving this activity, the department moved all activity, not just property held in trust, to the Agency Fund. This activity included assets, liabilities, and revenues.

Per state accounting policy, agency funds report only assets and liabilities. These funds do not report net position, which include revenues and expenditures. As a result, total revenues in the agency fund are overstated by \$27,144. In addition, Transfers-out are overstated by \$35,534 and Escheated Stock Estray revenue is understated by \$8,390 in the state special revenue fund.

RECOMMENDATION #3

We recommend the Department of Livestock:

- A. *Comply with state accounting policy by accruing federal revenue for expenditures incurred but not reimbursed at fiscal year-end,*
 - B. *Accurately record revenue estimates in the state's accounting system, and*
 - C. *Comply with state accounting policy by not recording revenue activity in the agency fund.*
-

Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

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 (department) for each of the fiscal years ended June 30, 2017, and 2016, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

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

of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

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

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

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets 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 as of June 30, 2017, and June 30, 2016, or changes in financial position for the years then ended.

Basis for Qualified Opinions on Regulatory Basis of Accounting

The department recorded unearned revenue for per capita fee collections in both fiscal years 2016 and 2017, recognizing the revenue in the following fiscal year. The revenue should have been recognized in the year collected as it met all revenue recognition requirements. Since the revenue was recognized in the following fiscal year, the collection fee paid to the Department of Revenue for the collection of per capita fees was also incorrectly paid in the following fiscal year. In addition, the collection fee was also misclassified in the wrong expenditure account.

The department failed to make a required statutory transfer between funds in fiscal year 2016. As a result, transfers-in and transfers-out are understated. The required transfer was made in fiscal year 2017, however the transfer was calculated based on prior fiscal year data, instead of current fiscal year data, resulting in a misstatement.

The department did not record a receivable from the federal government and recognize the corresponding revenue for the reimbursement of federal expenditures made during fiscal year 2017. As a result, federal revenue is understated.

The department incorrectly entered negative revenue estimates into the state's accounting system. This resulted in estimated revenues being understated in fiscal years 2016 and 2017.

The cumulative effects of these misstatements are summarized in the table below.

Schedule and Accounts	Overstated/(Understated)	
	State Special Revenue Fund	Federal Special Revenue Fund
Schedule of Total Revenues and Transfers-In for the Fiscal Year Ended June 30, 2016		
Total Revenues & Transfers-In by Class		
Taxes	(\$4,755,598)	
Transfers-In	(\$164,299)	
Total Revenues & Transfers-In by Class		
Estimated Revenues & Transfers-In		(\$251,560)
Budgeted Revenues & Transfers-In Over (Under) Estimated by Class		
Federal		\$251,560
Schedule of Changes in Fund Equity and Property Held in Trust for the Fiscal Year Ended June 30, 2016		
Budgeted Revenues & Transfers-In	(\$4,919,897)	
Budgeted Expenditures & Transfers-Out	(\$259,625)	
Fund Equity June 30, 2016	(\$4,660,272)	
Schedule of Total Revenues and Transfers-In for the Fiscal Year Ended June 30, 2017		
Total Revenues & Transfers-In by Class		
Federal		(\$290,705)
Estimated Revenues & Transfers-In	(\$2,190,000)	(\$290,000)
Budgeted Revenues & Transfers-In Over (Under) Estimated by Class		
Licenses & Permits	\$1,600,000	
Charges for Services	\$560,000	
Investment Earnings	\$23,000	
Sale of Documents, Merchandise, and Property	\$6,000	
Miscellaneous	\$1,000	
Federal		\$290,000
Schedule of Changes in Fund Equity and Property Held in Trust for the Fiscal Year Ended June 30, 2017		
Fund Equity July 1, 2016	(\$4,660,272)	
Budgeted Revenues & Transfers-In	\$16,085	(\$290,705)
Budgeted Expenditures & Transfers-Out	\$63,042	
Fund Equity June 30, 2017	(\$4,707,229)	(\$290,705)

Qualified Opinions on Regulatory Basis of Accounting

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinions" paragraph, the Schedules of Changes in Fund Equity & Property Held in Trust and the Schedules of Total Revenues & Transfers-In for the fiscal years ended June 30, 2017, and 2016, presents fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the

department for each of the fiscal years ended June 30, 2017, and 2016, 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, presents fairly, in all material respects, the results of operations of the department for each of the fiscal years ended June 30, 2017, and 2016, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2018, on our consideration of the department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

March 22, 2018

DEPARTMENT OF LIVESTOCK
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Agency Fund</u>
FUND EQUITY: July 1, 2016	\$ (120,475)	\$ 4,546,041	\$ 51,637	\$ 0
PROPERTY HELD IN TRUST: July 1, 2016				\$ 59,790
ADDITIONS				
Budgeted Revenues & Transfers-In	5,333	10,204,033	1,798,846	
Nonbudgeted Revenues & Transfers-In		184,561	3,541	27,144
Prior Year Revenues & Transfers-In Adjustments		360,906	99	
Direct Entries to Fund Equity	2,471,080	7,160		
Additions to Property Held in Trust				767,466
Total Additions	<u>2,476,413</u>	<u>10,756,661</u>	<u>1,802,485</u>	<u>794,611</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	2,545,044	8,493,900	2,060,024	
Nonbudgeted Expenditures & Transfers-Out		636,854		
Prior Year Expenditures & Transfers-Out Adjustments		3,143		
Reductions in Property Held in Trust				527,630
Total Reductions	<u>2,545,044</u>	<u>9,133,897</u>	<u>2,060,024</u>	<u>527,630</u>
FUND EQUITY: June 30, 2017	\$ (189,106)	\$ 6,168,804	\$ (205,902)	\$ 27,144
PROPERTY HELD IN TRUST: June 30, 2017				<u>\$ 299,626</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, 2016

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Agency Fund</u>
FUND EQUITY: July 1, 2015	\$ (83,758)	\$ 2,810,113	\$ 47,863	\$ 0
PROPERTY HELD IN TRUST: July 1, 2015				<u>28,902</u>
ADDITIONS				
Budgeted Revenues & Transfers-In	4,355	9,890,427		
Nonbudgeted Revenues & Transfers-In	61	88,687	2,160,410	
Prior Year Revenues & Transfers-In Adjustments		1,633	(7,061)	
Direct Entries to Fund Equity	2,383,374	66,700		
Additions to Property Held in Trust				329,408
Total Additions	<u>2,387,790</u>	<u>10,047,447</u>	<u>2,153,350</u>	<u>329,408</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	2,424,875	7,967,353	2,149,580	
Nonbudgeted Expenditures & Transfers-Out	(367)	343,996	(5)	
Prior Year Expenditures & Transfers-Out Adjustments		169		
Reductions in Property Held in Trust				298,519
Total Reductions	<u>2,424,508</u>	<u>8,311,519</u>	<u>2,149,575</u>	<u>298,519</u>
FUND EQUITY: June 30, 2016	\$ (120,475)	\$ 4,546,041	\$ 51,637	\$ 0
PROPERTY HELD IN TRUST: June 30, 2016				<u>59,790</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, 2017

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Agency Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS					
Licenses and Permits	\$ 5,333	\$ 855,279			\$ 860,612
Taxes		5,585,808			5,585,907
Charges for Services		3,322,065	99		3,322,065
Investment Earnings		84,162			84,162
Fines and Forfeits		792			792
Sale of Documents, Merchandise and Property		28,801			28,801
Grants, Contracts, and Donations				(8,390)	(8,390)
Transfers-in		714,298		35,534	749,832
Capital Asset Sale Proceeds		10,649	2,709		13,358
Federal Indirect Cost Recoveries		146,393			146,393
Miscellaneous		1,253	832		2,085
Federal			1,798,846		1,798,846
Total Revenues & Transfers-In	5,333	10,749,501	1,802,485	27,144	12,584,463
Less: Nonbudgeted Revenues & Transfers-In		184,561	3,541	27,144	215,246
Prior Year Revenues & Transfers-In Adjustments		360,906	99		361,005
Actual Budgeted Revenues & Transfers-In	5,333	10,204,033	1,798,846	0	12,008,212
Estimated Revenues & Transfers-In	4,601	8,787,771	2,020,000		10,812,372
Budgeted Revenues & Transfers-In Over (Under) Estimated	732	1,416,262	(221,154)	0	1,195,840

BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS

Licenses and Permits	\$ 983	\$ 574,544			\$ 575,527
Taxes		251,623			251,623
Charges for Services		528,112			528,112
Investment Earnings		95,526			95,526
Fines and Forfeits	(1)	(2,008)			(2,009)
Sale of Documents, Merchandise and Property		11,700			11,700
Grants, Contracts, and Donations	(250)		(150,000)		(250)
Transfers-in					(150,000)
Federal Indirect Cost Recoveries		(43,607)			(43,607)
Miscellaneous		372			372
Federal			(71,154)		(71,154)
Budgeted Revenues & Transfers-In Over (Under) Estimated	732	1,416,262	(221,154)	0	1,195,840

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, 2016

TOTAL REVENUES & TRANSFERS-IN BY CLASS

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
Licenses and Permits				
Taxes	\$ 4,355	\$ 563,607		\$ 567,962
Charges for Services	61	5,217,176	163	5,217,400
Investment Earnings		3,275,441		3,275,441
Fines and Forfeits		26,220		26,220
Sale of Documents, Merchandise and Property		2,283		2,283
Grants, Contracts, and Donations		38,844		38,844
Transfers-in		70,192		70,192
Capital Asset Sale Proceeds		550,000	125,415	675,415
Federal Indirect Cost Recoveries		13,455		13,455
Miscellaneous		219,941		219,941
Federal		3,588	(7,224)	(3,635)
Total Revenues & Transfers-In	<u>4,416</u>	<u>9,980,747</u>	<u>2,034,995</u>	<u>2,034,995</u>
Less: Nonbudgeted Revenues & Transfers-In	61	88,687	(7,061)	81,688
Prior Year Revenues & Transfers-In Adjustments		1,633		1,633
Actual Budgeted Revenues & Transfers-In	<u>4,355</u>	<u>9,890,427</u>	<u>2,160,410</u>	<u>12,055,192</u>
Estimated Revenues & Transfers-In	<u>4,601</u>	<u>9,890,751</u>	<u>2,039,220</u>	<u>11,934,572</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$(246)</u>	<u>\$(324)</u>	<u>\$ 121,190</u>	<u>\$ 120,620</u>

BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS

Licenses and Permits	\$ 5	\$ (468,026)		\$ (468,021)
Taxes		(164,118)		(164,118)
Charges for Services		543,629		543,629
Investment Earnings		20,915		20,915
Fines and Forfeits	(1)	(517)		(518)
Sale of Documents, Merchandise and Property		22,429		22,429
Grants, Contracts, and Donations	(250)	19		(231)
Transfers-in			(24,585)	(24,585)
Federal Indirect Cost Recoveries		44,941		44,941
Miscellaneous		404		404
Federal			145,775	145,775
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$(246)</u>	<u>\$(324)</u>	<u>\$ 121,190</u>	<u>\$ 120,620</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, 2017

	Animal Health Division	Brands Enforcement Division	Centralized Services Division	Diagnostic Laboratory Division	Meat/Poultry Inspection	Milk & Egg Program	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT							
Personal Services							
Salaries	\$ 719,673	\$ 2,260,183	\$ 974,714	\$ 900,381	\$ 891,810	\$ 255,181	\$ 6,001,942
Other Compensation			4,700				4,700
Employee Benefits	294,960	1,002,407	356,860	398,310	440,859	107,662	2,601,057
Total	<u>1,014,633</u>	<u>3,262,590</u>	<u>1,336,273</u>	<u>1,298,690</u>	<u>1,332,669</u>	<u>362,843</u>	<u>8,607,699</u>
Operating Expenses							
Other Services	791,771	86,646	556,156	81,839	35,624	29,169	1,581,206
Supplies & Materials	49,111	107,408	67,326	450,672	14,654	8,783	697,953
Communications	50,168	71,939	27,506	33,451	15,408	5,457	203,927
Travel	35,846	37,904	21,150	9,224	44,334	12,206	160,663
Rent	73,520	77,666	170,217	1,816	126,063	4,534	453,816
Utilities		6,500		45,790			52,290
Repair & Maintenance	37,685	40,229	1,194	127,941	14,465	2,535	224,049
Other Expenses	65,519	67,131	17,043	117,099	199,676	11,181	477,649
Total	<u>1,103,620</u>	<u>495,422</u>	<u>860,592</u>	<u>867,832</u>	<u>450,225</u>	<u>73,864</u>	<u>3,851,555</u>
Equipment & Intangible Assets							
Equipment				50,000			50,000
Total				<u>50,000</u>			<u>50,000</u>
Grants							
From State Sources			58,400				58,400
From Federal Sources			100,113				100,113
Total			<u>158,513</u>				<u>158,513</u>
Benefits & Claims							
From State Sources			150,903				150,903
Total			<u>150,903</u>				<u>150,903</u>
Transfers-out							
Fund transfers	261,034	35,534	609,624				906,192
Total	<u>261,034</u>	<u>35,534</u>	<u>609,624</u>				<u>906,192</u>
Debt Service							
Capital Leases				14,105			14,105
Total				<u>14,105</u>			<u>14,105</u>
Total Expenditures & Transfers-Out	\$ <u>2,379,287</u>	\$ <u>3,793,546</u>	\$ <u>3,115,905</u>	\$ <u>2,230,627</u>	\$ <u>1,782,894</u>	\$ <u>436,707</u>	\$ <u>13,738,966</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 715,905		\$ 93,312	\$ 786,806	\$ 949,021		\$ 2,545,044
State Special Revenue Fund	727,971	\$ 3,793,546	2,881,479	1,311,243	5,718	\$ 413,940	9,133,897
Federal Special Revenue Fund	935,411		141,113	132,579	828,155	22,767	2,060,024
Total Expenditures & Transfers-Out	2,379,287	3,793,546	3,115,905	2,230,627	1,782,894	436,707	13,738,966
Less: Nonbudgeted Expenditures & Transfers-Out		126,240	510,614				636,854
Prior Year Expenditures & Transfers-Out Adjustments			3,143				3,143
Actual Budgeted Expenditures & Transfers-Out	2,379,287	3,667,306	2,602,148	2,230,627	1,782,894	436,707	13,098,969
Budget Authority	2,670,172	4,319,016	2,874,551	2,394,206	1,836,511	739,691	14,834,147
Unspent Budget Authority	<u>\$ 290,885</u>	<u>\$ 651,710</u>	<u>\$ 272,403</u>	<u>\$ 163,579</u>	<u>\$ 53,617</u>	<u>\$ 302,984</u>	<u>\$ 1,735,178</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 75,212		\$ 7,000	\$ 124,623	\$ 39,056		\$ 245,891
State Special Revenue Fund	62,195	\$ 651,710	261,516	17,167		\$ 297,702	1,290,290
Federal Special Revenue Fund	153,478		3,887	21,788	14,561	5,282	198,997
Unspent Budget Authority	<u>\$ 290,885</u>	<u>\$ 651,710</u>	<u>\$ 272,403</u>	<u>\$ 163,579</u>	<u>\$ 53,617</u>	<u>\$ 302,984</u>	<u>\$ 1,735,178</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, 2016

	Animal Health Division	Brands Enforcement Division	Centralized Services Division	Diagnostic Laboratory Division	Meat/Poultry Inspection	Milk & Egg Program	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT							
Personal Services							
Salaries	\$ 691,897	\$ 2,002,303	\$ 990,120	\$ 936,340	\$ 763,989	\$ 245,945	\$ 5,630,594
Hourly Wages		66					66
Other Compensation			6,600				6,600
Employee Benefits	271,767	875,717	328,625	364,244	378,125	99,655	2,318,133
Total	<u>963,664</u>	<u>2,878,086</u>	<u>1,325,345</u>	<u>1,300,584</u>	<u>1,142,114</u>	<u>345,600</u>	<u>7,955,392</u>
Operating Expenses							
Other Services	666,614	96,696	549,696	193,376	37,269	26,379	1,570,030
Supplies & Materials	64,408	143,017	65,250	474,359	6,889	10,516	764,438
Communications	50,167	70,652	27,554	32,752	11,111	5,363	197,598
Travel	32,595	19,561	33,516	6,965	33,039	12,000	137,677
Rent	71,583	30,940	169,140	1,771	90,264	4,553	368,251
Utilities		6,500		42,724			49,224
Repair & Maintenance	72,875	37,904	1,017	77,975	14,909	1,817	206,497
Other Expenses	77,486	66,012	17,393	113,780	227,123	12,116	513,910
Total	<u>1,035,728</u>	<u>471,282</u>	<u>863,565</u>	<u>943,701</u>	<u>420,605</u>	<u>72,745</u>	<u>3,807,626</u>
Equipment & Intangible Assets							
Equipment	9,395			10,995			20,390
Total	<u>9,395</u>			<u>10,995</u>			<u>20,390</u>
Grants							
From Federal Sources			78,537				78,537
Total			<u>78,537</u>				<u>78,537</u>
Benefits & Claims							
From State Sources			222,500				222,500
Total			<u>222,500</u>				<u>222,500</u>
Transfers-out							
Fund transfers	346,873		440,449				787,322
Total	<u>346,873</u>		<u>440,449</u>				<u>787,322</u>
Debt Service							
Capital Leases				13,835			13,835
Total				<u>13,835</u>			<u>13,835</u>
Total Expenditures & Transfers-Out	\$ <u>2,355,659</u>	\$ <u>3,349,368</u>	\$ <u>2,930,396</u>	\$ <u>2,269,115</u>	\$ <u>1,562,718</u>	\$ <u>418,345</u>	\$ <u>12,885,602</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 639,479		\$ 93,754	\$ 907,922	\$ 783,354		\$ 2,424,508
State Special Revenue Fund	651,896	\$ 3,349,368	2,710,863	1,196,669	5,718	\$ 397,005	8,311,519
Federal Special Revenue Fund	1,064,284		125,780	164,525	773,647	21,340	2,149,575
Total Expenditures & Transfers-Out	2,355,659	3,349,368	2,930,396	2,269,115	1,562,718	418,345	12,885,602
Less: Nonbudgeted Expenditures & Transfers-Out	(397)	(1,204)	346,276	(616)	(259)	(177)	343,624
Prior Year Expenditures & Transfers-Out Adjustments				169			169
Actual Budgeted Expenditures & Transfers-Out	2,356,056	3,350,572	2,584,120	2,269,562	1,562,977	418,521	12,541,809
Budget Authority	2,723,553	3,708,427	2,693,005	2,465,052	1,722,587	694,003	14,006,626
Unspent Budget Authority	<u>\$ 367,497</u>	<u>\$ 357,855</u>	<u>\$ 108,885</u>	<u>\$ 195,489</u>	<u>\$ 159,610</u>	<u>\$ 275,482</u>	<u>\$ 1,464,818</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 124,939		\$ 5,677	\$ 1,734	\$ 110,256		\$ 242,606
State Special Revenue Fund	86,114	\$ 357,855	103,208	61,071		\$ 267,275	875,523
Federal Special Revenue Fund	156,445			132,684	49,353	8,207	346,689
Unspent Budget Authority	<u>\$ 367,497</u>	<u>\$ 357,855</u>	<u>\$ 108,885</u>	<u>\$ 195,489</u>	<u>\$ 159,610</u>	<u>\$ 275,482</u>	<u>\$ 1,464,818</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, 2017**

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, Animal Health, Milk and Egg, Milk

Control, Predatory Animal, Livestock Loss Board Restricted, Livestock Loss Reduction and Per Capita, which funds the department operations.

- ◆ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include Meat and Poultry Inspection, Federal Umbrella, National Animal 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 Stock Estray, Beef Check-Off and the Producers Milk Pool.

2. General Fund Equity Balance

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2016 and June 30, 2017.

3. Unearned Revenues

Revenues are recognized when they are realizable, measurable, earned, and available. Brands rerecord occurs every ten years. The latest rerecord occurred in 2011 and is amortized over the ten-year period as the revenues are earned. Gross receipts in 2011 were \$4,647,042. Of this, \$232,351 was recognized in fiscal year 2016 and \$464,706 in fiscal year 2017. The Department recognized \$232,351 in fiscal year 2016 in order to correct the unearned revenue account for brands rerecords from prior year audit recommendation. Unearned revenue is the balance of the rerecord fees collected in 2011 that has not been earned and is unavailable for current year expenditures. The balance of unearned revenue for rerecord fees as of June 30, 2017 is \$2,091,446.

New brands and transfer revenues are amortized over the period remaining until the next brands rerecord which will be in 2021. New brands and transfer gross receipts were \$302,035 and \$283,050 for fiscal year 2016 and 2017, respectively. Recognized revenue for the fiscal year 2016 and 2017 revenue was \$23,700 and \$26,620, respectively. The Department recognized \$278,335 and \$256,430 as unearned revenue in fiscal year 2016 and 2017, respectively. These amounts will be recognized in subsequent years

until 2021 when the next brands rerecord cycle begins. The balance of unearned revenue for new brands and transfers as of June 30, 2017 is \$991,464.

Mortgage renewal revenues are amortized over the period remaining until the next mortgage renewal period which is in 2018. Mortgage renewal gross receipts were \$18,585 and \$17,150 for fiscal year 2016 and 2017, respectively. The Department recognized \$4,112 and \$7,286 as revenue for the fiscal year 2016 and 2017, respectively. The Department recognized \$14,473 and \$9,864 as unearned revenue in fiscal year 2016 and 2017, respectively. These amounts will be recognized in subsequent years until 2018 when the next mortgage renewal cycle begins. The balance of unearned revenue for mortgage renewals as of June 30, 2017 is \$38,844.

The 2015 legislation changed the Livestock Per Capita Fee collection date from November 30th to May 31st. The change took effect in FY 2016. This changed the fiscal year in which the fees were collected, which caused two years of Per Capita Fee to be collected in FY 2016. The Department recognized the Per Capita Fee that was collected for calendar year 2016 as unearned revenue. Recognizing the Per Capita Fee revenue collected in May ensures that revenues are available for the Department's operations for the following year. The amount of Per Capita Fee revenue that was recognized as unearned revenue was \$4,755,598 and \$4,802,555 for fiscal year 2016 and 2017, respectively.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

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



Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Livestock (department) for each of the fiscal years ended June 30, 2017, and 2016, and the related notes to the financial schedules, and have issued our report thereon dated March 22, 2018. Our report includes qualified opinions on the Schedules of Changes in Fund Equity & Property Held in Trust and Schedules of Total Revenues & Transfers-In for the fiscal years ended June 30, 2017, and 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the department's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the department's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The identified instances of noncompliance are described below:

Per state law, on June 30 of each year, any unencumbered funds in the livestock loss mitigation fund in excess of \$300,000 must be transferred to the livestock loss reduction fund. The transfer was not made on June 30, 2016. The transfer should have been \$164,299 on June 30, 2016.

In addition to the instance of noncompliance with state law discussed above, our audit identified multiple instances of material noncompliance with state accounting policy. Compliance with state accounting policy is necessary to ensure the accounting records are maintained in accordance with Generally Accepted Accounting Principles, a requirement of §17-1-102, MCA. The identified instances of material noncompliance with state accounting policy are described below:

- ◆ The department chose to record per capita fee revenue as unearned revenue in both fiscal years 2016 and 2017 contrary to state accounting policy. The revenue should have been recognized in the year collected, but was instead recognized in the following fiscal year. This resulted in Taxes revenue being understated and Unearned Revenue being overstated in both fiscal years.
- ◆ Department personnel also delayed recognition of the fee owed to the Department of Revenue for the collection of the per capita fees each fiscal year. Per state accounting policy, an expenditure must be recognized for any services received before June 30th, therefore, the collection fee should be recognized in the year the collection was made.
- ◆ The department did not record a receivable from the federal government and recognize the corresponding revenue for the reimbursement of federal expenditures made during fiscal year 2017 as required by state accounting policy. As a result, Federal Revenues and receivables are understated in fiscal year 2017.

Department Response to Findings

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

Purpose of this Report

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

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

March 22, 2018

DEPARTMENT OF
LIVESTOCK

DEPARTMENT RESPONSE

DEPARTMENT OF LIVESTOCK

PO BOX 202001
HELENA, MONTANA 59620-2001



DEPARTMENT OF LIVESTOCK (406) 444-7323
ANIMAL HEALTH & FOOD SAFETY DIVISION (406) 444-2043
BRANDS ENFORCEMENT DIVISION (406) 444-2045
CENTRALIZED SERVICES DIVISION (406) 444-4993
FAX (406) 444-1929

June 5, 2018

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

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LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver,

Thank you for the diligent work compiled by your team of auditors as they worked with the Department of Livestock this year. From reports I received, the auditors exhibited a high level of professionalism as they interacted with our staff during the audit. We believe the audit process is crucial to gathering feedback and working to continually improve the fiscal management of our department. The following information conveys our thoughts and plans regarding the findings and recommendations made by your team following their visit:

Recommendation #1 - We recommend the Department of Livestock comply with state accounting policy by:

- A. Recognizing per capita fee revenue in the fiscal year it is collected.***
- B. Recording the collection fees paid the Department of Revenue in the fiscal year the collection service is provided.***

Department Response: Concur

The department does not dispute these findings and recommendations. The department is now aware that policy within the Montana Operations Manual requires that revenue always be recognized in the year it is received unless there are other statutes that require the funds be deferred. Therefore, the Per Capita Fee revenue collected in May of 2016 and May of 2017 should have been recognized in those fiscal years and not deferred to the start of the next fiscal year. Our current collections in May of 2018 will be recognized in this fiscal year to comply with the Auditor's recommendation. Further, we understand that the service fees we pay to the Department of Revenue for performing the reporting, billing and collection processes should be paid to them in May when the fee collection takes place and not at the beginning of the next fiscal year.

These mistakes were the result of department staff's reaction to a statutory change passed during the 2015 legislative session that moved the payment of Per Capita Fees from November of each year to May of each year. This resulted in a year where per capita fee was paid by producers twice within the same fiscal year to accommodate the change. The FY 16 collection took place as scheduled in

November of 2015 as bills had already been mailed and payment processes were in progress through the Department of Revenue by the time the new law came in to effect. In response to the new statutory language producers then reported and paid the collection that typically would have taken place in the fall of 2016 during May of 2016. Staff, not aware of the policy, chose to defer recognition of this collection of funds to July 1, 2016 to coincide with the start of FY 17 as they considered this a collection for the following fiscal year's activity and were concerned with the potential of spending funds ahead of their intended use or misrepresenting the department's cash position. Also, to avoid paying the Department of Revenue twice in the same year and overspending the agency's budget authority they delayed the payment to the next fiscal year to fall in line with the timing of recognition of revenue. These methods were then repeated in May of 2017 as the department followed the same reasoning which was not in line with state accounting policy.

Recommendation #2 – We recommend the Department of Livestock comply with state law by transferring unencumbered funds in excess of \$300,000 as of June 30 to the livestock loss reduction fund.

Department Response: Concur

The Department will transfer funds in excess of \$300,000 from the livestock loss mitigation fund to the livestock loss reduction fund as of June 30 each year moving forward. While it does not excuse the error, we have investigated to ensure that although the transfers occurred after June 30th, the calculations for the transfers were correct and the monies were transferred to the appropriate fund. We can establish the fund was not shorted in any way. Further, we also worked to establish that by not transferring the funds by the statutorily required date there was no undue financial burden placed upon the Livestock Loss Board. Although we understand having authority to spend funds from the livestock loss reduction fund is not a prerequisite for the required transfer we established that no undue burden was created as the program for which these funds can be spent had been line item vetoed during the 2015 session and there was no legal budget authority for expenditures from the fund at the time. The department will also conduct a full statute review to make sure any financial statutory requirements such as this are captured by our staff to not make the same mistake with this or other required transfers in the future.

Recommendation #3 – We recommend the Department of Livestock:

- A. Comply with state accounting policy by accruing federal revenue for expenditures incurred but not reimbursed at fiscal year-end.***
- B. Accurately record revenue estimates in the state's accounting system,***
- C. Comply with state accounting policy by not recording revenue activity in the agency fund.***

Department Response: Concur

- A.** The Department will enhance its process to review federal expenses and revenues at year end and ensure we correctly accrue federal revenue for expenditures not yet reimbursed as recommended.

- B. The Department will review revenue estimates entered in the state's accounting system to ensure that are entered correctly. The revenue estimates were inadvertently, because of staff error, entered backwards in the accounting system in FY 2016 & 2017.
- C. The Department will put process in place to ensure staff make correct entries when transferring funds to and from the agency fund and not record revenue in the agency fund.

Sincerely,



Michael S. Honeycutt
Executive Officer
Montana Board of Livestock