



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Department of
Agriculture*

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

MAY 2018

LEGISLATIVE AUDIT
DIVISION

17-21

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FINANCIAL-COMPLIANCE AUDITS

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

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

May 2018

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Agriculture for the two fiscal years ended June 30, 2017. The report contains an unmodified opinion on the financial schedules of the department and no recommendations. An unmodified opinion means the reader may rely upon the fairness of the information presented.

The department's written response to the audit is included in the audit report at page C-1. We thank the director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

Department of Agriculture

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Cindy Trimp, Administrator, Central Services Division

Dr. Mark Nechodon, Administrator, Agricultural Sciences Division

Kim Mangold, Deputy Director, Administrator, Agricultural Development
Division

Councils, Committees, and Board

Agriculture Development Council

Board of Hail Insurance

Montana Alfalfa Seed Committee

Organic Commodity Advisory Council

Potato Advisory Committee

Pulse Advisory Committee

Noxious Weed Seed Free Forage Advisory Council

Wheat and Barley Committee

Cherry Advisory Committee

Noxious Weed Management Advisory Council

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Department of Agriculture

For the Two Fiscal Years Ended June 30, 2017

MAY 2018

17-21

REPORT SUMMARY

The Department of Agriculture implemented all three recommendations from the prior audit and received unmodified opinions on its financial schedules. Under a reinsurance contract, the reinsurer assumes a percentage of hail losses and the department cedes a portion of hail policy premiums.

Context

The Department of Agriculture (department) provides services to the agriculture industry to develop markets, measure crop quality through laboratory tests, research improved seed strains and production procedures, license and regulate the sale and use of pesticides, administer laws and regulations to protect groundwater resources, fight noxious weeds, oversee commercial feed and fertilizer laws, and operate the organic certification program.

The Agricultural Development Division (38.22 FTE) focuses on improving markets and methods of production and operates the state's hail insurance program. The Agricultural Sciences Division (61.42 FTE) provides technical and consulting services to consumers and producers, runs the department's analysis laboratory, regulates pesticides, and furnishes grant funds to control weeds. The Central Services Division (15.10 FTE) includes the director's office and supports the work of the other divisions by performing accounting, fiscal management, payroll, purchasing, data processing, and legal services.

The department expended \$24.5 million in the fiscal year ended June 30, 2017. These

expenditures included \$9.8 million in grants of which \$8.5 million came from state sources, \$8 million in personal services expenditures, and \$4 million in operating expenditures. The hail insurance plan paid total losses of \$.96 and \$9.1 million in calendar years 2017 and 2016, respectively, of which the reinsurer paid \$.87 and \$7.8 million.

Results

We found the department implemented recommendations from the prior audit related to classification of assets and liabilities in the hail insurance fund, the development of a control to ensure completeness of a transfer from the general fund to the noxious weed special revenue fund, and compliance with state law concerning industrial hemp rules.

We issued unmodified opinions on the financial schedules of the department for the two fiscal years ended June 30, 2017. An unmodified opinion means the reader may rely on the fairness of the information presented.

For a complete copy of the report (17-21) 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>
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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 Agriculture (department) for the two fiscal years ended June 30, 2017. The objectives of the audit were to:

- ◆ Obtain an understanding of the department’s internal controls to the extent necessary to support our audit of the financial schedules and, if necessary, make recommendations for improvement.
- ◆ Determine whether the department’s financial schedules present fairly the results of its operations and changes in fund equity for each of the two fiscal years ended June 30, 2017.
- ◆ Determine whether the department complied with selected laws and regulations.
- ◆ Determine the status of prior audit recommendations.

We addressed these objectives by focusing our audit effort on various revenue and expenditure transactions and the reasonableness and accuracy of these transactions. In addition, we completed testing over the Hail Insurance program and the department’s implementation of the new reinsurance agreement. We also reviewed and tested selected control systems and determined compliance with various state laws and regulations.

As a result of our testing, we issued unmodified opinions on the financial schedules of the department for the two years ended June 30, 2017.

Background

Article XII, Section 1 of the Constitution of the State of Montana mandates the legislature provide for a Department of Agriculture and enact laws and provide appropriations to protect, enhance, and develop all agriculture. The department’s statutory functions and responsibilities include:

- ◆ Encourage and promote the interests of Montana agriculture.
- ◆ Collect and publish agricultural statistics.
- ◆ Assist, encourage, and promote the organization of farmers’ institutes, agricultural societies, fairs, and other exhibitions of agriculture.
- ◆ Adopt standards for grade and other classifications of farm products.
- ◆ Assist in the development of economical and efficient marketing distribution systems.
- ◆ Gather and distribute marketing information concerning supply, demand, price, and movement of farm products.

- ◆ Regulate and protect Montana agricultural activities through the administration of statutes related to agriculture.

The department is organized under the following divisions:

Agricultural Development Division (38.22 FTE): assists Montana's agricultural industry by providing services including market and agribusiness development, Growth Through Agriculture grants and loans, wheat and barley research and marketing, agriculture loans including beginning farmer/rancher loans, hail insurance, grain grading and inspection, agriculture education and outreach, agriculture literacy, and administration of agricultural commodity research and market development programs. The division provides support to the Montana Alfalfa Seed Committee, the Wheat and Barley Committee, the Agricultural Development Council, the Board of Hail Insurance, and advisory committees for cherries, potatoes, and pulse crops.

Agricultural Sciences Division (61.42 FTE): administers agricultural programs relating to the production, manufacturing, certification, and marketing of commodities exported from or distributed in the state. The division administers the Montana Pesticides Act, Crop Insect Detection Act, Vertebrate Pest Management Act, Agricultural Chemical Groundwater Protection Act, Noxious Weed Management Trust Fund Act, Commercial Feed and Fertilizer laws, Organic Certification program, and the department's Chemical Analytical Laboratory. Division personnel provide technical and consultant services to consumers and agricultural producers.

Central Management Division (15.10 FTE): includes the director's office and provides support to all of the programs in the department by performing accounting, fiscal management, payroll, purchasing, property control, data processing, and legal support functions.

Prior Audit Recommendations

The department implemented all three recommendations from the prior audit. Corrective actions included:

- ◆ Changing the classification of assets and liabilities in the hail insurance fund to accurately reflect the provisions of the reinsurance contracts,
- ◆ Developing a procedure to estimate the amount of the statutory transfer to be received from the general fund to the noxious weed fund, and
- ◆ Implementing rules related to industrial hemp in compliance with state law.

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, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Agriculture 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, deferred outflows and inflows of resources, liabilities, and cash flows.

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

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.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, present fairly, in all material respects, the results of operations and changes in fund equity of the Department of Agriculture 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 26, 2018, on our consideration of the Department of Agriculture'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 26, 2018

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF CHANGES IN FUND EQUITY
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>Enterprise Fund</u>	<u>Private Purpose Trust Fund</u>	<u>Permanent Fund</u>
<u>FUND EQUITY: July 1, 2016</u>	<u>\$ (464,605)</u>	<u>\$ 13,583,035</u>	<u>\$ (137,305)</u>	<u>\$ 1,306,831</u>	<u>\$ 664,808</u>	<u>\$ 11,262,890</u>
ADDITIONS						
Budgeted Revenues & Transfers-In	83	17,108,613	2,378,326	1,044,382		95,890
Nonbudgeted Revenues & Transfers-In		276,352	5,665	3,494	4,000	
Prior Year Revenues & Transfers-In Adjustments		(10,131)	625			
Direct Entries to Fund Equity	1,740,173	814,150	3,269			
Total Additions	<u>1,740,255</u>	<u>18,188,984</u>	<u>2,387,885</u>	<u>1,047,876</u>	<u>4,000</u>	<u>95,890</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	1,642,962	17,801,155	2,293,200	1,682,117		373,531
Nonbudgeted Expenditures & Transfers-Out	(701)	637,959		13,735	10,000	
Prior Year Expenditures & Transfers-Out Adjustments	(2,500)	16,278	(247)			
Total Reductions	<u>1,639,761</u>	<u>18,455,391</u>	<u>2,292,953</u>	<u>1,695,852</u>	<u>10,000</u>	<u>373,531</u>
<u>FUND EQUITY: June 30, 2017</u>	<u>\$ (364,111)</u>	<u>\$ 13,316,628</u>	<u>\$ (42,374)</u>	<u>\$ 658,855</u>	<u>\$ 658,808</u>	<u>\$ 10,985,249</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-10.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Private Purpose Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2015	\$ (514,403)	\$ 15,190,358	\$ (166,275)	\$ 1,009,075	\$ 674,177	\$ 10,926,373
ADDITIONS						
Budgeted Revenues & Transfers-In	54	14,933,546	1,798,258	1,109,274	29,500	724,337
Nonbudgeted Revenues & Transfers-In		229,844		5,776		
Prior Year Revenues & Transfers-In Adjustments		4,763				
Direct Entries to Fund Equity	1,695,156	617,960	13,338			
Total Additions	<u>1,695,209</u>	<u>15,786,113</u>	<u>1,811,596</u>	<u>1,115,050</u>	<u>29,500</u>	<u>724,337</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	1,647,657	16,475,996	1,782,626	826,774		
Nonbudgeted Expenditures & Transfers-Out	(502)	808,215		(9,480)	38,869	387,819
Prior Year Expenditures & Transfers-Out Adjustments	(1,743)	109,225				
Total Reductions	<u>1,645,411</u>	<u>17,393,436</u>	<u>1,782,626</u>	<u>817,294</u>	<u>38,869</u>	<u>387,819</u>
FUND EQUITY: June 30, 2016	\$ (464,605)	\$ 13,583,035	\$ (137,305)	\$ 1,306,831	\$ 664,808	\$ 11,262,890

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-10.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Private Purpose Trust Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Licenses and Permits		\$ 4,057,430					\$ 4,057,430
Taxes		8,322,714	\$ 625				8,323,338
Charges for Services	\$ 83	2,166,724		\$ 1,027,386			3,194,193
Investment Earnings		333,465		8,315		\$ 95,890	437,669
Fines and Forfeits		21,383		8,201			29,583
Sale of Documents, Merchandise and Property		15,208					15,208
Grants, Contracts, and Donations		28,289					28,289
Transfers-in		2,394,135	104,537	3,974	\$ 4,000		2,498,672
Capital Asset Sale Proceeds		10,727	5,665				16,392
Federal Indirect Cost Recoveries			138,911				138,911
Miscellaneous		24,758	100				24,858
Federal			2,134,778				2,134,778
Total Revenues & Transfers-In	83	17,374,834	2,384,616	1,047,876	4,000	95,890	20,907,297
Less: Nonbudgeted Revenues & Transfers-In		276,352	5,665	3,494	4,000	95,890	385,401
Prior Year Revenues & Transfers-In Adjustments		(10,131)	625				(9,506)
Actual Budgeted Revenues & Transfers-In	83	17,108,613	2,378,326	1,044,382	0	0	20,531,403
Estimated Revenues & Transfers-In	183	17,110,607	2,379,739	1,044,364	0	0	20,534,892
Budgeted Revenues & Transfers-In Over (Under) Estimated	(100)	(1,994)	(1,413)	18	0	0	(3,489)
	\$	\$	\$	\$	\$	\$	\$
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Licenses and Permits		\$ (650)					\$ (650)
Taxes		(10)					(10)
Charges for Services		(1,075)					(1,075)
Investment Earnings		2,642	(50)	\$ 18			2,610
Fines and Forfeits		(2,042)					(2,042)
Sale of Documents, Merchandise and Property		(160)					(160)
Grants, Contracts, and Donations		(750)					(750)
Transfers-in		(1)	(463)				(464)
Miscellaneous	\$ (100)	52	(400)				(448)
Federal			(500)				(500)
Budgeted Revenues & Transfers-In Over (Under) Estimated	(100)	(1,994)	(1,413)	18	0	0	(3,489)
	\$	\$	\$	\$	\$	\$	\$

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-10.

MONTANA DEPARTMENT OF AGRICULTURE
 SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Private Purpose Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Licenses and Permits	\$	3,816,687					\$ 3,816,687
Taxes		6,603,857					6,603,857
Charges for Services		1,814,545		\$ 1,100,520			2,915,064
Investment Earnings		272,538		6,828		\$ 724,337	1,003,703
Fines and Forfeits		28,570		2,839			31,409
Sale of Documents, Merchandise and Property		14,986					14,986
Grants, Contracts, and Donations		31,758					66,121
Transfers-in		2,534,768		4,863	\$ 29,500		2,534,768
Capital Asset Sale Proceeds		8,760					8,760
Federal Indirect Cost Recoveries			\$ 131,810				131,810
Miscellaneous	\$ 54	41,685					41,739
Federal			1,666,448				1,666,448
Total Revenues & Transfers-In	54	15,168,153	1,798,258	1,115,050	29,500	724,337	18,835,352
Less: Nonbudgeted Revenues & Transfers-In		229,844		5,776			235,620
Prior Year Revenues & Transfers-In Adjustments		4,763					4,763
Actual Budgeted Revenues & Transfers-In	54	14,933,546	1,798,258	1,109,274	0	0	17,841,132
Estimated Revenues & Transfers-In	100	14,933,417	1,798,308	1,109,266	0	0	17,841,091
Budgeted Revenues & Transfers-In Over (Under) Estimated	(46)	130	(50)	8	0	0	41
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Taxes	\$	56					\$ 56
Investment Earnings		265	(50)	8			223
Miscellaneous	(46)	(191)					(238)
Federal	(46)	130	(50)	8	0	0	(0)
Budgeted Revenues & Transfers-In Over (Under) Estimated	(46)	130	(50)	8	0	0	41

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-10.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Agricultural Development Division	Agricultural Sciences Division	Central Management Division	Total
Personal Services				
Salaries	\$ 1,636,177	\$ 3,081,543	\$ 944,891	\$ 5,662,611
Hourly Wages	120,463	65,195		185,658
Other Compensation	18,050	2,750		20,800
Employee Benefits	643,118	1,202,214	322,028	2,167,361
Personal Services-Other	(617)			(617)
Total	<u>2,417,191</u>	<u>4,351,703</u>	<u>1,266,920</u>	<u>8,035,813</u>
Operating Expenses				
Other Services	577,147	434,123	41,282	1,052,552
Supplies & Materials	113,741	291,095	46,764	451,600
Communications	99,368	134,616	24,525	258,509
Travel	306,922	187,438	16,215	510,574
Rent	85,720	208,213	57,565	351,498
Utilities	11,647	38,520		50,167
Repair & Maintenance	33,721	143,358	10,429	187,508
Other Expenses	1,023,179	110,986	22,668	1,156,832
Total	<u>2,251,444</u>	<u>1,548,348</u>	<u>219,449</u>	<u>4,019,240</u>
Equipment & Intangible Assets				
Equipment	5,325	196,265	5,722	207,313
Total	<u>5,325</u>	<u>196,265</u>	<u>5,722</u>	<u>207,313</u>
Grants				
From State Sources	6,475,289	2,057,198		8,532,487
From Federal Sources	972,290	281,405		1,253,695
Total	<u>7,447,579</u>	<u>2,338,602</u>		<u>9,786,181</u>
Benefits & Claims				
From State Sources	1,240,439			1,240,439
From Other Sources		10,000		10,000
Total	<u>1,240,439</u>	<u>10,000</u>		<u>1,250,439</u>
Transfers-out				
Fund transfers	139,621	428,048	270	567,939
Intra-Entity Expense		569,987		569,987
Total	<u>139,621</u>	<u>998,035</u>	<u>270</u>	<u>1,137,926</u>
Post Employment Benefits				
Other Post Employment Benefits	10,226			10,226
Employer Pension Expense	20,350			20,350
Total	<u>30,576</u>			<u>30,576</u>
Total Expenditures & Transfers-Out	<u>\$ 13,532,175</u>	<u>\$ 9,442,953</u>	<u>\$ 1,492,361</u>	<u>\$ 24,467,489</u>
EXPENDITURES & TRANSFERS-OUT BY FUND				
General Fund	\$ 1,293,263	\$ 222,231	\$ 124,267	\$ 1,639,761
State Special Revenue Fund	9,493,131	7,846,614	1,115,647	18,455,391
Federal Special Revenue Fund	1,182,949	990,577	119,427	2,292,953
Enterprise Fund	1,562,832		133,020	1,695,852
Private Purpose Trust Fund		10,000		10,000
Permanent Fund		373,531		373,531
Total Expenditures & Transfers-Out	<u>13,532,175</u>	<u>9,442,953</u>	<u>1,492,361</u>	<u>24,467,489</u>
Less: Nonbudgeted Expenditures & Transfers-Out	51,957	982,733	(167)	1,034,523
Prior Year Expenditures & Transfers-Out Adjustments	(16,075)	29,853	(247)	13,531
Actual Budgeted Expenditures & Transfers-Out	<u>13,496,293</u>	<u>8,430,367</u>	<u>1,492,774</u>	<u>23,419,434</u>
Budget Authority	22,821,173	9,937,921	1,706,034	34,465,129
Unspent Budget Authority	<u>\$ 9,324,881</u>	<u>\$ 1,507,554</u>	<u>\$ 213,260</u>	<u>\$ 11,045,695</u>
UNSPENT BUDGET AUTHORITY BY FUND				
General Fund	\$ 3	\$ 26,883	\$ 26,591	\$ 53,476
State Special Revenue Fund	694,825	736,574	97,894	1,529,292
Federal Special Revenue Fund	2,078,462	744,097	68,653	2,891,212
Enterprise Fund	6,551,591		20,123	6,571,714
Unspent Budget Authority	<u>\$ 9,324,881</u>	<u>\$ 1,507,554</u>	<u>\$ 213,260</u>	<u>\$ 11,045,695</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-10.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Agricultural Development Division	Agricultural Sciences Division	Central Management Division	Total
Personal Services				
Salaries	\$ 1,571,294	\$ 2,971,987	\$ 915,921	\$ 5,459,202
Hourly Wages	98,186	69,175		167,362
Other Compensation	19,050	2,750		21,800
Employee Benefits	589,368	1,131,882	306,248	2,027,498
Personal Services-Other	(12,319)			(12,319)
Total	<u>2,265,579</u>	<u>4,175,794</u>	<u>1,222,169</u>	<u>7,663,543</u>
Operating Expenses				
Other Services	717,913	409,175	52,870	1,179,958
Supplies & Materials	115,442	355,271	41,801	512,514
Communications	93,594	123,270	25,833	242,698
Travel	317,413	191,088	17,512	526,012
Rent	86,762	190,217	56,421	333,400
Utilities	10,447	41,824		52,272
Repair & Maintenance	54,485	102,177	13,235	169,896
Other Expenses	1,017,571	110,807	20,295	1,148,673
Total	<u>2,413,628</u>	<u>1,523,828</u>	<u>227,968</u>	<u>4,165,423</u>
Equipment & Intangible Assets				
Equipment	90,137	90,752		180,889
Total	<u>90,137</u>	<u>90,752</u>		<u>180,889</u>
Grants				
From State Sources	5,319,334	2,063,491		7,382,825
From Federal Sources	626,821	305,819		932,639
Total	<u>5,946,155</u>	<u>2,369,309</u>		<u>8,315,464</u>
Benefits & Claims				
From State Sources	393,521			393,521
From Other Sources		38,869		38,869
Total	<u>393,521</u>	<u>38,869</u>		<u>432,390</u>
Transfers-out				
Fund transfers	241,702	424,499		666,200
Intra-Entity Expense		619,348		619,348
Total	<u>241,702</u>	<u>1,043,846</u>		<u>1,285,548</u>
Post Employment Benefits				
Other Post Employment Benefits	10,425			10,425
Employer Pension Expense	11,774			11,774
Total	<u>22,199</u>			<u>22,199</u>
Total Expenditures & Transfers-Out	<u>\$ 11,372,920</u>	<u>\$ 9,242,399</u>	<u>\$ 1,450,137</u>	<u>\$ 22,065,456</u>
EXPENDITURES & TRANSFERS-OUT BY FUND				
General Fund	\$ 1,287,554	\$ 236,658	\$ 121,200	\$ 1,645,411
State Special Revenue Fund	8,619,916	7,668,560	1,104,960	17,393,436
Federal Special Revenue Fund	771,182	910,492	100,952	1,782,626
Enterprise Fund	694,269		123,026	817,294
Private Purpose Trust Fund		38,869		38,869
Permanent Fund		387,819		387,819
Total Expenditures & Transfers-Out	11,372,920	9,242,399	1,450,137	22,065,456
Less: Nonbudgeted Expenditures & Transfers-Out	145,228	1,080,529	(835)	1,224,921
Prior Year Expenditures & Transfers-Out Adjustments	109,228	(20)	(1,727)	107,481
Actual Budgeted Expenditures & Transfers-Out	11,118,463	8,161,890	1,452,700	20,733,053
Budget Authority	21,132,312	9,068,108	1,620,556	31,820,976
Unspent Budget Authority	<u>\$ 10,013,849</u>	<u>\$ 906,218</u>	<u>\$ 167,856</u>	<u>\$ 11,087,923</u>
UNSPENT BUDGET AUTHORITY BY FUND				
General Fund	\$ 43,183	\$ 7,889	\$ 55,126	\$ 106,198
State Special Revenue Fund	868,497	645,909	78,727	1,593,132
Federal Special Revenue Fund	1,717,749	252,421	27,245	1,997,415
Enterprise Fund	7,384,420		6,758	7,391,178
Unspent Budget Authority	<u>\$ 10,013,849</u>	<u>\$ 906,218</u>	<u>\$ 167,856</u>	<u>\$ 11,087,923</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-10.

Department of Agriculture
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, Federal Special Revenue, and Permanent). In applying the modified accrual basis, the department records:

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

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

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

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

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

- ◆ **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 accounts for research and market development of agricultural commodities such as wheat, barley, and pulse crops; registration of products or licensure of dealers, applicators, or manufacturers and associated inspection or enforcement related to pesticides, commercial fertilizer, animal feed, produce, nurseries, organic operations, and seed; noxious weed management; grain testing and inspection; and economic development assistance, grants, and loans.
- ◆ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include pass-through weed grants, pest surveys, feed inspections, review of private farm applicator restricted use pesticide application records, marketing, specialty crop block grants, and negotiated indirect costs.
- ◆ **Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the department’s programs. The department uses this fund to account for Noxious Weed Management Trust activity.

Proprietary Fund Category

- ◆ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities’ cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Department Enterprise Funds include the Hail Insurance and Beginning Farm Loan Programs.

Fiduciary Fund Category

- ◆ **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. The department uses the private-purpose trust fund to record commercial pesticide applicator certificates of deposit.

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. 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.

4. Hail Insurance

In order to reduce exposure to large losses the hail insurance program entered into a quota-share reinsurance agreement. As a result of this agreement, both Charges for Services and Benefits & Claims From State Sources reflect a percentage of the premiums received and the total losses paid in relation to the percentage of premiums and risk ceded to the reinsurer. Insureds paid \$3,924,561 and \$6,953,974 in hail insurance premiums and the department ceded \$3,532,105 and \$5,910,878 of those premiums in calendar year 2017 and calendar year 2016, respectively. Total losses were \$965,846 and \$9,150,881 and the department ceded \$869,261 and \$7,778,249 of those losses in calendar year 2017 and calendar year 2016, 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, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Agriculture 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 26, 2018.

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.

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 on 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 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 26, 2018

DEPARTMENT OF
AGRICULTURE

DEPARTMENT RESPONSE



Steve Bullock
Governor

302 N Roberts, PO Box 200201
Helena, Montana 59620-0201

Ben Thomas
Director

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May 29, 2018

Mr. Angus Maciver
Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, MT 59620-1705

Dear Mr. Maciver:

Thank you for the opportunity to respond to the financial-compliance audit of the Department of Agriculture for the two fiscal years ending June 30, 2017. We have reviewed the financial-compliance audit report which contains no recommendations, therefore, we do not have any comments or exceptions to your report.

I want to take this opportunity to thank you and your staff for the professionalism and fairness shown during the audit. We appreciate the services of your staff while reviewing our procedures, internal controls and accounting practices. We will continue to improve the operations at the Department of Agriculture and we look forward to guidance provided by your office.

We are available to answer any further questions you may have.

Sincerely,

A handwritten signature in black ink, appearing to read "Ben Thomas", written over a horizontal line.

Ben Thomas
Director
Montana Department of Agriculture

RECEIVED

MAY 30 2018

LEGISLATIVE AUDIT DIV.