



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Department of
Agriculture*

*For the Two Fiscal Years Ended
June 30, 2023*

SEPTEMBER 2024

LEGISLATIVE AUDIT
DIVISION

23-38

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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 and many 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, 2023, was issued August 19, 2024. The submission deadline for the Single Audit Report for the two fiscal years ended June 30, 2025, is March 31, 2026.

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LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Kenneth E. Varns, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller
Miki Cestnik

September 2024

The Legislative Audit Committee
of the Montana State Legislature:

It is a pleasure to provide our financial compliance audit report on the Department of Agriculture (department) for the two fiscal years ended June 30, 2023. We issued unmodified opinions on the financial schedules which means the reader can rely on the information presented. This report does not contain any recommendations.

The department's written response to the audit is included in the audit report on page C-1. We thank the director and her 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

Christy Clark, Director

Zach Coccoli, Deputy Director and Administrator,
Agricultural Development Division

Ian Foley, Administrator, Agricultural Sciences Division

Cody Pearce, Chief Financial Officer

Councils, Committees, and Board

Hail Insurance Board

Montana Agricultural Development Council

Montana Alfalfa Seed Committee

Montana Noxious Weed Management Advisory Council

Montana Organic Commodity Advisory Council

Montana Potato Advisory Committee

Montana Pulse Crops Committee

Montana Wheat & Barley Committee

For additional information concerning the Department of Agriculture, contact:

Christy Clark, Director
302 North Roberts St.
Helena, MT, 59604-5805
e-mail: CClark@mt.gov



MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT
Montana Department of Agriculture
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2023

A report to the Montana Legislature

BACKGROUND

The Montana Department of Agriculture operates over 30 programs, many are funded entirely through user fees. These include programs that protect producers, consumers, and the environment, as well as development and marketing programs to foster growth in Montana agriculture.

The Agricultural Development Division is responsible for administering programs that promote and enhance Montana agriculture.

The Agricultural Sciences Division provides agricultural, public, and environmental services and protection.

The Central Services Division provides fiscal management, budgeting, technological support, human resources, records management, and legal support.

During the audit period, the Department of Agriculture distributed \$24.7 million in grants. Of this, \$3.3 million was earmarked from the American Rescue Plan Act (ARPA) for various agricultural projects statewide. Additionally, the department received \$7.5 million in ARPA funds from the Governor’s Office to enhance its Hail Insurance Program, providing support to farmers impacted by severe weather. This strategic use of federal and state resources underscores the department’s role in supporting agricultural projects.

AUDITOR’S OPINION (Page A-1): UNMODIFIED

Unmodified opinions mean the reader can rely on the information presented in the financial schedules.

For the full context of the department’s financial activity, see the financial schedules and notes beginning on page A-4.

RECOMMENDATIONS:

In this report, we issued the following recommendations:

- To the department: 0
- To the legislature: 0

In this report, we determined the implementation status of recommendations in the prior audit:

- Fully Implemented: 3
- Partially Implemented: 0
- Not Implemented: 0

SUMMARY OF AUDIT WORK:

Our audit work included obtaining an understanding of the department and its operations, as well as gaining an understanding of the department’s information systems. We performed analytical procedures and reviewed the underlying support of:

- Grant expenditures
- Licenses and permits
- Investments
- Tax revenues
- Federal Revenues

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For the full report or more information, contact the Legislative Audit Division.

leg.mt.gov/lad

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In addition, we performed samples of the department’s grant expenditures and the related accruals, and the tax revenues received. We also reviewed the financial schedules and note disclosures to determine if they were presented accurately in accordance with state policy and applicable GASB standards.

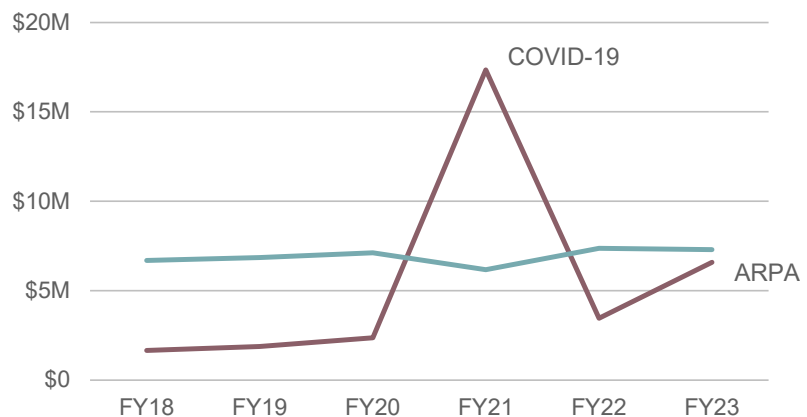
We also reviewed the department’s federal revenues and transfers-in, including amounts received from American Rescue Plan Act (ARPA) funds the department used to supplement claims paid from the Hail Insurance Fund as directed by the legislature and approved by the governor.

FINANCIAL ACTIVITY SUMMARY:

The department primarily oversees the distribution of state and federal grants to applicants across Montana. State grants are mainly funded by refundable taxes on crop sales at elevators throughout the state as well as general revenue funds. Most of these grants are awarded through state special revenue funds. Oversight boards, such as the Wheat & Barley Committee and the Pulse Crop Committee, evaluate and recommend grant applications for awarding through these funds.

Figure 1
Federal and State Expenditure Spending Comparisons

Grant expenditures from **federal sources** exceeded those from **state sources** in FY21 due to federal funding related to COVID-19 and increased again in FY23 due to ARPA funds.



Source: Compiled by the Legislative Audit Division.

Grants awarded from state special revenue funds totaled \$6,132,708 in fiscal year 2022 and \$6,020,789 in fiscal year 2023. The remaining state grants were awarded from the General Fund.

Fiscal year 2021 saw a spike in grant expenditures because of an increase in grants awarded in response to COVID-19. For an in-depth discussion of this activity, see the 21-21 Department of Agriculture Financial Compliance Audit Report.

Due to the COVID-19 pandemic, the department received increased federal funds. In fiscal year 2022, federal grants totaled \$3,455,052, rising to \$6,580,672 in fiscal year 2023 due to American Rescue Plan Act (ARPA) funds. During the audit period, the department distributed \$3.3 million of ARPA funds to 22 recipients. The department anticipates further federal grant opportunities in subsequent years.

Since 2014, the department has had an agreement in place with a reinsurer to provide additional hail insurance coverage as the department's reserves had been depleted. In response, the department was awarded \$7.5 million in ARPA funds in 2023 from the Governor's office specifically to supplement previous claims made to the hail insurance fund. As of fiscal year 2023, \$1.7 million of this funding had been recognized as revenue, supplementing \$1.7 million of claims made from the department's hail insurance fund since March 3, 2021. The authority to expend the ARPA Hail Insurance funds lasts until December 31, 2026.

REPORT ON INTERNAL CONTROL AND COMPLIANCE (page B-1):

In this report, we identified the following:

Material Weaknesses in Internal Control: 0

Significant Deficiencies in Internal Control: 0

Material Non-Compliance: 0

Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

Independent Auditor's Report and Department Financial Schedules

Angus Maciver, Legislative Auditor
Kenneth E. Varns, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller
Miki Cestnik

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

REPORT ON THE AUDIT OF FINANCIAL SCHEDULES

Opinions

We have audited the financial schedules of the Department of Agriculture, which are comprised of the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out for each of the fiscal years ended June 30, 2023, and 2022, and the related notes to the financial schedules.

In our opinion, the accompanying financial schedules, present fairly, in all material respects, the results of operations and changes in fund equity for each of the fiscal years ended June 30, 2023, and 2022, in conformity with the basis of accounting described in Note 1.

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" section of our report, 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, 2023, and June 30, 2022, or changes in financial position for the years then ended.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Schedules" section of our report. We are required to be independent of the department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 of the financial schedules, the financial schedules are prepared by the Department of Agriculture 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 of resources, liabilities, deferred inflows of resources 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 and pervasive.

Responsibilities of Management 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.

In preparing the financial schedules, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the department's ability to continue as a going concern for twelve months beyond the financial schedule date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Schedules

Our objectives are to obtain reasonable assurance about whether the financial schedules as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial schedules.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial schedules, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial schedules.

- Obtain an understanding of internal control relevant to the audit 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. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial schedules.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Other Legal and Regulatory Requirements

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2024, 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 solely 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

July 25, 2024

MT DEPT OF AGRICULTURE
 SCHEDULE OF CHANGES IN FUND EQUITY
 FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Private Purpose Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2022	\$ (1,237,009)	\$ 18,926,533	\$ (849,925)	\$ 1,850,455	\$ 479,228	\$ 10,865,435
ADDITIONS						
Budgeted Revenues & Transfers-In	25,133	15,711,394	4,167,901	3,071,176		
Nonbudgeted Revenues & Transfers-In	5	271,428		1,697,566	45,000	29,651
Prior Year Revenues & Transfers-In Adjustments		711,474	1,532	2,687		751
Direct Entries to Fund Equity	2,356,732	1,136,898	10,812,507			
Total Additions	2,381,869	17,831,194	14,981,939	4,771,428	45,000	30,403
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	2,461,689	16,596,238	8,219,684	3,064,386		
Nonbudgeted Expenditures & Transfers-Out		887,050	55	26,161	7,500	393,096
Prior Year Expenditures & Transfers-Out Adjustments	(3,710)	24,245	3,917	90,477		
Total Reductions	2,457,978	17,507,533	8,223,656	3,181,024	7,500	393,096
FUND EQUITY: June 30, 2023	\$ (1,313,118)	\$ 19,250,195	\$ 5,908,358	\$ 3,440,858	\$ 516,728	\$ 10,502,742

MT DEPT OF AGRICULTURE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Private Purpose Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2021	\$ (903,479)	\$ 18,852,968	\$ 11,254	\$ 2,024,474	\$ 680,228	\$ 11,478,257
ADDITIONS						
Budgeted Revenues & Transfers-In	100	14,603,571	4,054,222	770,169		
Nonbudgeted Revenues & Transfers-In	12,285	719,933		(2,687)	182,000	(264,848)
Prior Year Revenues & Transfers-In Adjustments	493	1,090,005	621	(196)		(22)
Direct Entries to Fund Equity	2,213,627	540,673	159,372	1,883		
Total Additions	<u>2,226,506</u>	<u>16,954,182</u>	<u>4,214,215</u>	<u>769,170</u>	<u>182,000</u>	<u>(264,871)</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	2,565,299	15,115,366	5,070,328	886,692		
Nonbudgeted Expenditures & Transfers-Out	(5,263)	1,541,480		55,291	383,000	347,951
Prior Year Expenditures & Transfers-Out Adjustments	2,560,036	223,770	5,067	1,206		
Total Reductions	<u>2,560,036</u>	<u>16,880,616</u>	<u>5,075,395</u>	<u>943,190</u>	<u>383,000</u>	<u>347,951</u>
FUND EQUITY: June 30, 2022	\$ (1,237,009)	\$ 18,926,533	\$ (849,925)	\$ 1,850,455	\$ 479,228	\$ 10,865,435

MT DEPT OF AGRICULTURE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Private Purpose Trust Fund	Permanent Fund	Total
Licenses and Permits		\$ 5,362,705					\$ 5,362,705
Taxes		6,186,101					6,186,101
Charges for Services		1,832,496		\$ 1,093,992			2,926,489
Investment Earnings		815,560		215,574		\$ 30,403	1,061,536
Fines and Forfeits		35,424		33			35,457
Sale of Documents, Merchandise and Property		13,723					13,723
Grants, Contracts, and Donations	\$ 25,000	10,250					35,250
Transfers-in		2,437,718	\$ 33,329	1,730,915			4,201,961
Federal Indirect Cost Recoveries			267,133				267,133
Miscellaneous	138				\$ 45,000		45,458
Federal			3,868,970				3,868,970
Total Revenues & Transfers-In	25,138	16,694,296	4,169,432	1,730,915		30,403	25,735,696
Less: Nonbudgeted Revenues & Transfers-In	5	271,428		4,771,428		29,651	2,043,649
Prior Year Revenues & Transfers-In Adjustments		711,474	1,532	2,687		751	716,443
Actual Budgeted Revenues & Transfers-In	25,133	15,711,394	4,167,901	3,071,176	0	0	22,975,604

MT DEPT OF AGRICULTURE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	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	\$	5,347,633					\$ 5,347,633
Taxes		6,045,843					6,045,843
Charges for Services		1,843,406					2,600,403
Investment Earnings		152,987		756,998			(109,029)
Fines and Forfeits		37,777		2,854			45,213
Sale of Documents, Merchandise and Property		11,703		7,436			11,703
Grants, Contracts, and Donations	\$	493					46,118
Transfers-in	12,285	2,438,045	\$ 139,937				2,590,267
Capital Asset Sale Proceeds		9,776					9,776
Inception of Lease/Installment Contract		480,663					480,663
Federal Indirect Cost Recoveries			235,961				235,961
Miscellaneous	100	50			\$ 182,000		182,150
Federal			3,678,945				3,678,945
Total Revenues & Transfers-In	12,878	16,413,509	4,054,843	767,287	182,000	(264,871)	21,165,647
Less: Nonbudgeted Revenues & Transfers-In	12,285	719,933		(2,687)	182,000	(264,848)	646,683
Prior Year Revenues & Transfers-In Adjustments	493	1,090,005	621	(196)		(22)	1,090,902
Actual Budgeted Revenues & Transfers-In	100	14,603,571	4,054,222	770,169	0	0	19,428,062

MT DEPT OF AGRICULTURE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	AGRICULTURAL DEVELOPMENT DIV	AGRICULTURAL SCIENCES DIVISION	CENTRAL MANAGEMENT DIVISION	Total
Personal Services				
Salaries	\$ 1,599,661	\$ 3,857,134	\$ 1,250,030	\$ 6,706,825
Other Compensation	9,150	550		9,700
Employee Benefits	597,693	1,380,556	422,806	2,401,055
Personal Services-Other	39,566			39,566
Total	<u>2,246,070</u>	<u>5,238,240</u>	<u>1,672,836</u>	<u>9,157,146</u>
Operating Expenses				
Other Services	318,531	513,231	95,426	927,188
Supplies & Materials	149,482	339,769	48,833	538,084
Communications	133,924	155,377	47,167	336,468
Travel	223,882	189,000	23,329	436,211
Rent	52,137	216,744	76,152	345,033
Utilities	13,231			13,231
Repair & Maintenance	29,765	170,986	1,423	202,174
Other Expenses	1,323,144	115,107	21,775	1,460,026
Goods Purchased For Resale		2,409		2,409
Total	<u>2,244,095</u>	<u>1,702,622</u>	<u>314,105</u>	<u>4,260,823</u>
Equipment & Intangible Assets				
Equipment		436,161		436,161
Total		<u>436,161</u>		<u>436,161</u>
Capital Outlay				
Total				
Grants				
From State Sources	5,301,589	1,991,313		7,292,902
From Federal Sources	6,248,193	332,480		6,580,672
Total	<u>11,549,781</u>	<u>2,323,793</u>		<u>13,873,574</u>
Benefits & Claims				
From State Sources	1,089,063			1,089,063
From Other Sources		7,500		7,500
Total	<u>1,089,063</u>	<u>7,500</u>		<u>1,096,563</u>
Transfers-out				
Fund transfers	1,766,679	515,046	4,579	2,286,304
Intra-Entity Expense		588,463		588,463
Total	<u>1,766,679</u>	<u>1,103,509</u>	<u>4,579</u>	<u>2,874,767</u>
Debt Service				
Lease Liability	41,845	35,298		77,142
Total	<u>41,845</u>	<u>35,298</u>		<u>77,142</u>
Post Employment Benefits				
Other Post Employment Benefits	(1,134)			(1,134)
Employer Pension Expense	(4,255)			(4,255)
Total	<u>(5,389)</u>			<u>(5,389)</u>
Total Expenditures & Transfers-Out	<u>\$ 18,932,145</u>	<u>\$ 10,847,123</u>	<u>\$ 1,991,520</u>	<u>\$ 31,770,788</u>
EXPENDITURES & TRANSFERS-OUT BY FUND				
General Fund	\$ 1,968,204	\$ 209,634	\$ 280,141	\$ 2,457,978
State Special Revenue Fund	7,108,144	9,005,644	1,393,744	17,507,533
Federal Special Revenue Fund	6,779,160	1,231,249	213,247	8,223,656
Enterprise Fund	3,076,637		104,388	3,181,024
Private Purpose Trust Fund		7,500		7,500
Permanent Fund		393,096		393,096
Total Expenditures & Transfers-Out	18,932,145	10,847,123	1,991,520	31,770,788
Less: Nonbudgeted Expenditures & Transfers-Out	222,231	1,069,530	22,102	1,313,862
Prior Year Expenditures & Transfers-Out Adjustments	100,459	14,494	(25)	114,928
Actual Budgeted Expenditures & Transfers-Out	18,609,455	9,763,099	1,969,443	30,341,997
Budget Authority	57,646,532	11,351,802	2,451,477	71,449,811
Unspent Budget Authority	<u>\$ 39,037,077</u>	<u>\$ 1,588,703</u>	<u>\$ 482,034</u>	<u>\$ 41,107,814</u>
UNSPENT BUDGET AUTHORITY BY FUND				
General Fund	\$ 32,990	\$ 172,030	\$ 1,477	\$ 206,497
State Special Revenue Fund	3,040,093	928,531	152,899	4,121,523
Federal Special Revenue Fund	27,436,357	488,142	325,765	28,250,264
Enterprise Fund	8,527,637		1,894	8,529,531
Unspent Budget Authority	<u>\$ 39,037,077</u>	<u>\$ 1,588,703</u>	<u>\$ 482,034</u>	<u>\$ 41,107,814</u>

MT DEPT OF AGRICULTURE
 SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2022

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	AGRICULTURAL DEVELOPMENT DIV	AGRICULTURAL SCIENCES DIVISION	CENTRAL MANAGEMENT DIVISION	Total
Personal Services				
Salaries	\$ 1,604,985	\$ 3,501,502	\$ 1,228,209	\$ 6,334,696
Other Compensation	7,650	1,150		8,800
Employee Benefits	545,763	1,212,234	386,702	2,144,698
Personal Services-Other	(2,028)			(2,028)
Total	<u>2,156,369</u>	<u>4,714,886</u>	<u>1,614,911</u>	<u>8,486,166</u>
Operating Expenses				
Other Services	326,054	468,874	152,692	947,620
Supplies & Materials	247,323	314,831	17,242	579,396
Communications	113,228	139,086	41,032	293,345
Travel	149,133	120,839	13,048	283,020
Rent	52,434	218,447	75,812	346,693
Utilities	13,970	43,047		57,017
Repair & Maintenance	63,462	159,447	96	223,005
Other Expenses	879,244	158,855	33,750	1,071,849
Goods Purchased For Resale		2,680		2,680
Total	<u>1,844,847</u>	<u>1,626,107</u>	<u>333,672</u>	<u>3,804,625</u>
Equipment & Intangible Assets				
Equipment	46,482	18,065		64,546
Intangible Assets	322,991	157,672		480,663
Total	<u>369,473</u>	<u>175,737</u>		<u>545,210</u>
Grants				
From State Sources	5,370,554	1,996,208		7,366,762
From Federal Sources	3,132,669	322,382		3,455,052
Total	<u>8,503,223</u>	<u>2,318,591</u>		<u>10,821,814</u>
Benefits & Claims				
From State Sources	610,130			610,130
From Other Sources		383,000		383,000
Total	<u>610,130</u>	<u>383,000</u>		<u>993,130</u>
Transfers-out				
Fund transfers	161,798	426,021		587,819
Intra-Entity Expense		799,931		799,931
Total	<u>161,798</u>	<u>1,225,952</u>		<u>1,387,750</u>
Debt Service				
Lease Liability	41,845	34,776		76,621
Total	<u>41,845</u>	<u>34,776</u>		<u>76,621</u>
Post Employment Benefits				
Other Post Employment Benefits	7,508			7,508
Employer Pension Expense	67,364			67,364
Total	<u>74,872</u>			<u>74,872</u>
Total Expenditures & Transfers-Out	<u>\$ 13,762,557</u>	<u>\$ 10,479,048</u>	<u>\$ 1,948,583</u>	<u>\$ 26,190,188</u>
EXPENDITURES & TRANSFERS-OUT BY FUND				
General Fund	\$ 2,043,575	\$ 198,556	\$ 317,905	\$ 2,560,036
State Special Revenue Fund	7,326,746	8,325,132	1,228,739	16,880,616
Federal Special Revenue Fund	3,527,612	1,224,409	323,374	5,075,395
Enterprise Fund	864,625		78,565	943,190
Private Purpose Trust Fund		383,000		383,000
Permanent Fund		347,951		347,951
Total Expenditures & Transfers-Out	13,762,557	10,479,048	1,948,583	26,190,188
Less: Nonbudgeted Expenditures & Transfers-Out	613,344	1,716,491	(2,113)	2,327,722
Prior Year Expenditures & Transfers-Out Adjustments	209,947	14,634	198	224,780
Actual Budgeted Expenditures & Transfers-Out	12,939,266	8,747,922	1,950,498	23,637,686
Budget Authority	35,119,753	10,083,959	2,226,603	47,430,315
Unspent Budget Authority	<u>\$ 22,180,486</u>	<u>\$ 1,336,037</u>	<u>\$ 276,105</u>	<u>\$ 23,792,629</u>
UNSPENT BUDGET AUTHORITY BY FUND				
General Fund	\$ 52,199	\$ 5,130	\$ 3,824	\$ 61,153
State Special Revenue Fund	2,480,608	1,183,058	205,076	3,868,743
Federal Special Revenue Fund	17,855,918	147,849	8,418	18,012,186
Enterprise Fund	1,791,760		58,787	1,850,548
Unspent Budget Authority	<u>\$ 22,180,486</u>	<u>\$ 1,336,037</u>	<u>\$ 276,105</u>	<u>\$ 23,792,629</u>

Department of Agriculture
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2023

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. The department's use of the General Fund primarily helps support statewide agricultural development and research.

- **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts) that are legally restricted to expenditures for specific state program purposes. Department state special revenue funds include 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, industrial hemp, 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, food safety, marketing, specialty crop block grants, response to the COVID-19 pandemic and aftermath, local food purchase assistance, 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.

Changes in Accounting Policy

Beginning in fiscal year 2022, the State of Montana implemented Governmental Accounting Standard’s Board (GASB) Statement No. 87 -Leases, which generally requires long-term leases to be recorded as a liability and a corresponding right-to-use lease asset. Since these leases are accounting for as long-term debt, governmental funds will show a Non-Budgeted Inception of Lease/ Installment Contract category on the Schedule of Revenues and Transfers-in and a corresponding Non-Budgeted Expenditure on the Schedule of Total Expenditures and Transfers-out for the purchase of the leased asset. In the Schedule of Total Expenditures and Transfers-out, there will also be a shift from Operating Expenses – Rent to Debt Service – Lease Liability for these types of leases.

Some of the department's office space leases met the criteria and threshold amount to be recorded in accordance with GASB 87, which resulted in a Non-Budgeted Inception of Lease/Installment Contract Revenue and Non-Budgeted Expenditure, both in the amount of \$480.7 thousand for fiscal year 2022. Those lease expenses are also now recorded as Debt Service – Lease Liability beginning in fiscal year 2022.

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, 2022, and June 30, 2023.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General, State 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 participates in 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. For calendar year 2023, the reinsurance percentage decreased from 70% to 50%.

In calendar year 2022 and 2023, insureds paid \$2.6 million and \$2.4 million, respectively, in hail insurance premiums and the department ceded \$1.8 million and \$1.2 million, respectively, of those premiums. Total losses were \$3.5 million and \$1.1 million, and the department ceded \$2.5 million and \$557.3 thousand of those losses in calendar year 2022 and 2023, respectively.

5. Unspent Budget Authority

The agency had \$23.8 million and \$41.1 million in unspent budget authority on June 30, 2022, and June 30, 2023, respectively. The majority of which, \$22.2 million and \$39.0 million for fiscal years 2022 and 2023, respectfully, is attributed to the Agriculture Development Division and further broken down as follows:

- American Rescue Plan Act of 2021 (ARPA), reported primarily as federal special revenue fund, must be obligated by December 31, 2024, and spent by December 31, 2026. The unspent budget authority related to these ARPA monies is \$9.2 million and \$14.2 million for fiscal years 2022 and 2023, respectively. See note disclosures below for more information related to ARPA funding.

- Specialty Crop Block Grant, reported as federal special revenue fund, can have three years, or more, of active awards in a single fiscal year. All the authority is requested when the award is approved, though it will be used over the multi-year award period. Due to the nature and timing of these awards, unspent authority is expected for the first couple years of each award. The unspent budget authority related to these grants is \$8.4 million and \$8.9 million for fiscal years 2022 and 2023, respectively.
- Resilient Food Systems Infrastructure program funds, reported as federal special revenue fund, in the amount of \$4.1 million were approved and authorized beginning in fiscal year 2023, but remained unspent at fiscal year-end. The related awards will be expended in future fiscal years through fiscal year 2027.
- The Hail Insurance program, reported as an enterprise fund, has a statutory appropriation for claims. Additional authority is requested based on the expected claims. However, due to the inherent volatility of hail damage, the amount of actual claims may be less than anticipated or may be paid later in the Hail Season in the following fiscal year. The unspent budget authority for these claims is \$1.6 million and \$2.5 million for fiscal years 2022 and 2023, respectively. Additional unspent budget authority related to ARPA monies designated for the Hail Insurance enterprise fund, includes \$5.8 million for fiscal year 2023.

6. Coronavirus Aid, Relief, and Economic Security Act (CARES) and American Rescue Plan Act of 2021 (ARPA)

During fiscal years 2022, the department expended the remaining balance of the Meat Processing Infrastructure Grants CARES Act monies, \$139.9 thousand.

During fiscal years 2022 the Department of Treasury, the State of Montana's Governor's Office awarded \$7.9 million in American Rescue Plan Act of 2021 (ARPA) Agriculture Infrastructure Grants to state businesses, \$912.1 thousand and \$2.4 million of which was expended by the department in fiscal years 2022 and 2023, respectively. Of an additional \$2.0 million appropriated by the Governor's Office for the creation of port authority grants under Section 12 of House Bill 632, \$2.0 million was awarded in fiscal year 2022, though none was expended in either fiscal year 2022 or fiscal year 2023. The remaining balances of these ARPA funds are expected to be fully expended by December 31, 2026.

During fiscal year 2023, the Governor's Office approved \$7.5 million of ARPA funding for the department's Hail Insurance fund, as recommended by the State's Economic Transformation, Stabilization & Workforce Development Advisory Commission. Of this amount, \$1.7 million was expended during fiscal year 2023, to reimburse the Hail Insurance fund for claims paid since March 3, 2021. The remaining balance of these funds is expected to be fully expended by December 31, 2026.

Report on Internal Control and Compliance

Angus Maciver, Legislative Auditor
Kenneth E. Varns, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller
Miki Cestnik

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, 2023, and 2022, and the related notes to the financial schedules, and have issued our report thereon dated July 25, 2024.

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 as a basis for designing 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 financial schedules. 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'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

July 25, 2024

DEPARTMENT OF
AGRICULTURE

DEPARTMENT RESPONSE



September 3, 2024


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

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Mr. Maciver:

Thank you for the opportunity to respond to the Department of Agriculture's financial schedules for the two years ended June 30, 2023. I would also like to thank Adam Hefenieder, and the other audit staff, for their professionalism and timeliness during this cycle's audit process. My staff and I will be available to discuss the audit with the Legislative Audit Committee at its convenience.

Sincerely,


Christy Clark
Director
Department of Agriculture