



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Department of
Environmental Quality*

*For the Two Fiscal Years Ended
June 30, 2022*

MAY 2023

LEGISLATIVE AUDIT
DIVISION

22-16

FINANCIAL-COMPLIANCE AUDITS

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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 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, 2021, was issued June 21, 2022. The Single Audit Report for the two fiscal years ended June 30, 2023, will be issued by March 31, 2024.

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

May 2023

The Legislative Audit Committee
of the Montana State Legislature:

This report contains the results of our financial-compliance audit of the Department of Environmental Quality (department) for the two fiscal years ended June 30, 2022. We completed work over cash, investments, licenses and permits revenues, federal revenues, and expenditures related to personal services, contracted services, and transfers-out activity.

This report contains one recommendation to the department related to internal controls over transfers required by state law.

The department's written response to the audit recommendation is included in the audit report on 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 Environmental Quality

Christopher Dorrington, Director

James Fehr, Deputy Director (effective November 2021)

Sonja Nowakowski, Air, Energy & Mining Division Administrator

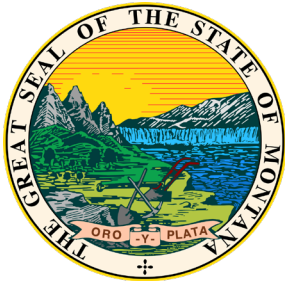
Amy Steinmetz, Waste Management & Remediation Division
Administrator (effective June 2022)

Lindsey Krywaruchka, Water Quality Division Administrator
(effective August 2022)

			<u>Term Expires</u>
Board of Environmental Review	David Simpson, Chair	Billings	January 1, 2025
	Stacey Aguirre	Glendive	January 1, 2027
	Julia Altemus	Missoula	January 1, 2027
	Lee Bruner	Whitehall	January 1, 2027
	Jennifer Rankosky	Kalispell	January 1, 2027
	Jon Reiten	Billings	January 1, 2025
	Joseph Smith	Florence	January 1, 2025
Petroleum Tank Release Compensation Board	John Monahan, Presiding Officer	Missoula	June 30, 2024
	Grant Jackson	Helena	June 30, 2024
	Kristi Kline	Kremlin	June 30, 2023
	Tom Pointer	Billings	July 1, 2025
	Heather Smith	Bozeman	July 1, 2023
	Jess Stenzel	Great Falls	July 1, 2025
	Calvin Wilson	Bozeman	July 1, 2025

For additional information concerning the Department of Environmental Quality, contact:

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Department of Environmental Quality
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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT Montana Department of Environmental Quality FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2022

A report to the Montana Legislature

BACKGROUND

The Department of Environmental Quality (department) is charged with protecting the environment as guaranteed to the citizens of Montana by the state's constitution.

The department promotes clean air and minimizing pollution; implements measures to protect water quality; permits and regulates hard rock, coal, and opencut mining; and helps reduce the risk of public exposure to contaminants from unpermitted and historical waste releases to the environment.

The department is organized into six programs: Central Management; Air, Energy and Mining; Water Quality; Waste Management and Remediation; Libby Asbestos Superfund Advisory Council; and Petroleum Tank Release Compensation Board.

Director:
Christopher Dorrington

During fiscal year 2021, the department experienced a decrease in total revenues and expenditures of about 4 percent and 11 percent, respectively, due to some temporary reductions in construction. However, in fiscal year 2022, total revenues and expenditures increased by about 6 percent and 17 percent, respectively, returning to normal operating levels. The department's operations did not experience significant changes in either year despite significant internal turnover. This report contains one recommendation to the department related to internal controls over transfers required by state law.

AUDITOR'S OPINION (page A-1): UNMODIFIED

We determined the department's financial schedules and note disclosures present fairly, in all material respects, the activity of the department and issued unmodified opinions on each of the fiscal year 2022 and 2021 financial schedules. This means the reader can rely on the presented information as well as the underlying accounting records.

For the full context of the department's financial activity, see the financial schedules and notes beginning on page A-5.

RECOMMENDATIONS:

In this report, we issued the following recommendations:

- To the department: 1
- To the legislature: 0

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

- Fully Implemented: 1
- Partially Implemented: 2
- Not Implemented: 1

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

leg.mt.gov/lad

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RECOMMENDATION #1 (page 5):

Internal Controls

We recommend the Department of Environmental Quality implement internal controls to ensure transfer activity related to the Environmental Quality Protection Fund State Special Revenue Account is completed as required by state law and recorded correctly on the state’s accounting records.

Department response: Concur

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: 1

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.

Chapter I – Introduction and Background

Introduction

We performed a financial-compliance audit of the Department of Environmental Quality (department) for the two fiscal years ended June 30, 2022. The objectives of the audit were to:

1. Obtain an understanding of the department's internal controls to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in internal and management controls of the department.
2. Determine whether the department's financial schedules for each of the two fiscal years ended June 30, 2022, fairly present the results of operations and changes in fund equity.
3. Determine whether the department complied with selected state laws and regulations.
4. Determine the implementation status of prior audit recommendations.

We addressed these objectives by focusing our audit efforts primarily on federal grant funding and revenues generated from licensing and permitting activities. In addition, we also reviewed expenditures related to personal services, contracted services, and transfers-out activity. This included examining the department's internal control procedures, performing analytical procedures, and reviewing accounting transactions. We also reviewed and tested the department's compliance with state laws and policies.

As required by §17-8-101(6), MCA, we reviewed the activity and the resulting fund equity of the department's internal service fund, which is used to account for the indirect costs of the Central Management Program. Overall, we determined the fees and charges for services are commensurate with costs and the fund equity balance is reasonable in fiscal years 2021 and 2022.

Background

The department is charged with protecting the environment as guaranteed to the citizens of Montana by the state's constitution. The department's various programs each have their part in fulfilling this responsibility. The department is organized as follows.

Central Management Program (76.83 FTE) is organized under the Director's Office, provides department-wide, central support related to human resources, safety, information technology, financial services, operations project management, and records and information management. The division comprises the Legal Office, the Enforcement Program, Human Resources, Financial Services, and the Information Technology Bureau. It also provides administrative support to the Board of Environmental Review, which reviews appeals from affected parties regarding administrative decisions made by the department.

Air, Energy & Mining Division (101.28 FTE) permits and regulates operations under the Montana Environmental Policy Act related to air, hard rock mining, opencut mining, and coal mining industries. The division consists of the Air Quality Bureau, the Energy Bureau, and the Mining Bureau.

Water Quality Division (148.67 FTE) improves water quality through implementing measures that conserve the state's water resources and protects public health. The division consists of the Public

Water Supply Bureau, Water Quality Planning Bureau, Water Protection Bureau, and the Engineering Bureau.

Waste Management & Remediation Division (113.51 FTE) is responsible for overseeing environmental protection related to underground tanks, solid waste, and remediation of contaminated sites. The division comprises the Federal Superfund and Construction Bureau, the Contaminated Site Cleanup Bureau, and Waste and Underground Tank Management Bureau.

Petroleum Tank Release Compensation Board (6.75 FTE) oversees the Petroleum Tank Release Cleanup Fund, established by §75-11-313, MCA, which reimburses eligible owners and operators for costs of petroleum release cleanup. Fund administration is a joint responsibility of the board and the department.

Libby Asbestos Superfund Advisory Team was established by Chapter 317, Laws of 2017 (Senate Bill 315). The team is attached to the department for administrative purposes only. The team's duties are to advise the department regarding the administration of the Libby Asbestos Cleanup Trust Fund and the cleanup operation and maintenance account. No FTE was allocated to the team during the audit period.

Prior Audit Recommendations

The prior audit report contained four recommendation to the department.

Table 1
Prior Audit Recommendations

Prior Audit Recommendation	Summary of Recommendation	Status of Prior Audit Recommendation
1	We recommend the department enhance internal controls over the department's indirect cost rate calculation and to ensure the subsequent indirect cost recoveries are recorded in the correct accounts on the state's accounting records per state accounting policy.	Partially Implemented
2	We recommend the department implement internal controls to ensure IT assets are recorded on the state's accounting records in accordance with state accounting policy.	Partially Implemented
3	We recommend the department implement internal controls to ensure the department's pollution remediation obligations are recorded accurately on the state's accounting records.	Fully Implemented
4	We recommend the department implement internal controls to ensure transfer activity related to its Environmental Quality Protection Fund State Special Revenue Account is recorded correctly on the state's accounting records.	Not Implemented – see Recommendation #1 on page 5

Source: Compiled by the Legislative Audit Division.

During the audit period, the department took steps towards implementing prior audit Recommendation #1. This included developing policies and procedures related to calculating the indirect cost rate. Additionally, we reviewed the indirect cost rate calculation for the fiscal year 2023 rate. This rate was calculated using the new policies and procedures during the audit period. We identified significant improvements in the process to calculate this rate. However, we did identify a few additional areas where documentation and controls could be enhanced in the calculation process. These included enhancing controls to review the calculation to identify all errors, keeping documentation of assumptions and budgeted amounts, and documenting how some specific information is determined for the calculation. We have determined this recommendation is partially implemented and make no additional recommendation.

The department did develop controls over recording IT assets per prior audit Recommendation #2. However, they did not implement these controls until the end of fiscal year 2022. Additionally, they made correcting entries on the state's accounting system to properly record the IT assets, but at the end of fiscal year 2022, there was one IT asset that was not fully recorded. The department estimates that an additional \$900,000 should be recorded for the Tracking Remedial Environmental Actions Data System (TREADS). Because of this, we consider this prior audit recommendation partially implemented. However, since DEQ has implemented an internal control policy and has taken steps to address this recommendation, we do not make an additional recommendation.

Chapter II – Findings and Recommendation

Statutorily Required Transfers

The department did not complete statutorily required transfers as required by law.

The department administers the Environmental Quality Protection Fund (EQPF) State Special Revenue Account. The EQPF is statutorily established as a revolving fund used by the department to help fund costs associated when a hazardous substance is released. The department is required by state law to transfer \$1.2 million annually from its Orphan Share State Special Revenue Account to the EQPF. From the EQPF, the department transfers the money to several other state special revenue accounts according to provisions in state law. However, in both fiscal years 2021 and 2022, the department:

- ◆ Only had resources available in the Orphan Share account to transfer \$600,000 of the required \$1.2 million. Department staff indicated that they anticipate this was a temporary issue due to large claims in the Orphan Share State Special Revenue Account. They anticipate making the full transfer again starting in fiscal year 2023. The department should determine if they should be performing the transfers required in state law before other obligations in the Orphan Share Fund in order to make sure the full amount of the required transfer is available.
- ◆ Completed the transfer without transferring it into the EQPF and then from the EQPF transferring the money to several other state special revenue accounts. Department staff indicated they did this to eliminate unnecessary accounting entries. However, state law is clear that the money must go from the Orphan Share State Special Revenue Account into the EQPF and then be transferred to other state special revenue accounts. Recording this transfer as required by state law can be accomplished at the same time as the other accounting entries and will not require any additional effort.
- ◆ Transferred the full amount into the accounts related to the Libby Asbestos cleanup. However, state law requires the amount be split 50 percent to the Libby Asbestos cleanup accounts and 50 percent to the metal mine reclamation projects at abandoned mine sites. Each fund should have received \$600,000 if the full \$1.2 million is transferred. Since only \$600,000 was transferred, each fund should have received \$300,000, but the department instead put the full \$600,000 in the Libby Asbestos cleanup accounts. Department staff indicated the department receives additional funding for the abandoned mine sites. By doing this, they ensured the maximum number of projects were funded by putting the full transfer amount in the Libby Asbestos cleanup accounts. However, state law is clear in its requirements to split the transfer between the funds.

The table below shows what was recorded on the state's accounting records as compared to what should have been recorded in both fiscal year 2021 and 2022.

Table 2
EQPF Actual Transfers Compared to Statutorily Required Transfers
Fiscal Years 2021 and 2022

Account	Account Line Item	Actual Activity	Required Activity Per State Law
Orphan Share Account	Transfer-Out	\$600,000	\$1,200,000
EQPF	Transfer-In		\$1,200,000
	Transfer-Out		\$1,200,000
Libby Asbestos clean up accounts	Transfer-In	\$600,000	\$600,000
Abandoned Mine Sites account	Transfer-In		\$600,000

Source: Compiled by the Legislative Audit Division from the state's accounting system and state law.

The prior audit report also contained a recommendation to the department regarding how activity was recorded on the state's accounting records for the EQPF. In the prior audit, the activity was recorded to the wrong year. While that issue was resolved, there are new misstatements on the state's accounting records as noted above. This indicates the department needs to implement controls over this activity to ensure it is occurring as required by state law and is recorded correctly on the state's accounting records. This should include an analysis of what should be paid first to comply with law. Additionally, if the analysis of the Orphan Share Fund indicates the department is unable to transfer the full amount required by state law in future years, the department should consider seeking legislation to address this issue. Because this is a continued issue, we consider it a significant deficiency in internal controls, as described further in the report starting on page B-1.

RECOMMENDATION #1

We recommend the Department of Environmental Quality implement internal controls to ensure transfer activity related to the Environmental Quality Protection Fund State Special Revenue Account is completed as required by state law and recorded correctly on the state's accounting records.

Independent Auditor's Report and Department Financial Schedules

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

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 Environmental Quality, 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, 2022, and 2021, and the related notes to the financial schedules.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the accompanying financial schedules, referred to above, present fairly, in all material respects, the results of operations and changes in fund equity for each of the fiscal years ended June 30, 2022, and 2021, 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, 2022, and 2021, or changes in financial position and cash flows 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 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 opinions. 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 April 6, 2023, 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 the effectiveness of the department's 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

April 6, 2023

DEPARTMENT OF ENVIRONMENTAL QUALITY
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Internal Service Fund	Permanent Fund
FUND EQUITY: July 1, 2021	\$ (1,292,647)	\$ 211,255,722	\$ 35,414,079	\$ 2,615,450	\$ 5,905,720	\$ (3,729,754)	\$ 22,231,514
ADDITIONS							
Budgeted Revenues & Transfers-In	8,354	17,730,280	22,503,863		34,164	7,872,795	475,851
Nonbudgeted Revenues & Transfers-In	126,104	20,018,537	9,041,199	221,834	(16,935)	2,259	149,844
Prior Year Revenues & Transfers-In Adjustments	5,827	720,418	(326)	(18)	5,936,599	169	(1,946)
Direct Entries to Fund Equity	5,643,447	14,598,196	(298,781)	2,366,539	(1,081,057)	45,407	
Total Additions	5,783,732	53,067,431	31,245,955	2,588,355	4,872,770	7,920,630	623,749
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	5,753,906	31,887,454	21,863,410			7,074,765	
Nonbudgeted Expenditures & Transfers-Out	158,681	22,221,331	10,473,449	687,140		449,278	
Prior Year Expenditures & Transfers-Out Adjustments	(86,281)	5,551,933	(240,134)			208	
Total Reductions	5,826,305	59,660,717	32,096,725	687,140	0	7,524,250	0
FUND EQUITY: June 30, 2022	\$ (1,335,221)	\$ 204,662,436	\$ 34,563,309	\$ 4,516,665	\$ 10,778,490	\$ (3,333,374)	\$ 22,855,263

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 ENVIRONMENTAL QUALITY
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Internal Service Fund	Permanent Fund
FUND EQUITY: July 1, 2020	\$ (1,132,693)	\$ 202,947,732	\$ 35,480,491	\$ 1,203,257	\$ 6,078,493	\$ (3,614,345)	\$ 21,615,426
ADDITIONS							
Budgeted Revenues & Transfers-In	7,500	17,309,326	20,493,611			7,663,523	458,891
Nonbudgeted Revenues & Transfers-In	107,619	21,581,812	11,619,473	249,133	495	11,937	166,221
Prior Year Revenues & Transfers-In Adjustments	261	346,422	(3,102)	(264)		3,161	(9,024)
Direct Entries to Fund Equity	5,259,889	13,395,304	(364,487)	2,082,273	(123,268)	262	
Total Additions	5,375,269	52,632,864	31,745,495	2,331,142	(122,773)	7,678,883	616,088
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	5,535,022	33,507,463	19,792,351			7,753,964	
Nonbudgeted Expenditures & Transfers-Out	4,816	12,280,184	12,012,079	918,949	50,000	43,346	
Prior Year Expenditures & Transfers-Out Adjustments	(4,615)	(1,462,773)	7,477			(3,018)	
Total Reductions	5,535,224	44,324,874	31,811,908	918,949	50,000	7,794,292	0
FUND EQUITY: June 30, 2021	\$ (1,292,647)	\$ 211,255,722	\$ 35,414,079	\$ 2,615,450	\$ 5,905,720	\$ (3,729,754)	\$ 22,231,514

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 ENVIRONMENTAL QUALITY
 SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
 FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Internal Service Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS								
Licenses and Permits	\$ 5,000	\$ 12,513,980					\$	\$ 12,518,980
Taxes	27		694					720
Charges for Services	3,354	4,693,412	482			5,259,538		9,956,786
Investment Earnings		(2,537,913)	(556,688)		16,734		34,312	(3,043,228)
Fines and Forfeits	92,907	449,839		327				542,746
Monetary Settlements		18,153,780						18,153,780
Rentals, Leases and Royalties		5,256	33,530					38,785
Grants, Contracts, and Donations		326,422				105		326,527
Transfers-in		3,090,059	2,761	206,295	5,937,094		589,437	9,825,645
Capital Asset Sale Proceeds		1,039						1,039
Inception of Lease/Installment Contract	35,801	293,606	109,295					438,703
Loan Proceeds		1,132,616				2,613,322		1,132,616
Federal Indirect Cost Recoveries		347,138		15,194		2,259		2,613,322
Miscellaneous	3,196							367,787
Federal			31,954,662					31,954,662
Total Revenues & Transfers-In	140,285	38,469,235	31,544,736	221,816	5,953,828	7,875,223	623,749	84,828,871
Less: Nonbudgeted Revenues & Transfers-In	126,104	20,018,537	9,041,199	221,834	(16,935)	2,259	149,844	29,542,842
Prior Year Revenues & Transfers-In Adjustments	5,827	720,418	(326)	(18)	5,936,599	169	(1,946)	6,660,723
Actual Budgeted Revenues & Transfers-In	8,354	17,730,280	22,503,863	0	34,164	7,872,795	475,851	48,625,307

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 ENVIRONMENTAL QUALITY
 SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
 FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Internal Service Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS								
Licenses and Permits	\$ 7,500	\$ 12,111,063						\$ 12,118,563
Taxes	13		1,518					1,531
Charges for Services		4,612,608						4,612,608
Investment Earnings		2,019,424	406,099	649	495	7,817,847	40,048	12,430,455
Fines and Forfeits	107,240	284,883						2,466,714
Monetary Settlements		13,925,393						392,123
Rentals, Leases and Royalties		5,750	26,412					32,162
Grants, Contracts, and Donations		1,119,797				18		1,119,815
Transfers-in		4,452,950	449,070	206,295			576,041	5,684,356
Loan Proceeds		156,373						156,373
Federal Indirect Cost Recoveries						(151,301)		(151,301)
Miscellaneous	627	549,321		41,925		12,056		603,928
Federal			31,226,884					31,226,884
Total Revenues & Transfers-In	115,380	39,237,560	32,109,982	248,869	495	7,678,621	616,088	80,006,996
Less: Nonbudgeted Revenues & Transfers-In	107,619	21,581,812	11,619,473	249,133	495	11,937	166,221	33,736,691
Prior Year Revenues & Transfers-In Adjustments	261	346,422	(3,102)	(264)		3,161	(9,024)	337,454
Actual Budgeted Revenues & Transfers-In	7,500	17,309,326	20,493,611	0	0	7,663,523	458,891	45,932,851

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DEPARTMENT OF ENVIRONMENTAL QUALITY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Air Energy & Mining Division	Central Management Program	Libby Asbestos SF Advisory Team	Petro Tank Release Comp Board	Waste Management & Remediation Division	Water Quality Division	Total
Personal Services							
Salaries	\$ 5,514,319	\$ 4,530,671		\$ 332,428	\$ 6,244,266	\$ 7,618,088	\$ 24,239,773
Hourly Wages		(56,850)					(56,850)
Employee Benefits	1,776,761	1,158,612	\$ (3)	117,936	2,053,005	2,475,201	7,581,512
Personal Services-Other		35,206					35,206
Total	7,291,081	5,667,639	(3)	450,365	8,297,271	10,093,289	31,799,641
Operating Expenses							
Other Services	5,113,844	1,629,574		38,470	23,137,124	3,465,834	33,384,846
Supplies & Materials	414,168	185,644		7,388	281,924	435,946	1,325,070
Communications	151,240	190,534	1	7,391	128,717	183,680	661,562
Travel	105,136	21,652		4,738	63,288	116,406	311,219
Rent	193,095	1,681,692			101,477	160,829	2,137,092
Utilities	16,805	6,050			29,837		52,691
Repair & Maintenance	55,274	17,542			8,541	28,917	110,274
Other Expenses	2,100,633	1,308,331	0	111,115	2,951,761	2,738,540	9,210,380
Total	8,150,193	5,041,019	1	169,102	26,702,668	7,130,153	47,193,136
Equipment & Intangible Assets							
Equipment	66,332						66,332
Intangible Assets	403,195	25,476			78,479	229,875	737,025
Total	469,527	25,476			78,479	229,875	803,357
Capital Outlay							
Buildings					466,717		466,717
Total					466,717		466,717
Grants							
From State Sources					1,559,836	339,288	1,899,124
Total					1,559,836	339,288	1,899,124
Benefits & Claims							
From State Sources				4,672,191	895,918		5,568,109
From Federal Sources					35,205		35,205
Total				4,672,191	931,123		5,603,314
Transfers-out							
Fund transfers	6,052,521		469,437	11,423	801,428	10,284,082	17,618,891
Total	6,052,521		469,437	11,423	801,428	10,284,082	17,618,891
Debt Service							
Bonds	541,875				145,265		687,140
Lease Liability		(451,075)					(451,075)
Total	541,875	(451,075)			145,265		236,065
Post Employment Benefits							
Other Post Employment Benefits		63,318					63,318
Employer Pension Expense		111,576					111,576
Total		174,893					174,893
Total Expenditures & Transfers-Out	\$ 22,505,196	\$ 10,457,952	\$ 469,434	\$ 5,303,080	\$ 38,982,787	\$ 28,076,688	\$ 105,795,138
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 1,803,894	\$ 852,670			\$ 369,993	\$ 2,799,747	\$ 5,826,305
State Special Revenue Fund	14,156,008	1,455,592	\$ 469,434	\$ 5,303,080	31,588,340	6,688,262	59,660,717
Federal Special Revenue Fund	6,003,419	625,440			6,879,188	18,588,678	32,096,725
Debt Service Fund	541,875				145,265		687,140
Internal Service Fund		7,524,250					7,524,250
Total Expenditures & Transfers-Out	22,505,196	10,457,952	469,434	5,303,080	38,982,787	28,076,688	105,795,138
Less: Nonbudgeted Expenditures & Transfers-Out	2,586,073	513,914	(3)	(526)	20,393,607	10,496,812	33,989,878
Prior Year Expenditures & Transfers-Out Adjustments	5,569,182	(4,931)		(250,606)	(75,731)	(12,188)	5,225,725
Actual Budgeted Expenditures & Transfers-Out	14,349,941	9,948,969	469,438	5,554,213	18,664,911	17,592,063	66,579,534
Budget Authority	22,763,928	17,438,322	480,000	6,910,507	36,763,149	26,043,052	110,398,957
Unspent Budget Authority	\$ 8,413,988	\$ 7,489,353	\$ 10,562	\$ 1,356,295	\$ 18,098,238	\$ 8,450,988	\$ 43,819,423
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 81,738	\$ 4,894			\$ 5,918	\$ 373	\$ 92,924
State Special Revenue Fund	3,075,115	5,243,562	\$ 10,562	\$ 1,356,295	6,259,741	2,513,849	18,459,124
Federal Special Revenue Fund	2,772,134	282,924			11,832,579	5,936,766	20,824,403
Capital Projects Fund	2,485,000						2,485,000
Internal Service Fund		1,957,972					1,957,972
Unspent Budget Authority	\$ 8,413,988	\$ 7,489,353	\$ 10,562	\$ 1,356,295	\$ 18,098,238	\$ 8,450,988	\$ 43,819,423

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 ENVIRONMENTAL QUALITY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Air Energy & Mining Division	Central Management Program	Libby Asbestos SF Advisory Team	Petro Tank Release Comp Board	TBD - Enforcement Division	Waste Management & Remediation Division	Water Quality Division	Total
Personal Services								
Salaries	\$ 5,770,956	\$ 4,506,727		\$ 323,114		\$ 6,042,867	\$ 7,872,295	\$ 24,515,959
Other Compensation		1,200						1,200
Employee Benefits	2,065,058	1,294,305		127,404	\$ (472)	2,209,431	2,850,165	8,545,891
Personal Services-Other		78,310						78,310
Total	<u>7,836,014</u>	<u>5,880,541</u>		<u>450,518</u>	<u>(472)</u>	<u>8,252,298</u>	<u>10,722,460</u>	<u>33,141,360</u>
Operating Expenses								
Other Services	3,896,354	2,263,397		45,531		14,062,192	2,501,330	22,768,804
Supplies & Materials	574,167	387,735	\$ (12)	12,413		315,807	404,200	1,694,310
Communications	134,103	221,906		5,207		120,929	165,143	647,287
Travel	45,704	6,765		331		22,689	31,977	107,466
Rent	192,079	1,608,825				70,294	156,099	2,027,296
Utilities	15,503	2,982				30,096		48,581
Repair & Maintenance	8,746	17,411				4,231	3,575	33,963
Other Expenses	2,411,050	945,111	(0)	110,181		2,535,135	2,773,108	8,774,584
Goods Purchased For Resale		6,000						6,000
Total	<u>7,277,706</u>	<u>5,460,131</u>	<u>(13)</u>	<u>173,663</u>		<u>17,161,373</u>	<u>6,035,431</u>	<u>36,108,291</u>
Equipment & Intangible Assets								
Equipment	27,113							27,113
Total	<u>27,113</u>							<u>27,113</u>
Grants								
From State Sources						1,554,345	230,543	1,784,888
Total						<u>1,554,345</u>	<u>230,543</u>	<u>1,784,888</u>
Benefits & Claims								
From State Sources				5,171,061		(391,704)		4,779,358
From Federal Sources						675		675
Total				<u>5,171,061</u>		<u>(391,029)</u>		<u>4,780,033</u>
Transfers-out								
Fund transfers	379,793		456,041	3,830		879,020	11,970,617	13,689,301
Total	<u>379,793</u>		<u>456,041</u>	<u>3,830</u>		<u>879,020</u>	<u>11,970,617</u>	<u>13,689,301</u>
Debt Service								
Bonds	544,740					145,025		689,765
Capital Leases		1,923						1,923
Total	<u>544,740</u>	<u>1,923</u>				<u>145,025</u>		<u>691,688</u>
Post Employment Benefits								
Other Post Employment Benefits		(69,353)						(69,353)
Employer Pension Expense		281,925						281,925
Total		<u>212,572</u>						<u>212,572</u>
Total Expenditures & Transfers-Out	\$ <u>16,065,367</u>	\$ <u>11,555,167</u>	\$ <u>456,028</u>	\$ <u>5,799,073</u>	\$ <u>(472)</u>	\$ <u>27,601,033</u>	\$ <u>28,959,051</u>	\$ <u>90,435,247</u>
EXPENDITURES & TRANSFERS-OUT BY FUND								
General Fund	\$ 1,731,869	\$ 849,877			\$ (279)	\$ 338,653	\$ 2,615,104	\$ 5,535,224
State Special Revenue Fund	8,130,951	1,866,475	\$ 456,028	\$ 5,799,073	(194)	20,638,868	7,433,672	44,324,874
Federal Special Revenue Fund	5,378,623	1,044,522				6,478,487	18,910,276	31,811,908
Debt Service Fund	773,924					145,025		918,949
Capital Projects Fund	50,000							50,000
Internal Service Fund		7,794,292						7,794,292
Total Expenditures & Transfers-Out	<u>16,065,367</u>	<u>11,555,167</u>	<u>456,028</u>	<u>5,799,073</u>	<u>(472)</u>	<u>27,601,033</u>	<u>28,959,051</u>	<u>90,435,247</u>
Less: Nonbudgeted Expenditures & Transfers-Out	1,631,759	42,291		(431)	(472)	11,671,152	11,965,076	25,309,375
Prior Year Expenditures & Transfers-Out Adjustments	7,080	16,461		(237,431)		(1,246,948)	(2,092)	(1,462,929)
Actual Budgeted Expenditures & Transfers-Out	<u>14,426,528</u>	<u>11,496,415</u>	<u>456,028</u>	<u>6,036,934</u>	<u>0</u>	<u>17,176,829</u>	<u>16,996,067</u>	<u>66,588,801</u>
Budget Authority	26,424,849	20,242,504	480,000	7,132,100		37,883,324	24,678,385	116,841,162
Unspent Budget Authority	\$ <u>11,998,321</u>	\$ <u>8,746,089</u>	\$ <u>23,972</u>	\$ <u>1,095,166</u>	\$ <u>0</u>	\$ <u>20,706,495</u>	\$ <u>7,682,319</u>	\$ <u>50,252,361</u>
UNSPENT BUDGET AUTHORITY BY FUND								
General Fund	\$ 2,130	\$ 18,630				\$ 80	\$ 276	\$ 21,116
State Special Revenue Fund	4,846,536	7,094,707	\$ 23,972	\$ 1,095,166		8,569,007	1,523,021	23,152,409
Federal Special Revenue Fund	2,364,655	312,096				12,137,407	6,159,022	20,973,180
Capital Projects Fund	4,785,000							4,785,000
Internal Service Fund		1,320,656						1,320,656
Unspent Budget Authority	\$ <u>11,998,321</u>	\$ <u>8,746,089</u>	\$ <u>23,972</u>	\$ <u>1,095,166</u>	\$ <u>0</u>	\$ <u>20,706,495</u>	\$ <u>7,682,319</u>	\$ <u>50,252,361</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.

Montana Department of Environmental Quality

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2022

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, Capital Projects, Debt Service, 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 (Internal Service) fund category. 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 permitting and compliance activity for Air Quality Permits, Public Water Supply, Water and Waste Water Operator Certification, Subdivision Review, Montana Pollutant Discharge Elimination System (MPDES), Hard Rock, Coal, Uranium and Opencut Mining, Major Facility Siting, Asbestos Control, Hazardous Waste Management, Junk Vehicle Disposal,

Septic Tank Pumper Certification and disposal site inspections, Solid Waste Management and Underground Storage Tanks. In addition to the permitting and compliance activities, the State Special Revenue Fund includes the Department's Alternate Energy Loan Program and State Building Energy Conservation Program, Orphan Share, Petroleum Tank Release Cleanup, Hard Rock Mining Reclamation, Environmental Quality Protection Fund (State Superfund), and various reclamation bond forfeiture and settlement accounts including Upper Blackfoot Mining Complex, Streamside Tailings, Montana Post and Pole, and Clark Fork remedial action accounts.

- ◆ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include federal assistance programs such as the Water Pollution Control and Drinking Water State Revolving Funds, Performance Partnership Grants, Abandoned Mine Lands Reclamation Grant, as well as other federal grants and agreements.
- ◆ **Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses this fund for recording debt service principal and interest payments for state Hard Rock Mining Reclamation Bonds, Energy Conservation Bonds, and Comprehensive Environmental Response, Compensation and Liability Bonds.
- ◆ **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund for accounting for resources recovered from state agencies and component units for repayment of State Buildings Energy Conservation Program projects that are legally committed for construction of future State Building Energy Conservation projects.
- ◆ **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 legislature created a trust fund in fiscal year 2005-2006 to cover the long-term costs of water treatment in the area of the Zortman-Landusky mines. The trust was financed from an annual transfer of \$1.2 million from the orphan share fund. The final transfer was done for \$750,000 in fiscal year 2018 when the balance reached \$19.3 million. The department uses this fund for accounting for this trust.

Proprietary Fund Category

- ◆ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. Department Internal Service Funds include indirect charges assessed against all units of the department by the Central Management Program for providing department-wide support functions and services.

2. Fund Equity Balance

- ◆ **General Fund** - 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, 2021, and June 30, 2022.

- ◆ **Internal Service Fund** – The department has authority to pay obligations from this fund within its appropriation limits. Due to generally accepted accounting principles for post-employment benefits and pension liabilities, the department’s outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending Internal Service Fund equity balances for each of the fiscal years ended June 30, 2021, and June 30, 2022.

3. Direct Entries to Fund Equity

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

4. Nonbudgeted Revenues & Transfers-In

In the Schedule of Total Revenues and Transfers-In for nonbudgeted revenues and transfers-in, there are several points of clarification, including:

General Fund non-budgeted revenue activity is primarily revenue collected for fines and penalties received for Enforcement activities that are unknown from year-to-year.

State Special non-budgeted revenues remained consistent through the reporting period. Non-budgeted revenue is primarily made up of environmental reviews, registration, licensing and permitting fees. Other significant state special revenue is derived from wastewater revolving funds, drinking water revolving funds, revenue from the Resource Indemnity Trust (RIT) interest via the natural resource operations fund, and gas taxes for petroleum cleanup.

Federal non-budgeted revenues remained consistent through the reporting period. Federal revenues come primarily from EPA, including the performance partnership grant, funds for non-point source water projects under the federal Clean Water Act, funds for work under the federal Clean Air Act, and Superfund oversight and various other activities. The agency also receives federal revenue from the Department of Energy and Department of Interior grants.

Capital Projects Fund transfers-in were approximately \$5.9 million in fiscal year 2022 in the Air, Energy and Mining Division. There was no transfer activity during fiscal year 2021.

- ◆ The only transfer-in activity that occurs in the Capital Projects Fund is a result of a biennial sweep occurring each odd numbered fiscal year. This transfer is from the Energy Conservation Repayment Account to the Energy Conservation Capital Projects Account and is in accordance with §90-4-615 and 617, MCA.

5. Nonbudgeted Expenses & Transfers-Out

Water Quality Division Transfers-Out

- ◆ Activity in this account mainly consists of activity in the Federal Drinking and Clean Water State Revolving Fund programs. The transfers were made to the Department of Natural Resources and Conservation for disbursement to local governments for construction of water and wastewater system improvements. These grants from EPA are multi-year grants and therefore an analysis of the amount expensed within any twelve-month period is not indicative of any problems or issues with these programs.

Waste Management and Remediation Division Transfers-Out

- ◆ Nonbudgeted settlement reclamation expenditures include Libby Asbestos and Blackfoot Post Yard.
- ◆ Activity includes \$600 thousand per fiscal year from Orphan Share to Libby as mandated in 75-10-743, MCA & 75-10-704, MCA.

Air, Energy & Mining Division Transfers-Out

- ◆ Activity includes a \$5.9 million transfer for the biennium from the State Special Revenue Fund Energy Conservation Repayment Account to the Energy Conservation Capital Projects Fund Account in accordance with §90-4-615 and 617, MCA.

6. Unspent Budget Authority

The unspent budget authority is primarily in the following areas:

- ◆ State Special Revenue Fund
 - ◇ Air, Energy & Mining –
 - Air Quality Fees (02201) – Combination of a decrease in revenue and increased vacancy savings
 - Hard Rock Mining Reclamation (02988) – This fund is used for Water Treatment at Zortman/Landusky and federal funding was available from the Bureau of Land Management.
 - ◇ Central Management
 - Montana Environmental Policy Act (02542) – This fund is used for cost recovery projects for MEPA review and due to the lack of projects in this period appropriation was not used. This authority does not have cash available to the agency.
 - ◇ Waste Management & Remediation
 - EQPF - This fund is used for cost recovery projects for pollution remediation and in this period full appropriation was not used. This authority does not have cash available to the agency.
 - ◇ Water Quality Division
 - MPDES Permit Program – This fund contains carryforward authority that is not backed by cash.
- ◆ Federal Special Revenue Fund reflects the unspent multi-year grant authority and cash limitations.
 - ◇ Air, Energy & Mining
 - Coal ePermitting System (03492) – This authority is for a multi-year grant and the authority will expire 06/30/2026.
 - ◇ Waste Management & Remediation
 - Abandoned Mine Lands – These are multi-year federal grants, both cash and authority will continue into the next fiscal year.

- ◇ Water Quality Division
 - Combination of multi-year federal grants, both cash and authority will continue into next fiscal year.
- ◆ Capital Projects Fund
 - ◇ Air, Energy & Mining
 - State Building Loan Program – Energy efficiency projects were limited during this reporting period due to COVID.

7. Related Parties

DEQ's Energy Bureau awarded \$25,500 in VW Settlement funds to the City of Helena for three electric charging stations in fiscal year 2022. A past City Commissioner for the City of Helena is the spouse of the Business Development Specialist for the Energy Bureau.

There are additional related party relationships with external entities; Pioneer Consulting, CDM, MT Electric Co-op Assoc (MECA), Yellowstone-Teton Clean Cities Coalition, and Montana Environmental Information Center (MEIC). There were no financial transactions between the department and these entities during fiscal years 2021 and 2022.

The Montana Petroleum Tank Release Compensation Board is an independent board that is attached to DEQ for administrative purposes, ARM 17.58.101. Board members are required to follow Montana's code of ethics, including recusing oneself in matters related to a conflict of interest. In compliance with GASB 62, paragraphs 54-57, the following is to disclose the related relationships identified with Board members:

During fiscal years 2021 and 2022, one board member was also an employee of DEQ in 2021 only. Additionally, board members have relationships with the following companies:

- ◇ Rocky Mountain Supply Inc
- ◇ Hi Noon Petroleum
- ◇ Ben Taylor Inc and Simons Petroleum Inc
- ◇ Resource Technologies Inc and Yellowstone Soil Treatment
- ◇ American Bank
- ◇ Department of Environmental Quality
- ◇ Parkland USA and Story Distributing Co

The total amount paid to these companies was \$819,720 in fiscal year 2021 and \$1,885,173 in fiscal year 2022. To ensure we are following state law, all contracts are required to go through a competitive bidding process.

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
William Soller

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 Environmental Quality for each of the fiscal years ended June 30, 2022, and 2021, and the related notes to the financial schedules, and have issued our report thereon dated April 6, 2023.

Report on 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any

deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described below, that we consider to be a significant deficiency.

- ◆ As described in Recommendation #1, on page 5, the department does not have controls in place to ensure the transfers required by state law for the Environmental Quality Protection Fund are occurring as required by state law. This resulted in misstatements on the state's accounting records for the audit period.

Report on 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*.

Department of Environmental Quality Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the department's response to the findings identified in our audit as 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

April 6, 2023

DEPARTMENT OF
ENVIRONMENTAL QUALITY

DEPARTMENT RESPONSE



May 4, 2023

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

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MAY 10 2023
LEGISLATIVE AUDIT DIV.

RE: Financial Compliance Audit #22-16

Dear Mr. Maciver,

Thank you for the opportunity to respond to the financial compliance audit for FY21/22 for the Department of Environmental Quality.

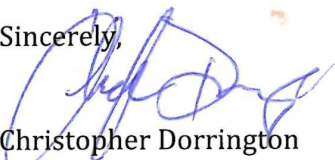
Recommendation #1

We recommend the Department of Environmental Quality implement internal controls to ensure transfer activity related to the Environmental Quality Protection Fund State Special Revenue Account is completed as required by state law and recorded correctly on the state's accountin records.

Concur: The department is prioritizing centralized internal control documentation including fiscal year end sweeps required by state law. This documentation will clarify processes for account coding and contingencies for limited cash availability. We anticipate the Chief Financial Officer will complete this corrective action plan by December 31, 2023.

Thank you and your staff for the professionalism, flexibility, and courtesy shown during audit. We appreciate the willingness of the auditors to discuss recommendations and respond to our questions. We always look upon the audit process as an opportunity to improve the department's operations and performance.

Sincerely,

 5/4/2023
Christopher Dorrington
Director
Department of Environmental Quality