



A REPORT
TO THE
MONTANA
LEGISLATURE

LEGISLATIVE AUDIT
DIVISION

22-17

FINANCIAL-COMPLIANCE AUDIT

*Department of
Natural Resources and
Conservation*

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

AUGUST 2023

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 submission deadline for the Single Audit Report for the two fiscal years ended June 30, 2023, is 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

August 2023

The Legislative Audit Committee
of the Montana State Legislature:

We are pleased to present the results of our financial-compliance audit of the Department of Natural Resources and Conservation (department) for the two fiscal years ended June 30, 2022. We completed work over personal services; state revolving fund activity, including bond proceeds; fire suppression transfers and accruals; land grant activity; and balance sheet accounts affecting fund equity. Our work resulted in one recommendation to the department regarding internal controls over the annual transfer from the general fund to the fire suppression fund 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 her staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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ELECTED, APPOINTED, AND ADMINISTRATIVE OFFICIALS

Department of Natural Resources and Conservation

Amanda Kaster, Director
 Kerry Davant, Deputy Director
 Rex Renk, Chief of Staff
 Brian Bramblett, Chief Legal Counsel
 Mark Bostrom, Administrator, Conservation and Resources Development
 Division
 Shawn Thomas, Administrator, Forestry Division
 Ben Jones, Administrator, Oil and Gas Conservation Division
 Anna Pakenham Stevenson, Water Resources Division
 Shawn Thomas, Administrator, Trust Land Management Division
 DeAnna Noel, Acting CFO (as of Feb 2023)
 Tricia Greiberis, CFO (through Feb 2023)

State Board of Land Commissioners

Greg Gianforte, Governor
 Austin Knudsen, Attorney General
 Troy Downing, Commissioner of Securities and Insurance
 Christi Jacobsen, Secretary of State
 Elsie Arntzen, Superintendent of Public Instruction
 Angela Christensen, Land Board Secretary

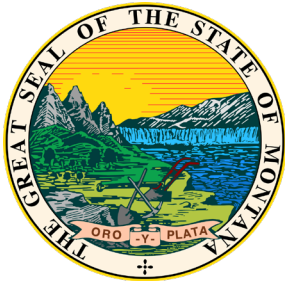
Boards, Commissions & Committees

Board of Oil and Gas Conservation Commission
 Board of Water Well Contractors
 Flathead Basin Commission
 Montana Grass Conservation Commission
 Montana Invasive Species Council
 Montana Sage Grouse Oversight Team
 Resource Conservation Advisory Council
 Rangeland Resources Committee
 Drought Advisory Committee and Associated Watershed Advisory Councils
 Montana Forest Advisory Committee
 Montana Urban and Community Forestry Association
 Upper Columbia Conservation Commission

For additional information concerning the Department of Natural Resources and Conservation, contact:

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT Department of Natural Resources and Conservation FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2022

A report to the Montana Legislature

BACKGROUND

The Department of Natural Resources and Conservation’s (department) mission is to help ensure Montana’s land and water resources provide benefits for present and future generations.

The State Board of Land Commissioners, comprised of the Governor, Commissioner of Securities and Insurance, Attorney General, Superintendent of Public Instruction, and Secretary of State, exercises the general authority, direction, and control over state lands.

The department consists of the Director’s Office and four divisions. These include the Oil and Gas Conservation Division, Conservation and Resource Development Division, Water Resources Division, and Forestry and Trust Land Divisions.

Director: Amanda Kaster

The Department of Natural Resources and Conservation (department) is responsible for helping to protect state lands against wildfires. The 2007 Legislature created a Fire Suppression Fund and associated revenue stream to finance the state’s share of the cost of fighting wildfires. In fiscal years 2021 and 2022, the department spent roughly \$24.57 and \$50.10 million, respectively, for firefighting-related activities. This report recommends ensuring the statutorily required transfer from the General Fund to the Fire Suppression Fund is complete and accurate.

AUDITOR’S OPINION (page A-1) – UNMODIFIED:

We determined the department’s financial schedules for fiscal year 2021 and fiscal year 2022, including the related note disclosures, present fairly, in all material respects, the activity of the department and issued unmodified opinions for both fiscal years. This means the reader can rely on the information presented 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-4.

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: 1

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 Control Deficiency

We recommend the Department of Natural Resources and Conservation develop internal control procedures to ensure the required transfer from the General Fund to the Fire Suppression Fund is accurate, supported, and reasonable.

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: 2

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 Natural Resources and Conservation (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 financial schedules and, if appropriate, make recommendations for improvements in internal and management controls of the department.
2. Determine whether the financial schedules fairly present the results of operations and changes in fund equity, in accordance with state accounting policy.
3. Determine whether the department complied with selected state laws and federal regulations.
4. Determine and document the implementation status of prior audit recommendations.

We addressed these objectives by focusing primarily on land grant activity, fire suppression expenditures, bond proceeds, personal services, and transfer activity. Additionally, we completed work over cash and fund equity balances, as well as long-term notes and loans receivables, and obtained assurance over investment balances. We gained an understanding of department internal control policies and procedures and reviewed and tested compliance with selected state laws.

Internal Service Funds

As required by §17-8-101(6), MCA, we evaluated fees and charges for services in the Internal Service Fund. The Internal Service Fund accounts for the financing of goods or services provided by one department to other departments of state government, or other governmental entities, on a cost-reimbursement basis. The department’s Internal Service Fund contains the Forestry Division’s Air Operations Program. The Air Operations Program operates and maintains aircraft to aid in fire suppression. During years with large fire seasons, the Internal Service Fund revenue exceeds expenses, creating working capital spent in the following years to perform maintenance on the department-owned air crafts.

State accounting policy defines working capital as the amount of cash remaining if all the current assets were converted and all the current liabilities paid at their book value. To determine if fees are commensurate with costs, we analyzed whether working capital exceeded the 60-day limit specified in state accounting policy and considered whether revenues exceeded expenditures. In fiscal years 2021 and 2022, revenues exceeded expenditures, causing the working capital to exceed the 60-day limit in both fiscal years. As a result, the fees are not commensurate with costs for fiscal years 2021 or 2022. Additionally, since excess working capital exists, fund equity is not reasonable. However, the department plans to spend the excess working capital on maintenance costs, including parts and services which have been increasing. Because the department is actively managing and monitoring the excess working capital, we make no recommendation to the department.

Department Organization and Functions

The department’s mission is to help ensure Montana’s land and water resources provide benefits for present and future generations. The State Board of Land Commissioners, consisting of the

Governor, Commissioner of Securities and Insurance, Attorney General, Superintendent of Public Instruction, and Secretary of State, exercises the general authority, direction, and control over the care, management, and disposition of state lands under its administration. The department's director is the chief administrative officer of the board.

The following describes the Director's Office and the department's four divisions, including the number of budgeted full-time equivalent (FTE) positions. The Schedule of Expenditures, on page A-8, lists six divisions, as it shows the Trust Lands Management program separately.

Director's Office (60.75 FTE) administers, manages, plans, and evaluates agency functions in fiscal operations, human resources, information technology, and public information under the guidance of the director. The Director's Office includes the director's staff, Financial Services, Human Resources, Office of Administrative Hearings, Information Technology, and Legal Services.

Oil and Gas Conservation Division (19.50 FTE) administers the Montana oil and gas conservation laws. It promotes conservation and prevents waste in recovering oil and gas resources by regulating exploration and production. The division issues drilling permits; classifies wells; establishes well spacing units and pooling orders; inspects drilling, production, and seismic operations; investigates complaints; and performs engineering studies. It also operates the underground injection control program, plugs orphan wells, and collects and maintains complete well data and production information. The division determines incremental production for enhanced recovery and horizontal wells as part of the tax incentive program. The division also provides administrative support to the Board of Oil and Gas Conservation.

Conservation and Resource Development Division (30.17 FTE) assists local entities in managing the state's natural resources and provides financing for conservation resource management and reclamation activities. The division is made up of three bureaus. The Conservation Districts Bureau provides technical, administrative, financial, and legal assistance to Montana's 58 conservation districts. The Administration and Finance Bureau issues loans for local communities, local governments, state agencies, and private citizens. The programs include State Revolving Fund loans to communities for drinking water and wastewater systems and Coal Severance Tax loans to governmental entities. Grant programs administered by the Resource Development Bureau include the Reclamation and Development Grant Program and the Renewable Resource Grant Program.

Water Resources Division (136.26 FTE) is responsible for programs associated with the using, developing, and protecting Montana's water. It manages and maintains state-owned dams, reservoirs, and canals. The division develops and recommends intrastate, interstate, and international water policies to the director, governor, and legislature. They released an updated "Montana State Water Plan" in 2015. The division also resolves water resources use conflicts, investigates water use violations, ensures dam safety compliance, and provides water adjudication support to the Water Court.

Forestry and Trust Lands Division (327.08 FTE) manages the forest resources of the state and state lands held in trust to provide income for various state educational facilities and institutions. The department fulfills these responsibilities in two administrative units.

- ♦ Forestry is responsible for planning and implementing forestry programs statewide. The division protects Montana's natural resources from wildfire, regulates forest practices, and

provides services to private forest landowners. It includes two bureaus: Fire Protection and Forestry Assistance.

- ◆ Trust Land Management provides for the administration and management of trust lands granted, in part, to the state of Montana by the Enabling Act of 1889. In producing revenue for trust beneficiaries, the division is responsible for managing approximately 3,600 miles of the beds of navigable waterways. The Trust Land Management Division is divided into four primary bureaus: Forest Management, Agriculture and Grazing Management, Real Estate Management, and Minerals Management.

Prior Audit Recommendations

The prior audit contained three recommendations summarized in the table below. Recommendations not fully implemented are discussed in more detail following the table.

Prior Audit Recommendation	Report/Recommendation	Implementation Status
Segregation of Duties	18-17/Recommendation #2 20-17/Recommendation #1	Not Implemented
Control Over Assets	20-17/Recommendation #2	Partially Implemented
Employee Awards	20-17/Recommendation #3	Implemented

Source: Compiled by the Legislative Audit Division.

Segregation of Duties

Department financial staff frequently approve transactions they enter, which is considered a control deficiency. We determined these transactions do not involve cash leaving the department. Instead, the transactions primarily reclassify assets. The department maintains they do not have enough staff to review and approve every entry the department makes. Nonetheless, during the audit, the department was considering different ways staff could complete a self-check of transactions entered and approved by the same person. Because the department is taking measures to mitigate the risk posed by staff entering and approving their own transactions, and we found no errors caused by the lack of segregation of duties, we make no further recommendation.

Control Over Assets

We previously recommended the department implement controls over all sensitive assets to ensure they are tagged, tracked, and inventoried as state accounting policy requires. In our follow-up work, we found steps have been made toward complying with those requirements. However, we found computers and drones are not physically inventoried as part of the department's regular inventory schedule, though the department can track a computer with software available through the Department of Administration. Because the department is continuing to take measures to address the prior audit recommendation, we make no further recommendations.

Lease-Related Misstatements

In fiscal year 2022, the department implemented Governmental Accounting Standards Board Statement No. 87 – Leases, which required different accounting treatments for lease activity. The department did not correctly calculate its lease activity under this new standard, resulting in errors exceeding \$10 million in lease receivables and deferred inflows. While the errors do not affect the financial schedules presented in this report, they did impact the state’s Annual Comprehensive Financial Report. As a result, we recommended the department implement internal controls over lease calculations as part of our audit of the State of Montana for fiscal year 2022 (#22-01).

Chapter II – Findings and Recommendation

Fire Suppression Fund Transfer

The department does not have controls to determine the accuracy and reasonableness of money transferred to the fire suppression fund.

Section 76-13-150(6), MCA, requires the fire suppression fund, administered by the Department of Natural Resources and Conservation (department), to receive a transfer from the General Fund every year before August 15 but after fiscal year-end closing. The transfer amount is calculated by the Governor's Office of Budget and Program Planning (OBPP), and the transfer is completed by the Department of Administration (DofA). The calculation is complex and requires several steps to complete, increasing the risk of error. However, the department does not have controls to ensure the amount transferred is accurate, supported, and reasonable.

During the audit, we requested support from the department for the \$46,682,699 fiscal year 2021 transfer and the \$35,350,087 fiscal year 2022 transfer. For fiscal year 2021, the department had requested a breakdown from DofA of how the transfer was calculated and received an email detailing this information. But the request occurred after the transfer was accepted, and no evidence existed of the department's actual review of the calculation. In fiscal year 2022, no request was made for a breakdown of the calculation; thus, no review was completed.

Table 2 (see page 6) shows an example of the calculation completed for the 2022 transfer. The calculation starts by determining how much in total would be eligible to be transferred to the fire suppression fund (PART I in Table 2). Then, after considering restrictions outlined in state law, the actual amount to be transferred is calculated (PART II in Table 2).

Table 2
Fire Suppression Transfer Calculation

PART I		
Total FY 2021 general fund appropriations		\$2,483,632,610
Less: Continuing appropriations	\$15,074,589	
FY 2021 eligible general fund appropriations		\$2,468,558,021
Actual FY2021 general fund reversions (unspent budget authority)		\$96,556,464
Less: Excluded appropriation reversions	\$95,825	
Less: 5% of FY 2021 eligible appropriations	\$12,342,790	
Net FY 2021 general fund transferable reversions		\$84,117,849
Add: Balance of 2021B emergency appropriation		\$15,888,056
Initial Transfer Amount (amount eligible to be transferred)		\$100,005,905
PART II		
2023 general fund appropriations (2nd year of biennium)*		\$2,642,312,433
4% CAP on 2023 general fund appropriations*		\$105,692,497
Balance in Fire Suppression Fund Balance*		\$70,342,410
Transfer limited? *		Yes
Revised Transfer Amount (4% CAP less fund balance)		\$35,350,087

Source: Compiled by the Legislative Audit Division from department records.

*The fund balance in the fire suppression fund (\$70,342,410) may not exceed 4% of all general fund appropriations (\$105,692,497) in the second year of the biennium (§76-13-150(8), MCA).

The table above illustrates the complicated nature of the calculation and the need for review to ensure the transfer amount was properly calculated. However, department personnel stated the department does not verify the accuracy of the calculation as it would not know the detail behind the numbers used. State accounting policy dictates it is the responsibility of department management to implement internal controls over financial transactions, even those initiated by other state agencies, to help ensure the integrity of its accounting records. Therefore, it would not be unreasonable for the department to request detailed support for the numbers used because without procedures to determine the accuracy and reasonableness of the calculated amounts, the department is at risk of not receiving all funds it is entitled to, as directed by state law.

RECOMMENDATION #1

We recommend the Department of Natural Resources and Conservation develop internal control procedures to ensure the required transfer from the General Fund to the Fire Suppression Fund is accurate, supported, and reasonable.

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 Natural Resources and Conservation, 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 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 June 30, 2021, or changes in financial position or 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 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 April 12, 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 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 12 , 2023

DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
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	Enterprise Fund	Internal Service Fund	Permanent Fund
FUND EQUITY: July 1, 2021	\$ (8,164,745)	\$ 666,675,447	\$ (32,989,089)	\$ 32,588,397	\$ 390,168	\$ 80,334	\$ (552,041)	\$ 873,921,795
ADDITIONS								
Budgeted Revenues & Transfers-In	227,313	241,785,820	16,072,490			654,392	2,790,767	57,558,369
Nonbudgeted Revenues & Transfers-In	9,283,325	66,014,065		18,253,344				(6,118)
Prior Year Revenues & Transfers-In Adjustments		(133,427)	75,756	(728)	(143,750)		(2,324)	(6)
Direct Entries to Fund Equity	28,919,532	(32,834,687)	8,652,491	569,424	850,481			
Total Additions	38,430,171	274,831,771	24,800,737	18,822,040	706,731	654,392	2,788,443	57,552,245
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	30,593,585	92,864,456	38,321,253		1,096,899	506,081	2,646,883	
Nonbudgeted Expenditures & Transfers-Out	9,090,415	143,755,942	(2,195,831)	21,967,142		(45,520)	31,484	55,023,949
Prior Year Expenditures & Transfers-Out Adjustments	(62,129)	307,042	138,515	(5,124)			(839)	
Total Reductions	39,621,871	236,927,440	36,263,937	21,962,018	1,096,899	460,561	2,677,527	55,023,949
FUND EQUITY: June 30, 2022	\$ (9,356,445)	\$ 704,579,779	\$ (44,452,289)	\$ 29,448,419	\$ 0	\$ 274,165	\$ (441,124)	\$ 876,450,092

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 NATURAL RESOURCES AND CONSERVATION
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	Enterprise Fund	Internal Service Fund	Permanent Fund
FUND EQUITY: July 1, 2020	\$ (7,965,194)	\$ 656,895,082	\$ (22,940,959)	\$ 30,231,640	\$ 0	\$ 61,173	\$ (680,013)	\$ 847,494,662
ADDITIONS								
Budgeted Revenues & Transfers-In	212,535	299,713,883	40,642,900			542,325	2,963,337	111,334,541
Nonbudgeted Revenues & Transfers-In	60,767	53,077,688	523	50,342,959	3,569,094			(16,698)
Prior Year Revenues & Transfers-In Adjustments		288,910	1,144,078	122	(119)			
Direct Entries to Fund Equity	29,934,998	(41,511,963)	401,636	390,805	878,039			
Total Additions	30,208,300	311,568,518	42,189,137	50,733,886	4,447,133	542,206	2,963,337	111,317,843
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	30,579,084	94,272,213	57,334,762		4,056,965	496,342	2,792,701	
Nonbudgeted Expenditures & Transfers-Out	47,450	205,815,598	(5,152,397)	48,400,401		26,703	42,721	85,098,663
Prior Year Expenditures & Transfers-Out Adjustments	(218,683)	1,700,343	54,901	(23,272)			(57)	(207,952)
Total Reductions	30,407,852	301,788,153	52,237,267	48,377,128	4,056,965	523,045	2,835,364	84,890,711
FUND EQUITY: June 30, 2021	\$ (8,164,745)	\$ 666,675,447	\$ (32,989,089)	\$ 32,588,397	\$ 390,168	\$ 80,334	\$ (552,041)	\$ 873,921,795

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 NATURAL RESOURCES AND CONSERVATION
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	Enterprise Fund	Internal Service Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS									
Licenses and Permits		\$ 259,017						\$ 1,642,096	\$ 1,901,113
Taxes		4,269,857							4,269,857
Charges for Services	\$ 119,081	2,873,049					1,151,890		4,144,020
Investment Earnings	0	2,220,219		\$ 11,886,755				(17,431,394)	(3,324,419)
Fines and Forfeits	22,605	151,262							173,867
Capital Contributions	9,336								9,336
Sale of Documents, Merchandise and Property		4,900,908				\$ 654,392		10,203,047	15,758,347
Rentals, Leases and Royalties	7,536	125,562						76,181,920	76,315,017
Contributions and Premiums		4,489,949							4,489,949
Grants, Contracts, and Donations		232,942						602	233,544
Transfers-in		262,955,738	\$ 651,993	6,365,861	\$ (143,750)		1,638,877	(20,284,708)	251,184,012
Bond Proceeds		16,035,000							16,035,000
Capital Asset Sale Proceeds	94,105	78,858							172,963
Inception of Lease/Installment Contract	9,252,443	7,566,267						7,240,688	16,818,710
Federal Indirect Cost Recoveries		1,174,927							1,174,927
Miscellaneous	5,532	332,904							338,436
Federal		15,496,253							15,496,253
Total Revenues & Transfers-In	9,510,639	307,666,458	16,148,246	18,252,616	(143,750)	654,392	2,790,767	57,552,251	412,431,619
Less: Nonbudgeted Revenues & Transfers-In	9,283,325	66,014,065		18,253,344				57,558,369	151,109,103
Prior Year Revenues & Transfers-In Adjustments		(133,427)		(728)	(143,750)			(6,118)	(208,267)
Actual Budgeted Revenues & Transfers-In	\$ 227,313	\$ 241,785,820	\$ 16,072,490	\$ 0	\$ 0	\$ 654,392	\$ 2,790,767	\$ 0	\$ 261,530,782

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DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Permanent Fund	Total
Licenses and Permits	\$ 225	\$ 265,272						\$ 1,907,678	\$ 2,173,175
Taxes		4,627,848	\$ 523						4,628,371
Charges for Services	109,373	3,299,424							4,707,482
Investment Earnings	0	2,413,870		\$ 11,708,663			\$ 1,298,685		27,036,687
Fines and Forfeits	27,820	204,727							232,547
Capital Contributions	13,836								13,836
Sale of Documents, Merchandise and Property		3,541,683			\$ 542,206				27,549,603
Rentals, Leases and Royalties	7,840	102,434						23,465,714	55,364,917
Contributions and Premiums		609,459						55,254,644	609,459
Grants, Contracts, and Donations	59	319,605						1,322	320,986
Transfers-in		294,334,920	22,572,217	38,634,417	\$ 3,569,094		1,664,652	13,496,345	374,271,646
Bond Proceeds		18,499,252							18,499,252
Capital Asset Sale Proceeds	76,951	35,834							4,390,772
Inception of Lease/Installment Contract	34,419							4,277,987	34,419
Proceeds of Refunding Bonds		24,810,748							24,810,748
Federal Indirect Cost Recoveries			1,146,615						1,146,615
Miscellaneous	2,778	5,405							8,184
Federal		10,000	18,068,146						18,078,146
Total Revenues & Transfers-In	273,302	353,080,481	41,787,501	50,343,080	3,569,094	542,206	2,963,337	111,317,843	563,876,844
Less: Nonbudgeted Revenues & Transfers-In	60,767	53,077,688	523	50,342,959	3,569,094			111,334,541	218,385,572
Prior Year Revenues & Transfers-In Adjustments		288,910	1,144,078	122		(119)		(16,698)	1,416,292
Actual Budgeted Revenues & Transfers-In	\$ 212,535	\$ 299,713,883	\$ 40,642,900	\$ 0	\$ 0	\$ 542,325	\$ 2,963,337	\$ 0	\$ 344,074,980

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 NATURAL RESOURCES AND CONSERVATION
 SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	Conservation & Resource Development Division	Director's Office	Forestry & Trust Lands	Oil & Gas Conservation Division	Trust Funds	Water Resources Division	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT							
Personal Services							
Salaries	\$ 2,611,738	\$ 4,170,840	\$ 18,579,292	\$ 1,036,991		\$ 8,818,069	\$ 35,216,930
Hourly Wages			7,062,129				7,062,129
Other Compensation	1,400			4,650		650	6,700
Employee Benefits	857,776	1,302,319	7,430,180	355,226		2,979,865	12,925,366
Personal Services-Other			(7,670)				(7,670)
Total	3,470,914	5,473,159	33,063,931	1,396,867		11,798,584	55,203,455
Operating Expenses							
Other Services	2,417,067	1,150,023	51,656,963	619,548		10,750,439	66,594,039
Supplies & Materials	214,233	638,602	3,884,362	71,250		505,913	5,314,359
Communications	95,772	174,382	770,523	58,462		290,164	1,389,304
Travel	136,499	22,494	1,831,072	16,530		90,044	2,096,639
Rent	29,515	4,968	5,148,307	995		515,783	5,699,567
Utilities	18		289,617	18,220		15,556	323,410
Repair & Maintenance	8,275	11,583	1,469,533	42,478		145,628	1,677,497
Other Expenses	199,867	114,373	1,337,653	45,054		996,560	2,693,507
Total	3,101,246	2,116,424	66,388,030	872,536		13,310,086	85,788,323
Equipment & Intangible Assets							
Equipment		3,658	1,820,988	79,112		327,359	2,231,117
Intangible Assets	3,200,658	6,295,212	6,555,343	70,182		697,314	16,818,710
Total	3,200,658	6,298,870	8,376,331	149,294		1,024,673	19,049,827
Capital Outlay							
Land & Interest In Land						1,203,588	1,203,588
Buildings			60,760				60,760
Total			60,760			1,203,588	1,264,348
Local Assistance							
Total							
Grants							
From State Sources	2,598,004		234,575				2,832,579
From Federal Sources	7,511,633		3,135,991				10,647,624
Total	10,109,637		3,370,566				13,480,203
Benefits & Claims							
Other Financing Uses/Deduction	3,315,830						3,315,830
Total	3,315,830						3,315,830
Transfers-out							
Fund transfers	132,517,593	1,173,475	1,818,223		\$ 51,057,900	16,053,952	202,621,143
Intra-Entity Expense			28,285		4,262,805		4,291,090
Total	132,517,593	1,173,475	1,846,508		55,320,705	16,053,952	206,912,233
Debt Service							
Bonds	6,701,807					33,300	6,735,107
Loans	66,648					521,620	588,268
Lease Liability	236,280	417,915	625,758	26,036		296,876	1,602,866
Total	7,004,736	417,915	625,758	26,036		851,796	8,926,241
Post Employment Benefits							
Other Post Employment Benefits			29,645				29,645
Employer Pension Expense			64,095				64,095
Total			93,741				93,741
Total Expenditures & Transfers-Out	\$ 162,720,614	\$ 15,479,843	\$ 113,825,625	\$ 2,444,734	\$ 55,320,705	\$ 44,242,679	\$ 394,034,201
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 2,873,693	\$ 10,758,720	\$ 14,477,022			\$ 11,512,435	\$ 39,621,871
State Special Revenue Fund	128,388,762	3,601,124	77,695,675	2,323,734	339,228	24,578,918	236,927,440
Federal Special Revenue Fund	9,207,253	1,119,999	18,514,840	121,000		7,300,845	36,263,937
Debt Service Fund	21,962,018						21,962,018
Capital Projects Fund	246,418					850,481	1,096,899
Enterprise Fund			460,561				460,561
Internal Service Fund			2,677,527				2,677,527
Permanent Fund	42,471				54,981,478		55,023,949
Total Expenditures & Transfers-Out	162,720,614	15,479,843	113,825,625	2,444,734	55,320,705	44,242,679	394,034,201
Less: Nonbudgeted Expenditures & Transfers-Out	141,450,198	7,407,000	6,643,093	66,586	55,320,705	16,739,997	227,627,579
Prior Year Expenditures & Transfers-Out Adjustments	(342,222)	(16,844)	769,173	9,602		(42,244)	377,465
Actual Budgeted Expenditures & Transfers-Out	21,612,638	8,089,687	106,413,359	2,368,546	0	27,544,927	166,029,157
Budget Authority	356,447,935	9,561,075	134,318,520	3,132,978		46,304,996	549,765,504
Unspent Budget Authority	\$ 334,835,297	\$ 1,471,388	\$ 27,905,162	\$ 764,432	\$ 0	\$ 18,760,069	\$ 383,736,348
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 334,077	\$ 368,584	\$ 952,039			\$ 203,293	\$ 1,857,993
State Special Revenue Fund	14,399,635	1,040,298	12,932,164	687,933		5,461,464	34,521,493
Federal Special Revenue Fund	304,026,928	62,506	13,590,544	76,499		12,892,848	330,649,325
Capital Projects Fund	16,074,656					202,465	16,277,121
Enterprise Fund			304,664				304,664
Internal Service Fund			125,751				125,751
Unspent Budget Authority	\$ 334,835,297	\$ 1,471,388	\$ 27,905,162	\$ 764,432	\$ 0	\$ 18,760,069	\$ 383,736,348

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DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Conservation & Resource Development Division	Director's Office	Forestry & Trust Lands	Oil & Gas Conservation Division	Trust Funds	Water Resources Division	Total
Personal Services							
Salaries	\$ 2,137,473	\$ 4,538,102	\$ 18,004,976	\$ 978,106		\$ 8,653,334	\$ 34,311,991
Hourly Wages		6,320	5,925,194				5,931,514
Other Compensation				4,709		150	4,859
Employee Benefits	763,780	1,627,420	7,962,664	375,159		959,764	11,688,787
Personal Services-Other			(1,464)				(1,464)
Total	2,901,253	6,171,842	31,891,369	1,357,974		9,613,248	51,935,686
Operating Expenses							
Other Services	6,601,943	576,123	34,065,208	263,970		13,566,539	55,073,784
Supplies & Materials	48,700	869,421	2,938,641	39,307		310,323	4,206,391
Communications	102,634	203,062	742,558	68,437		235,631	1,352,322
Travel	16,712	5,165	1,051,029	9,838		22,146	1,104,890
Rent	249,293	444,832	4,000,711	26,542		755,020	5,476,398
Utilities			241,677	15,709		18,758	276,144
Repair & Maintenance	4,755	9,761	1,498,345	22,370		(60,204)	1,475,026
Other Expenses	149,211	88,881	629,409	27,998		16,248,015	17,143,515
Total	7,173,249	2,197,245	45,167,579	474,171		31,096,227	86,108,471
Equipment & Intangible Assets							
Equipment	2,630	269,545	2,508,601	2,311		1,614,876	4,397,962
Total	2,630	269,545	2,508,601	2,311		1,614,876	4,397,962
Capital Outlay							
Land & Interest In Land						3,846,764	3,846,764
Total						3,846,764	3,846,764
Local Assistance							
Total							
Grants							
From State Sources	20,933,096		2,474,687				23,407,783
From Federal Sources	62,702	21,623,905	2,897,366				24,583,973
Total	20,995,798	21,623,905	5,372,053				47,991,756
Benefits & Claims							
Insurance Payments				250			250
Other Financing Uses/Deduction	29,988,923						29,988,923
Total	29,988,923			250			29,989,173
Transfers-out							
Fund transfers	204,011,567		3,170,401		\$ 82,101,277	19,913	289,303,158
Intra-Entity Expense			33,010		5,152,777		5,185,787
Total	204,011,567		3,203,411		87,254,053	19,913	294,488,945
Debt Service							
Bonds	5,415,358						5,415,358
Loans	211,397					529,501	740,899
Capital Leases	1,095	5,492	18,791			12,479	37,857
Total	5,627,851	5,492	18,791			541,981	6,194,114
Post Employment Benefits							
Other Post Employment Benefits				1,257			1,257
Employer Pension Expense				162,357			162,357
Total				163,614			163,614
Total Expenditures & Transfers-Out	\$ 270,701,271	\$ 30,268,029	\$ 88,325,667	\$ 1,834,456	\$ 87,254,053	\$ 46,733,008	\$ 525,116,485
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 1,566,216	\$ 3,880,150	\$ 14,547,716			\$ 10,413,770	\$ 30,407,852
State Special Revenue Fund	216,707,815	2,884,736	50,762,238	\$ 1,807,706	\$ 2,393,797	27,231,861	301,788,153
Federal Special Revenue Fund	840,730	23,503,143	19,657,305	26,750		8,209,338	52,237,267
Debt Service Fund	48,377,128						48,377,128
Capital Projects Fund	3,178,926					878,039	4,056,965
Enterprise Fund			523,045				523,045
Internal Service Fund			2,835,364				2,835,364
Permanent Fund	30,455				84,860,256		84,890,711
Total Expenditures & Transfers-Out	270,701,271	30,268,029	88,325,667	1,834,456	87,254,053	46,733,008	525,116,485
Less: Nonbudgeted Expenditures & Transfers-Out	231,160,737	18,088	307,554	(176)	87,462,005	15,330,930	334,279,138
Prior Year Expenditures & Transfers-Out Adjustments	(101,804)	(87,165)	1,764,538	47	(207,952)	(62,385)	1,305,280
Actual Budgeted Expenditures & Transfers-Out	39,642,338	30,337,105	86,253,575	1,834,585	0	31,464,464	189,532,067
Budget Authority	160,281,325	30,741,836	105,343,211	2,552,101		46,097,395	345,015,869
Unspent Budget Authority	\$ 120,638,987	\$ 404,731	\$ 19,089,635	\$ 717,516	\$ 0	\$ 14,632,931	\$ 155,483,802
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 713,733	\$ 340,449	\$ 460,978			\$ 255,560	\$ 1,770,720
State Special Revenue Fund	87,808,072	0	3,346,054	\$ 661,095		4,621,917	96,437,139
Federal Special Revenue Fund	15,796,108	64,282	14,780,682	56,421		8,702,508	39,400,001
Capital Projects Fund	16,321,074					1,052,946	17,374,020
Enterprise Fund			341,815				341,815
Internal Service Fund			160,106				160,106
Unspent Budget Authority	\$ 120,638,987	\$ 404,731	\$ 19,089,635	\$ 717,516	\$ 0	\$ 14,632,931	\$ 155,483,802

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 Natural Resources and Conservation

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 of Natural Resources & Conservation (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, Debt Service, Capital Projects 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 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. The Department uses general funds for a portion of the operation of the Director's Office, Conservation & Resource Development Division, Water Resources Division, and Forestry Division. In addition, general funds are used for conservation district grants and administration, fire pre-suppression and forest practices.
- ◆ **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

funding a portion of the operation of the Director's Office, forestry operations, Water Pollution Control and Drinking Water State Revolving Fund (SRF) Programs, Renewable Resource Grant and Loan Program, Water Rights and Water Adjudication programs, fire suppression and trust lands administration.

- ◆ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include forest stewardship, fire operations and suppression efforts, floodplain mapping, and Water Pollution Control and Drinking Water SRF Programs. Both SRF programs are financed in part by federal funds.
- ◆ **Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt principal and interest. The Department uses Debt Service Funds to account for Renewable Resources, Coal Severance Tax (CST) and Water Pollution Control and Drinking Water SRF Programs bond payments.
- ◆ **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 Capital Project funds for the 2019 Session House Bill 10 Information Technology project for the water rights system and the 2005 Session House Bill 540 capital projects for the St. Mary water project.
- ◆ **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 Permanent funds for the Common School Trust, university and college trusts, School for the Deaf and Blind Trust, Pine Hills School Trust, Veteran's Home Trust, Public Land Trust, Lands Acquired Trust (Potomac Land), Montana Developmental Center Trust, Montana State Hospital Trust, Aquatic Invasive Species Trust and the Trust and Legacy Account.

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. The Department Internal Service Fund contains the Forestry Division's Air Operations Program. The Air Operations Program maintains and operates aircraft to aid in fire suppression.
- ◆ **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. The Department accounts for the State Seedling Nursery Program in this fund.

2. Changes in Accounting Policy

In fiscal year 2021-22, the State of Montana implemented GASB Statement No. 87, Leases (Statement). The objective of the Statement is to improve the accounting and financial reporting for leases by governments. The Statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of

resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. To implement this, for the leases where the Department is the lessee, the Department recorded "Inception of Lease" entries effective July 1, 2021, for leases that existed prior to July 1, 2021. The required entries recorded Inception of Lease Revenue on the Schedule of Revenues and Transfers-in and Intangible Assets on the Schedule of Expenditures and Transfers-out, increasing both revenue and expenditures by \$16.8 million in fiscal year 2021-22. After FY22 closed, Department of Administration (DoA) determined these entries should not have been required to be recorded, resulting in a misstatement in DNRC's lessee leases by \$16.8 million. For the leases where the Department is the lessor, the Department recorded Standard Lease Receivable Asset and Deferred Inflow Leases Liability in the amount of \$372.5 million in fiscal year 2021-22. These entries are not components of the attached financial schedules.

3. 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, 2021, and June 30, 2022.

4. Federal Special Revenue Funds Equity Balance

The negative fund equity balance in the federal special revenue funds is due to fire expenditures that are to be reimbursed by federal agencies. However, revenue cannot be recorded since the reimbursements are not anticipated to be received within 60 days of the close of each fiscal year. An entry is recorded in the unavailable inflow of resources account instead of revenue. This entry creates the negative fund equity balance.

5. Internal Service Fund Equity Balance

At the end of fiscal years 2020-21 and 2021-22, the Department reported negative balances in the internal service fund equity. The negative unrestricted net position is primarily due to the Department's net pension and other post-employment benefits (OPEB) liabilities. The implementation of GASB Statements No. 68 and 71, related to pension liabilities and other balance sheet components, and GASB Statement No. 75 related to OPEB are contributing factors to the negative net position. However, the Department reported positive balances for all categories of net position for the business-type activities.

6. Direct Entries to Fund Equity

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

Other direct entries to fund equity include:

- ◆ to the General and State Special Revenue funds for cancellations of accrual balances at the completion of agreements,
- ◆ to General, State Special Revenue, Federal Special Revenue, Internal Service and Permanent funds to record corrections to previous fiscal years entries.

7. Fire Suppression Expenditures

In fiscal years 2020-21 and 2021-22, the Department incurred significant fire suppression expenditures compared to fiscal year 2019-20. In fiscal year 2020-21 for calendar year 2020 fire season, Department fire costs were \$24.6 million, an increase of \$13.1 million compared to fiscal year 2019-20. In fiscal year 2021-22 for calendar year 2021 fire season, Department fire costs were \$51.4 million, an increase of \$39.9 million compared to fiscal year 2019-20. These costs resulted in significant increases in the following expenditure categories: Personal Services, Other Services, Supplies & Materials, and Rent.

In addition, Federal agency reimbursements, such as the Federal Emergency Management Agency (FEMA), US Forest Service and the Bureau of Land Management, are estimated at \$14.0 million in fiscal year 2020-21 and \$11.7 million in 2021-22.

8. Federal Expenditure Increases

In fiscal years 2020-21 and 2021-22, the federal special revenue funds saw increases in expenditures compared to fiscal year 2019-20. This is primarily due to:

- ◆ the expending of Coronavirus Aid, Relief, and Economic Security (CARES) Act (2020) in the Director's Office to administer the Business Adaptability Grants program of approximately \$21.6 million in fiscal year 2020-21;
- ◆ the expending of ARPA funds in the Conservation & Resources Development Division of approximately \$8.7 million in fiscal year 2021-22; and
- ◆ the increase in expenditure of federal reimbursable fire costs of approximately \$7 million in fiscal year 2020-21 and \$5 million in fiscal year 2021-22.

9. Blackfeet Tribe Escrow

The funds in the Blackfeet Tribe (Tribe) Escrow Account were paid by the State to the Tribe in consideration for the obligations undertaken by the Tribe pursuant to paragraph 2-9 of the Birch Creek Agreement and as the final judgement approving the Blackfeet Tribe-State of Montana-United States Compact was entered by the Montana Water Court January 15, 2021, and no appeal was filed. In fiscal year 2020-21, the balance of escrow funds was disbursed to the Tribe on June 18, 2021, in the amounts of \$14.6 million.

10. Error Recording Capital Outlay Paid from Non-Capital Outlay Accounts

In fiscal year 2020-21, an incorrect account was used when adjusting non-capital outlay expenditures to capital outlay expenditures associated with state water project improvements. An Employee Benefits account was credits in place of the Other Services account resulting in an understatement of Employee Benefits and an overstatement of Other Services in the amount of \$2.3 million in the general fund.

11. Error Recording Loan Disbursement

In fiscal year 2021-22, General Obligation and Coal Severance Tax bonds proceeds in the amount of \$1.28 million were disbursed on three loans without establishing the loan appropriation or recording the expenditures in the local assistance category.

12. Grants from State Sources

In fiscal year 2020-21, the Department recorded grant expenditures from state sources of \$23.4 million, an increase of \$15.9 million compared to fiscal year 2019-20. This is due primarily to the recording of encumbrance accruals in the second year of the biennium to reserve budget authority.

13. Transfers-In

The Schedule of Total Revenues and Transfers-In contain the following activity in the transfers-in class:

- ◆ **State Special Revenue Funds** – This activity is comprised of:
 - ◇ the transfer of general funds to the water adjudication account per 85-2-280(2), MCA, the conservation districts account per 76-15-106(2), MCA, the natural resources operation account per 15-38-301(3), MCA, natural resources project account per 2021 Session HB 14, the Morrill trust land admin account per 77-1-108(5), MCA, the Sage Grouse Stewardship account per 15-1-122(4), 2019 MCA, and the fire suppression fund per 76-13-150(6), MCA,
 - ◇ the transfer of GO bond proceeds to the Blackfeet infrastructure account per 85-20-1511, MCA and the local infrastructure account per 2019 Session HB 652,
 - ◇ the transfer of GO bond proceeds to the DNRC capital projects fund for the St. Mary's project,
 - ◇ the transfer of grant funds and state funds from Department divisions and other state agencies,
 - ◇ the transfer of the liabilities for Intercap loans from the Montana Board of Investments to the debt service funds,
 - ◇ the transfer of liability that was created when the Board of Investments (BOI) purchased a Department bond,
 - ◇ the movement of loans receivable from other funds,
 - ◇ the transfer of recycled funds and state match in the Water Pollution Control and Drinking Water SRF Programs to make loans,
 - ◇ the transfer of state match in the Water Pollution Control SRF Programs to the SRF bonds state administration account,
 - ◇ the transfer of federal funds from the Department of Environmental Quality for the Water Pollution Control and Drinking Water SRF Programs to make loans,
 - ◇ the transfer of excess SRF debt service to various SRF state special revenue accounts,
 - ◇ the transfers of earnings and cash between accounts in the SRF program,
 - ◇ the transfer of Common School Permanent Trust Fund earnings to the Guarantee Account for distribution to school districts,

- ◇ the transfer of trust earnings from permanent trust funds to earnings reserve,
- ◇ the transfer of funds from the trusts to administer state trust lands,
- ◇ the transfer of funds from the GO Bond debt service fund in excess of the debt service requirement to the natural resources projects fund, and
- ◇ The transfer of cash to the DO indirects state special revenue account to clear out the DO indirects federal special revenue account.
- ◆ **Federal Special Revenue Funds** – This activity is comprised of the transfer in of federal grant funds from other state agencies. This also included the receipt of Coronavirus Relief Funds.
- ◆ **Debt Service Funds** – This activity is comprised of:
 - ◇ the movement of loans receivable from other funds,
 - ◇ the transfer of earnings from other program funds,
 - ◇ the transfers from debt service reserve or other program funds, and
 - ◇ the transfers between debt services funds.
- ◆ **Capital Projects Fund** – This activity is comprised of:
 - ◇ the transfer of GO bond proceeds to the DNRC capital projects account for the St. Mary's project per 2005 Session HB 540.
- ◆ **Internal Service Fund** – This activity represents the transfers from the general fund and fire protection assessments fund for base funding of the air operations.
- ◆ **Permanent Funds** – This activity is comprised of:
 - ◇ the distribution of interest & income and the allocation of the appreciation/depreciation of the Trust Fund Investment Pool within the trust funds administered by the Department, and
 - ◇ The transfer of the unreserved balance in the Invasive Species Account at the Montana Dept. of Fish Wildlife & Parks to the Invasive Species Trust.

14. Transfers-Out

The Schedule of Total Expenditures and Transfers-Out contain the following activity in the transfers-out class:

- ◆ **Conservation /Resource Development Division** – This activity is comprised of:
 - ◇ transfers of natural resource projects fund for House Bill 6 Renewable Resource Grants & House Bill 7 Reclamation and Development Grants, Aquatic Invasive Species (AIS) Grants, and American Rescue Plan Act (ARPA) of 2021 grants to other Department divisions and state agencies,
 - ◇ The transfer of the earnings in the Invasive Species Trust to the Invasive Species Account at the Montana Dept. of Fish Wildlife & Parks,
 - ◇ SRF transfers associated with the movement of loans receivable, sweeps and interest earnings to other funds, and the reversal of transfers-in to loan forgiveness,
 - ◇ the transfer of the liabilities for Intercap loans from the Montana Board of Investments to the debt service funds,

- ◇ the transfer of liability that was created when the Board of Investments (BOI) purchased a Department bond,
- ◇ the transfer of GO bond debt service funds in excess of the debt service requirement to the natural resources projects fund,
- ◇ the transfer of GO bond proceeds to the DNRC capital projects fund for the St. Mary's project,
- ◇ the transfer CST bonds debt service funds in excess of the debt service requirement to the Montana Department of Revenue, and
- ◇ the transfers between debt service funds.
- ◆ **Directors Office** – This activity is comprised of:
 - ◇ adjusting entries on a lease-leaseback for the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 87 Leases, and
 - ◇ the transfer from the general fund to the Water Resources Division.
- ◆ **Forestry/Trust Lands Division** – This activity is comprised of:
 - ◇ the transfers from the general fund and fire protection assessments fund for base funding of the air operations,
 - ◇ the transfer of state funds to Department divisions and other state agencies, and
 - ◇ the transfer of revenue from contract timber harvests to various trust beneficiaries.
- ◆ **Trust Funds** – This activity is comprised of:
 - ◇ the allocation of the appreciation/depreciation of the Trust Fund Investment Pool within the trust funds administered by the Department,
 - ◇ the transfer of timber revenue in excess of 18 million board feet on Common School Trust Lands to the Montana Dept. of Commerce for school technology purposes,
 - ◇ the transfer of trust earnings from permanent trust funds to earnings reserve,
 - ◇ the transfer of funds from the trusts and earnings reserve to administer state trust lands, and
 - ◇ the distribution of earnings to the trust permanent funds and the transfer of earnings to the trust beneficiaries, Department divisions and other state agencies.
- ◆ **Water Resources Division** – This activity is comprised of:
 - ◇ the transfer of state funds to other state agencies, and
 - ◇ the transfer of GO bond proceeds to the Blackfeet infrastructure account per 85-20-1511.

15. Fire Suppression Fund Transfers and Ending Fund Equity

The Department received transfer-in revenue from the general fund to the fire suppression fund per 76-13-150(6), MCA. In fiscal year 2020-21, the Department received \$46.7 million from the fiscal year 2019-20 reverted general funds and in fiscal year 2021-22, the Department received \$35.4 million from the fiscal year 2020-21 reverted general funds.

Additionally, in fiscal year 2020-21, the Department made transfers out of the fire suppression fund in the amount of \$1.3 million for the Forest Action Plan program and to reimburse another state agency for assisting in fire suppression.

The ending fund equity in the fire suppression fund on June 30, 2022, was \$49.6 million.

16. SRF Drinking Water Program Transfers-In and Transfers-Out

In fiscal years 2020-21 and 2021-22, the SRF Wastewater (WW) & Drinking Water (DW) programs in the Conservation & Resource Development Division saw increases in transfer-in revenues and transfer-out expenditures compared to fiscal year 2019-20. This is primarily due to an increase in loan disbursements in the program. In fiscal year 2019-20, the WW program processed \$36.2 million in loan disbursements and the DW program processed \$18.9 million in loan disbursements.

In fiscal year 2020-21, the WW program processed \$53.2 million in loan disbursements, an increase of \$17.0 million compared to fiscal year 2019-20 and the DW program processed \$26.7 million in loan disbursements, an increase of \$7.8 million compared to fiscal year 2019-20.

In fiscal year 2021-22, the WW program processed \$39.0 million in loan disbursements, an increase of \$2.8 million compared to fiscal year 2019-20 and the DW program processed \$23.9 million in loan disbursements, an increase of \$5.0 million compared to fiscal year 2019-20.

17. Long-Term Debt

In prior fiscal years, the state of Montana issued General Obligation (GO) bonds for the Water Pollution Control and Drinking Water SRF Programs. The bond proceeds were used for Water Pollution Control and Drinking Water project loans. At June 30, 2022, the Department had a total of \$23,245,000 in GO bonds outstanding for these programs.

In prior fiscal years, the state of Montana issued GO public and private bonds for the Renewable Resource Grant and Loan program. The bond proceeds were used for private loans for irrigation projects. At June 30, 2022, the Department had a total of \$278,218 of GO private bonds outstanding for this program and no GO public bonds outstanding.

In prior fiscal years, the Department issued CST bonds for the Renewable Resource Grant and Loan program. The bond proceeds were used for public loans for irrigation, water, sewer and dam projects. At June 30, 2022, the Department had a total of \$8,955,000 of CST bonds outstanding.

The Department has a loan from the U.S. Bureau of Reclamation to fund the Middle Creek Dam project. The unpaid loan principal and interest during construction balance as of June 30, 2022, was \$1,658,509.

The Northern Cheyenne Tribe and the Department entered into an agreement on July 1, 1994, in which the tribe agreed to loan the state up to \$11,500,000 of federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The noninterest bearing loan was used to help finance the costs of the Tongue River Dam Project. The actual amount of the loan was \$11,300,000. The outstanding loan balance at June 30, 2022, was \$4,635,897. In March 2005, the Department issued CST bond to the tribe for \$9,851,282 as security for the loan. The bond, which

is noninterest bearing, provides a means of repayment to the tribe in the event pledged revenues are insufficient for loan repayment.

18. Unspent Budget Authority

The table below summarizes significant unspent budget authority by program. For fiscal year 2021-22, most amounts are related to biennial and continuing appropriations and the budget authority extends to fiscal year 2022-23, the second year of the 2023 biennium.

Unspent Budget Authority		
	FY 2020-21	FY 2021-22
Director's Office		
Indirects Language Authority		1,004,589
Conservation & Resource Development Division		
Bond Proceeds (various funds)	10,268,768	1,137,840
Sage Grouse Stewardship	611,499	5,270,000
House Bill 8 CST Bonds	73,410,000	
MSEP Regional Water System	858,632	182,453
Natural Resources Projects	921,878	6,853,569
SRF Federal Authority	8,091,586	9,103,406
ARPA State Recovery Sec 602 Fund	6,863,944	294,127,533
DNRC Capital Projects Fund	16,321,074	16,074,656
Water Resources Division		
CSKT MOU*	1,250,020	1,153,860
Broadwater R & R		979,536
State Projects Hydro Earnings	544,115	2,102,582
Water FEMA Grants	8,331,502	12,192,578
Long Range IT Projects	1,504,703	306,842
Forestry/Trust Lands Division		
Contract Timber Harvesting		1,000,000
Fire Suppression Fund	980,193	9,069,792
Federal Grant Funds	12,949,321	10,669,457
Federal Good Neighbor Authority (GNA) Funds	1,828,379	2,921,087

*CSKT MOU – Confederated Salish and Kootenai Tribes Memorandum of Understanding

19. New Bond Issuances & Bond Refundings Revenue

In fiscal year 2020-21, the Department issued five new bonds totaling \$18.5 million:

- ◆ 2020E General Obligation (GO) bond for the St. Mary's Project - \$2.8 million,
- ◆ 2020L Coal Severance Tax (CST) bond for water development loans (WDL) approved in House Bill 8 from the 2019 and 2021 Legislative Sessions - \$6.98 million,
- ◆ 2020M CST bond for WDLs approved in House Bill 8 from the 2019 and 2021 Legislative Sessions for \$2.68 million,
- ◆ 2020J GO Bond for SRF Wastewater loans state match for \$5.04 million, and
- ◆ 2020K GO Bond for additional funding of the St. Mary's Project \$1.0 million.

Additionally, in fiscal year 2020-21, the Department issued two refunding bonds totaling \$24.8 million:

- ◆ 2020L CST bond to refund CST 2010C and 2013B bonds in the amount of \$4.9 million, and
- ◆ 2020J GO bond to refund GO Bond 2015C in the SRF Wastewater program in the amount of \$19.8 million.

In fiscal year 2021-22, the Department issued one new bond:

- ◆ 2022D GO Bond for the Blackfeet Tribe projects in the amount of \$16.035 million.

20. GNA Program & Revenue Recognition Error

The Good Neighbor Authority (GNA) program is a cooperative effort between the State of Montana and the USDA Forest Service (USFS) to carry out authorized forest, rangeland, and watershed restoration services on National Forest System (NFS) lands to keep the forests healthy and productive. During the 2019 Session, the Department received One-Time-Only (OTO) funding from the Montana Legislature for the 2021 biennium to implement the GNA program. Revenue for the program is generated via the sale of timber on the NFS lands and deposited in federal special revenue funds. The Department will send the USFS the appraised value of the timber sold and keep the balance to administer more timber sales.

In fiscal year 2019-20, revenue received for GNA timber sales in the amount of \$1.15 million was incorrectly recorded in deferred revenue. This error was reversed out of deferred revenue to received revenue in FY2020-21. In future fiscal years, the revenue will be record in the year the revenue was realizable, measurable, available and earned.

21. Coronavirus Relief Funds (CRF) Business Adaptability Grant Program

In fiscal year 2019-20, the Department was tasked with assisting the Governor's Office by administering the review and award of CARES Act Business Adaptability Grants. As of June 30, 2022, the program disbursed approximately \$22 million in grants.

22. American Rescue Plan Act (ARPA) of 2021 Program

In fiscal year 2020-21, the Department was tasked with administering grant funds from ARPA. ARPA was implemented by the 2021 Montana Legislature in House Bill 632. As of June 30, 2022, of the \$425.4 million total ARPA funds awarded to the Department, the Department was allocated \$301.7 million for the 1st tranche in grant funds, of which \$7.6 million was disbursed. ARPA funds must be expended by December 31, 2026.

23. Permanent Trust Funds

In fiscal years 2020-21 and 2021-22, the permanent trust funds saw decreases in revenues and expenditures compared to fiscal year 2019-20. This is primarily due to the depreciation of the trust fund bond pool investment of approximately \$12 million in fiscal year 2020-21 and an additional

\$47 million in fiscal year 2021-22. This decrease is also reflected in the transfers-in and transfers-out accounts as the depreciation is allocated out to the individual trusts based on their proportionate share of the trust fund bond pool.

Additionally, in fiscal year 2021-22 oil & coal royalty revenues increased \$17 million compared to fiscal year 2019-20. Oil royalties increase by \$2.9 million due to the increase in the fair market price of oil per barrel. Coal royalties increase by \$14.1 million due to the mining of a very large piece of state trust land and to the increase in the fair market price of coal per ton.

24. Hydro Power Site Lease-Revenue Under Protest

In fiscal year 2016-17, Avista, due to a dispute, invoked paragraph 4.7 of the Hydropower Site Lease between the Department and Avista. This allows Avista to make rental payments under protest into an escrow account. Avista established a joint escrow account with the State of Montana at U.S. Bank NA. As of June 30, 2022, Avista deposited \$24.5 million, which represents their 2017, 2018, 2019, 2020 & 2021 lease payments, into the account. In fiscal year 2021-22, Avista lost the dispute in court and was required to resume paying their annual Hydropower Site Lease, of which in fiscal year 2021-22 was \$5.169 million revenue in the permanent fund. The escrow account will not be released until the Montana Supreme Court makes a decision.

25. Land Banking

The Land Banking program sells land to the public, puts the proceeds in the Land Banking Trust Fund, and then, using the combined funds from multiple sales, purchases parcels which produce a higher level of income than the lands sold. This results in a greater income to the trust beneficiaries. In fiscal year 2020-21, approximately \$4.3 million of state trust land was sold and no land was purchased. In fiscal year 2021-22, approximately \$7.2 million of state trust land was sold and no land was purchased.

The ending fund equity in the Land Banking program on June 30, 2022, was \$32.8 million.

26. Permanent Recreational Easement

In fiscal year 2020-21, the Department received \$10,054,000 from the Montana Department of Fish, Wildlife & Parks in payment for the permanent recreation easement at Big Arm State Park. The funds were deposited in the Common School Trust permanent fund.

27. Donated Land

In fiscal year 2020-21, land valued at \$3.2 million was donated to state trust lands. Of that, \$2.3 million was land transferred from the United States Department of the Interior, Bureau of Land Management (BLM). The Department received the certification from the BLM that approved Clear List #125 and transferred title of 5,816.63 acres from the BLM to the Department. The transfer satisfied Montana's land entitlement under the indemnity selection provisions of the Enabling Act of 1889. These entries are not components of the attached financial schedules.

28. Related Party Transaction

Per Title 85, Chapter 1, part 6, MCA, Renewable Resource Grant and Loan Program, the Department is eligible to issue GO bonds for the purpose of making private sale loans. The Department has applied and received “recycled loan funds” from the SRF program for the non-point source private loan program. The loans are GO private sale bonds. The balances for loans in repayment for FY 2021 and FY 2022 were \$1,599,294 and \$278,218, respectively. The loans have interest rates ranging from 2.8% to 4.3% and are repaid over 15 years.

The Department leases an office building in Glasgow, Montana, from a current employee of the Department. This employee is not involved in any decision making in regards to the agency lease of the office building.

29. Subsequent Events:

- ◆ The Department prepaid debt on the Wastewater 2020J General Obligation Bond in the amount of \$4,675,000 on July 15, 2022, and in the amount of \$985,000 on September 22, 2022.
- ◆ In fiscal year 2022-23, the Department received the 2nd tranche of the ARPA grant funds, additional administration funds and transferred ARPA allocation to other state agencies resulting in a net increase of \$122.9 million. Total allocation to the Department of ARPA grant funds in the agency is \$425.4 million.
- ◆ As a result of the Bipartisan Infrastructure Law (BIL) signed by the President of the United States on November 15, 2021, the Department has been awarded additional federal grant funds. The following awards were received after June 30, 2022:
 - ◇ Board of Oil & Gas Conservation division was awarded federal grant funds from the Environmental Protection Agency (EPA) in the amount of \$25 million to address orphan oil & gas wells on State, private and tribal lands.
 - ◇ Conservation & Resource Development Division was awarded supplemental federal grant funds from the EPA for:
 - » Montana Drinking Water State Revolving Fund program in the amount of \$17,992,000,
 - » Montana Clean Water State Revolving Fund program in the amount of \$8,738,000,
 - ◇ Forestry Division was awarded multiple federal grants:
 - » from the United States Department of Agriculture (USDA) Forest Service Good Neighbor Authority program for:
 - Kootenai National Forest - forest, rangeland, and watershed restoration services activities for \$300,000,
 - Beaverhead-Deerlodge National Forest - forest, rangeland, and watershed restoration services activities for \$750,000,
 - Lewis & Clark National Forest - forest, rangeland, and watershed restoration services activities for \$750,000,

- » from the USDA FS Community Wildfire Defense Grant (CWDG) program for technical assistance to potential CWDG grant applicants in the amount of \$50,000,
- » from the USDA FS State Forest Action Plans (SFAP) program to provide additional capacity to implement projects in Montana's 2020 Forest Action Plan (MFAP) in the amount of \$728,000,
- » from the USDA FS State Fire Assistance (SFA) program to provide additional capacity and resources for the SFA program in the amount of \$397,184, and from the USDA FS Volunteer Fire Assistance (VFA) program to provide funding for VFA grants via subawards to communities in the amount of \$81,514.

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 Natural Resources and Conservation 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 12, 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 significant deficiencies:

- ◆ As reported in Recommendation #1, an annual general fund transfer to the fire suppression fund is required by §76-13-150(6), MCA. The amount transferred is calculated by the Office of Budget and Program Planning and transferred by the Department of Administration to the Department of Natural Resources and Conservation (department). The department does not have controls in place to verify the accuracy and completeness of the transfer, which was \$46,682,699 in fiscal year 2021 and \$35,350,087 in fiscal year 2022.
- ◆ In fiscal year 2022, the department implemented Governmental Accounting Standards Board Statement No. 87, Leases, which is related to the recording of lease activity. The department's controls were not adequate to ensure its lease receivable and deferred inflow of resources were calculated accurately, resulting in misstatements in the accounting records. The recommendation to the department related to this control deficiency was issued to the department through our audit of the state's basic financial statements (report #22-01).

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 Natural Resources and Conservation 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 and on page B-4 of the separately issued report on the state's basic financial statements (#22-01). 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 12, 2023

DEPARTMENT OF
NATURAL RESOURCES &
CONSERVATION

DEPARTMENT RESPONSE

DEPARTMENT OF NATURAL RESOURCES
AND CONSERVATION



GREG GIANFORTE, GOVERNOR

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August 11, 2023

Angus Maciver
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Legislative Audit Division
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Helena, MT 59620-1705

RECEIVED
August 11, 2023
LEGISLATIVE AUDIT DIV.

**RE: Montana Department of Natural Resources & Conservation (DNRC)
Written Response to the Legislative Audit Division Financial-
Compliance Audit for the Two Fiscal Years ended June 30, 2022.**

RECOMMENDATION #1

We recommend the Department of Natural Resources and Conservation develop internal control procedures to ensure the required transfer from the General Fund to the Fire Suppression Fund is accurate, supported, and reasonable.

Concur. Prior to the department's acceptance of the transfer from the General Fund to the Fire Suppression Fund pursuant to 76-13-150, M.C.A., the department will request a detail of the numbers supporting the calculation of the transfer amount and review it for accuracy and reasonableness.

Sincerely,

A handwritten signature in blue ink that reads "Amanda Kaster".

Amanda Kaster
Director