



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Livestock

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

SEPTEMBER 2024

LEGISLATIVE AUDIT
DIVISION

23-39

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

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller
Miki Cestnik

September 2024

The Legislative Audit Committee
of the Montana State Legislature:

We are pleased to present our financial-compliance audit report on the Department of Livestock for the two fiscal years ended June 30, 2023.

The report contains one recommendation to the department that can be found starting on page 6. We recommend enhancing internal controls to ensure timely deposit of inspection fees, as required by state law.

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

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

	<u>Name</u>	<u>City</u>	<u>Industry Represented</u>	<u>Term Expires March 1,</u>
Board of Livestock	Gene Curry, Chair	Valier	Cattle	2027
	Vacant		Cattle	2029
	Lillian Andersen	Livingston	Dairy/Poultry	2029
	Jake Feddes	Belgrade	Cattle	2027
	Alan Redfield	Livingston	Cattle	2027
	William Kleinsasser III	Augusta	Swine	2029
	Greg Wichman	Hilger	Sheep	2027
Department of Livestock	Mike Honeycutt, Executive Officer			
	Dr. Marty Zaluski, DVM, State Veterinarian, Animal Health Division (through June 2023)			
	Dr. Tahnee Szymanski, DVM, State Veterinarian, Animal Health Division (effective June 2023)			
	Brian Simonson, Deputy Executive Officer, Central Services Division			
	Gregory Juda, Lab Director, Diagnostic Laboratory			
	Jay Bodner, Administrator, Brands Enforcement Division (effective August 2022)			

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

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MONTANA LEGISLATIVE AUDIT DIVISION

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

A report to the Montana Legislature

BACKGROUND

The department is tasked with controlling and eradicating animal diseases, preventing the transmission of such diseases to humans, protecting livestock from predatory animals, regulating the pricing of milk, and performing meat, milk, and egg inspections and inspections at the local, district and state level of livestock to buy and sell.

The department's primary source of revenue is in the state special revenue fund, which includes brand license fees, per capita assessment fees, laboratory services, and various charges for services. The department also receives some federal grant award monies and general fund appropriation.

The department is unique in that it is governed by a board, which is the Board of Livestock (board). The board is comprised of seven members appointed by the governor and confirmed by the Senate to serve six-year terms. The board, as the department head, hires an executive officer who is responsible for the operations of the department and ensuring board policies, directives, and rules are carried out.

The Department of Livestock (department) maintained stable operations in fiscal years 2022 and 2023. In fiscal year 2024, the department partnered with the Department of Agriculture (Ag) and Montana State University (MSU) to build a new Veterinarian Diagnostics Lab in Bozeman that is slated to open in calendar year 2026. Significant department revenue includes Per Capita Taxes, Charges for Services, and collections from Inspections. The department has one recommendation related to untimely inspection fee deposits. During the audit period, there were 979 late deposits totaling \$266,260.

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

The opinion means the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

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: 1

Not Implemented: 0

(continued on back)

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

leg.mt.gov/lad

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RECOMMENDATION #1 (page 6):

Internal Controls and State Compliance

We recommend the Department of Livestock:

- A. Enhance internal controls to ensure that deposits of inspection fees are made timely as required by state law; and
- B. Make deposits in the timeframe required by state law.

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

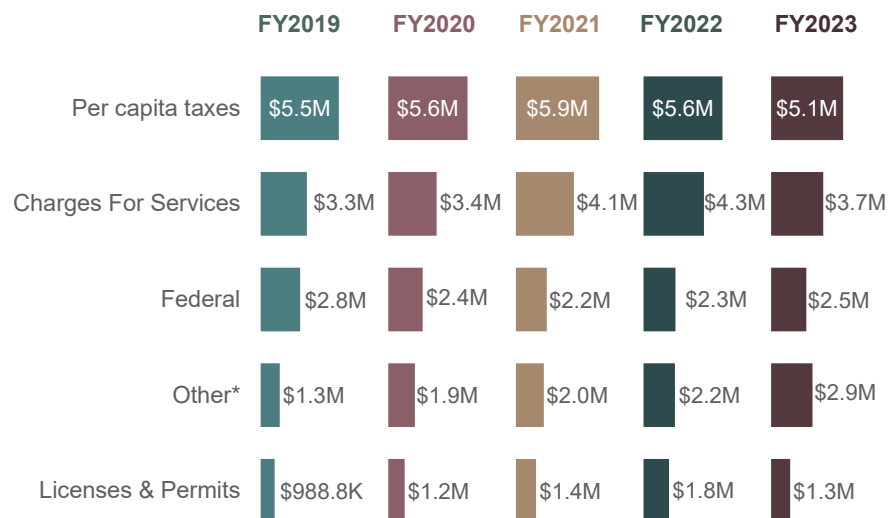
We conducted the financial-compliance audit of the Department of Livestock (department) for the two fiscal years ended June 30, 2023. The following were our objectives for the audit:

1. To obtain an understanding of the department’s control systems to the extent necessary to support our audit of the department’s financial schedules and, if appropriate, make recommendations for improvements in the internal and management controls of the department.
2. To determine if the department complied with direct and material laws and regulations during the audit period.
3. To determine whether the department’s financial schedules fairly present the result of operations and changes in fund equity for each of the two fiscal years ended June 30, 2023, and June 30, 2022; and,
4. To determine the implementation status of prior audit recommendations.

Our audit focused its efforts on the department’s activity related to charges for services, federal revenue, licenses and permits revenue, operating expenditures, and livestock per capita fees (taxes). Figure 1 below shows this revenue activity over the last five years. We determined compliance with selected state laws and regulations directly impacting financial activity, including laws related to the Beef Promotion and Research Act of 1985, also known as the beef check-off program. Additionally, we reviewed the overall reasonableness of the financial schedules and notes.

Figure 1
Department of Livestock Revenue for Fiscal Years 2019-2023

Livestock per capita fees continue to be Livestock’s biggest source of revenue.



Source: Compiled by the Legislative Audit Division.

* Other revenue includes Investment earnings, fines and forfeits, sale of documents and property, and grants, transfers, and other miscellaneous revenues.

Background

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

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

Animal Health and Food Safety Division (67.51 FTE): This division is responsible for controlling and eradicating animal diseases and preventing transmission to humans. It includes the Animal Health & Import Office, Veterinarian Diagnostic Laboratory, Meat and Poultry Inspection Bureau, and Milk and Egg Inspection Bureau.

The Animal Health & Import Office tracks and monitors animal movement for animal disease traceability. The Veterinarian Diagnostic Laboratory, located on the Montana State University campus in Bozeman, provides support for the Disease Control Program, Milk and Egg Program, veterinarians, and livestock producers.

The Animal Health & Food Safety Division oversees two inspection programs: Meat and Poultry Inspection and Milk and Egg Inspection. These programs ensure meat, poultry, and their products (milk, eggs, etc.) meet state and federal safety requirements.

Brands Enforcement Division (53.61 FTE): This division includes the Inspection and Control Program, which is responsible for brand inspections, recording livestock brands, market dealer licensing, and livestock theft investigations. The program has employees in 16 districts across the state, and state livestock inspectors (department employees) within these districts that collect fees charged for inspections that make up part of the department's revenue. There are also approximately 550 deputy state livestock inspectors who are not department employees. They retain inspection fees, and the department processes their permits and inspection reports. The Livestock Crimestoppers Commission is allocated to the department for administrative purposes. This commission provides a reward program for information used to detect livestock-related crimes.

Centralized Services Division (17 FTE): This division provides budgeting, accounting, payroll, legal, purchasing, and data processing services to the department. This division also includes the Milk Control Bureau, Milk Control Board, Predator Control Program, and Livestock Loss Board.

The Milk Control Board is responsible for the regulation of milk producer pricing. The Predator Control Program contracts with the U.S. Department of Agriculture to control predators that injure or kill domestic livestock. The Livestock Loss Board provides financial reimbursement to producers for losses caused by mountain lions, wolves, or grizzly bears and works to decrease the risk of mountain lion, wolf, or grizzly bear-caused losses.

Prior Audit Recommendations

The prior financial-compliance audit contained two recommendations to the department as noted in the following table.

Prior Audit Recommendation	Summary of Recommendation	Status
1	We recommend the Department of Livestock enhance internal controls to ensure stock estray transactions required by law are recorded in accordance with state accounting policy.	Implemented
2	We recommend the Department of Livestock enhance internal controls over capital asset activity to ensure transactions are recorded according to state accounting policy.	Partially Implemented

Source: Compiled by the Legislative Audit Division.

The department has made efforts to implement the second recommendation, but it is not yet fully implemented.

During fiscal years 2022 and 2023, the department enhanced internal controls related to recording capital assets. State policy requires that asset purchases above a certain threshold be capitalized instead of expensed. Through our review of all assets purchased during the audit period, we determined that all assets over the threshold in the audit period were capitalized as required by state accounting policy.

Despite capitalizing assets as required during the audit period, the department did not make any correcting entries to capitalize the assets identified in the prior audit. This means that the related depreciation expense for those assets is not recognized on the Schedules of Expenditures & Transfers – Out. The missing depreciation is approximately \$43,000 in each year.

Since the department enhanced internal controls and capitalized the assets purchased during the audit period, we made no further recommendations during this audit.

Chapter II - Findings and Recommendation

Untimely Inspection Fee Deposits

The department lacked effective internal controls for ensuring timely deposits of inspection fees, resulting in noncompliance with state law.

The Department of Livestock employs stock inspectors who work throughout the state conducting various livestock inspections. Inspectors do not operate out of a central office and often perform inspections in remote areas. The inspector collects the applicable fees owed for the inspections, typically paid by cash or check, and is responsible for depositing the funds.

Section 17-6-105, MCA, requires agencies to deposit all funds received at least weekly. The law also requires deposits to be made to an approved depository. While the state's depository locations are preferred, inspectors can make deposits at the nearest bank to accommodate those inspectors working in rural areas.

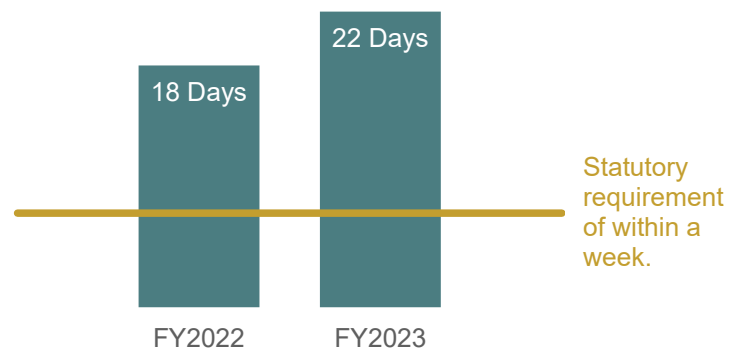
After inspections occur and the funds are deposited, inspectors send the related paperwork, such as inspection forms and deposit slips, to the branch office in Helena. The department uses this information to track inspections and deposits. When we reviewed the department's records, we found hundreds of instances where deposits of funds collected for inspections were made after more than a week, as shown by Figure 2 below and Figure 3 (page 6).

The department is not in compliance with state law. During the audit period, 979 late inspection fee deposits were made, totaling \$266,260. These delays increase the risk of loss or theft of collected funds and could lead to under reporting of inspection revenues.

The department does not have sufficient controls to ensure inspectors are making timely deposits of funds. A substantial influx of new employees who were unaware of the requirements and the fact that the inspectors often work in remote areas where deposits may require significant travel times contributed to the proliferation of late deposits.

Figure 2
Average Days to Deposit for Late Deposits

For late deposits, the average deposit time exceeded the statutory requirement of "at least weekly."

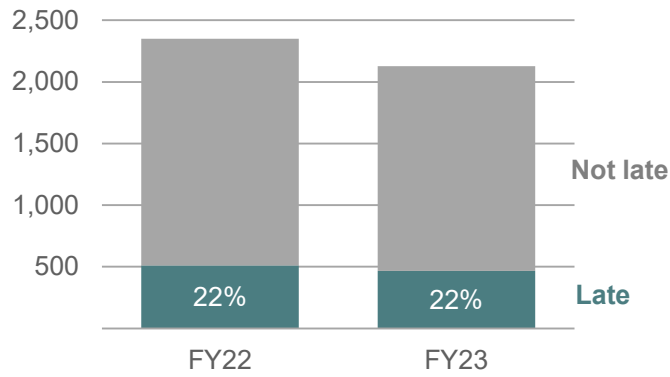


Source: Compiled by the Legislative Audit Division.

Figure 3

Late Deposits as a Percentage of Total Deposits

In both FY2022 and FY2023, 22% of inspection fee deposits were submitted late.



Source: Compiled by the Legislative Audit Division.

However, despite tracking when deposits were made and whether they were late, there was no evidence of any action taken to correct the large number of late deposits. Controls could include:

- ◆ Making sure each inspector completes a weekly deposit.
- ◆ Implementing electronic deposits of checks.
- ◆ Reviewing department records to identify and follow up on late deposits.
- ◆ Providing training.
- ◆ Taking personnel corrective action when necessary.

We consider this to be a significant deficiency in internal control as further described in the report on page B-1.

RECOMMENDATION #1

We recommend the Department of Livestock:

- A. Enhance internal controls to monitor and enforce deposit requirements, and,
- B. Deposit livestock inspection collections in the time frame required by state law.

Independent Auditor's Report and Department Financial Schedules

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller
Miki Cestnik

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Report on the Audit of Financial Schedules

Opinions

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

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, 2023, and 2022, in conformity with the basis of accounting described in Note 1.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" section of our report, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the department as of June 30, 2023 and June 30, 2022, or changes in financial position for the years then ended.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Schedules section of our report. We are required to be independent of the department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

As described in Note 1 of the financial schedules, the financial schedules are prepared by the department 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 July 10, 2024, on our consideration of the department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

July 10, 2024

DEPARTMENT OF LIVESTOCK
 SCHEDULE OF CHANGES IN FUND EQUITY
 FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Custodial Fund
FUND EQUITY: July 1, 2022	\$ (87,734)	\$ 17,281,294	\$ 0	\$ 242,886	\$ 1,911
ADDITIONS					
Budgeted Revenues & Transfers-In	4,269	10,398,396	2,478,709	1,535,291	69,153
Nonbudgeted Revenues & Transfers-In		710,319		20,430	
Prior Year Revenues & Transfers-In Adjustments	4	282,686			1
Direct Entries to Fund Equity	3,112,595	121,758			
Total Additions	3,116,867	11,513,159	2,478,709	1,555,722	69,154
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	3,187,481	9,727,853	2,475,668	1,499,764	
Nonbudgeted Expenditures & Transfers-Out	(3,739)	1,411,719		118,021	68,633
Prior Year Expenditures & Transfers-Out Adjustments	20,588	57,318	3,041	(22,537)	
Total Reductions	3,204,331	11,196,891	2,478,709	1,595,248	68,633
FUND EQUITY: June 30, 2023	\$ (175,198)	\$ 17,597,562	\$ 0	\$ 203,359	\$ 2,432

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

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

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Custodial Fund
FUND EQUITY: July 1, 2021	\$ (172,984)	\$ 16,356,079	\$ (18,194)	\$ 155,442	\$ (52,024)
ADDITIONS					
Budgeted Revenues & Transfers-In	4,231	11,271,409	2,253,249	1,530,536	77,958
Nonbudgeted Revenues & Transfers-In		959,529			5,213
Prior Year Revenues & Transfers-In Adjustments	2	4,819			
Direct Entries to Fund Equity	3,171,787	103,612	18,194		
Total Additions	3,176,020	12,339,370	2,271,443	1,530,536	83,171
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	3,091,083	9,784,731	2,253,129	1,476,425	79,323
Nonbudgeted Expenditures & Transfers-Out	(193)	1,593,123		(33,334)	(50,087)
Prior Year Expenditures & Transfers-Out Adjustments	(120)	36,301	120		
Total Reductions	3,090,770	11,414,155	2,253,249	1,443,092	29,236
FUND EQUITY: June 30, 2022	\$ (87,734)	\$ 17,281,294	\$ 0	\$ 242,886	\$ 1,911

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF LIVESTOCK
 SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
 FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Custodial Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits	\$ 4,243	\$ 1,340,894				\$ 1,345,137
Taxes		5,077,841				5,077,841
Charges for Services		2,123,177		\$ 1,551,505		3,674,683
Investment Earnings		912,267				912,267
Fines and Forfeits				4,216		4,216
Monetary Settlements		224				224
Sale of Documents, Merchandise and Property		10,484				10,484
Grants, Contracts, and Donations		101,593				101,593
Transfers-in		1,009,238				1,009,238
Federal Indirect Cost Recoveries	30	219,681				219,681
Miscellaneous		596,002			\$ 69,154	665,185
Federal						2,478,709
Total Revenues & Transfers-in	4,273	11,391,401	2,478,709	1,555,722	69,154	15,499,258
Less: Nonbudgeted Revenues & Transfers-in		710,319		20,430	69,153	799,902
Prior Year Revenues & Transfers-In Adjustments	4	282,686			1	282,691
Actual Budgeted Revenues & Transfers-In	\$ 4,269	\$ 10,398,396	\$ 2,478,709	\$ 1,535,291	\$ 0	\$ 14,416,665

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

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

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Custodial Fund	Total
Licenses and Permits	\$ 4,233	\$ 1,793,556				\$ 1,797,789
Taxes		5,574,918	\$ 371			5,575,289
Charges for Services		2,731,747		1,528,396		4,260,143
Investment Earnings		34,681				34,681
Fines and Forfeits		40		2,139		2,179
Sale of Documents, Merchandise and Property		12,502				12,502
Grants, Contracts, and Donations		56,940				56,940
Transfers-in		840,260				840,260
Capital Asset Sale Proceeds		90,560				90,560
Federal Indirect Cost Recoveries		208,644				208,644
Miscellaneous		891,911			\$ 83,171	975,082
Federal			2,252,878			2,252,878
Total Revenues & Transfers-in	4,233	12,235,758	2,253,249	1,530,536	83,171	16,106,946
Less: Nonbudgeted Revenues & Transfers-in		959,529			77,958	1,037,487
Prior Year Revenues & Transfers-In Adjustments	2	4,819			5,213	10,034
Actual Budgeted Revenues & Transfers-in	\$ 4,231	11,271,409	2,253,249	1,530,536	0	15,059,425

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF LIVESTOCK
 SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2023

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	ANIMAL HEALTH DIVISION	BRANDS ENFORCEMENT DIVISION	CENTRALIZED SERVICES DIVISION	Total
Personal Services				
Salaries	\$ 3,545,965	\$ 2,724,055	\$ 1,062,971	\$ 7,332,991
Other Compensation			3,950	3,950
Employee Benefits	1,377,145	1,085,764	380,269	2,843,178
Personal Services-Other	6,617			6,617
Total	<u>4,929,727</u>	<u>3,809,819</u>	<u>1,447,190</u>	<u>10,186,736</u>
Operating Expenses				
Other Services	1,470,600	132,692	642,485	2,245,777
Supplies & Materials	946,596	76,106	91,007	1,113,709
Communications	102,686	66,609	45,914	215,210
Travel	151,206	44,356	16,978	212,540
Rent	313,936	180,370	173,310	667,616
Utilities	32,814	5,113		37,926
Repair & Maintenance	286,919	15,023	40	301,982
Other Expenses	555,741	134,845	589,372	1,279,957
Total	<u>3,860,498</u>	<u>655,113</u>	<u>1,559,107</u>	<u>6,074,717</u>
Equipment & Intangible Assets				
Equipment	129,600		296,660	426,260
Intangible Assets			535,949	535,949
Total	<u>129,600</u>		<u>832,609</u>	<u>962,209</u>
Grants				
From State Sources			3,000	3,000
Total			<u>3,000</u>	<u>3,000</u>
Benefits & Claims				
From State Sources			298,283	298,283
Total			<u>298,283</u>	<u>298,283</u>
Transfers-out				
Fund transfers	239,943	158,400	546,808	945,151
Total	<u>239,943</u>	<u>158,400</u>	<u>546,808</u>	<u>945,151</u>
Post Employment Benefits				
Other Post Employment Benefits	11,886			11,886
Employer Pension Expense	61,830			61,830
Total	<u>73,716</u>			<u>73,716</u>
Total Expenditures & Transfers-Out	<u>\$ 9,233,484</u>	<u>\$ 4,623,332</u>	<u>\$ 4,686,996</u>	<u>\$ 18,543,812</u>
EXPENDITURES & TRANSFERS-OUT BY FUND				
General Fund	\$ 3,087,280		\$ 117,051	\$ 3,204,331
State Special Revenue Fund	2,102,247	\$ 4,554,699	4,539,945	11,196,891
Federal Special Revenue Fund	2,448,709		30,000	2,478,709
Enterprise Fund	1,595,248			1,595,248
Custodial Fund		68,633		68,633
Total Expenditures & Transfers-Out	9,233,484	4,623,332	4,686,996	18,543,812
Less: Nonbudgeted Expenditures & Transfers-Out	111,239	167,100	1,316,297	1,594,635
Prior Year Expenditures & Transfers-Out Adjustments	(1,835)	61,593	(1,348)	58,411
Actual Budgeted Expenditures & Transfers-Out	9,124,080	4,394,639	3,372,047	16,890,766
Budget Authority	11,861,544	4,560,764	4,322,307	20,744,615
Unspent Budget Authority	<u>\$ 2,737,464</u>	<u>\$ 166,125</u>	<u>\$ 950,260</u>	<u>\$ 3,853,849</u>
UNSPENT BUDGET AUTHORITY BY FUND				
General Fund	\$ 668,961		\$ 12,370	\$ 681,332
State Special Revenue Fund	897,246	\$ 166,125	862,889	1,926,260
Federal Special Revenue Fund	896,595		75,000	971,595
Enterprise Fund	274,662			274,662
Unspent Budget Authority	<u>\$ 2,737,464</u>	<u>\$ 166,125</u>	<u>\$ 950,260</u>	<u>\$ 3,853,849</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

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

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	<u>ANIMAL HEALTH DIVISION</u>	<u>BRANDS ENFORCEMENT DIVISION</u>	<u>CENTRALIZED SERVICES DIVISION</u>	<u>Total</u>
Personal Services				
Salaries	\$ 3,364,669	\$ 2,739,211	\$ 961,305	\$ 7,065,185
Other Compensation			4,750	4,750
Employee Benefits	1,245,426	1,036,818	320,990	2,603,234
Personal Services-Other	(8,089)			(8,089)
Total	<u>4,602,007</u>	<u>3,776,029</u>	<u>1,287,045</u>	<u>9,665,080</u>
Operating Expenses				
Other Services	1,406,802	150,212	699,369	2,256,382
Supplies & Materials	1,012,694	88,529	75,455	1,176,679
Communications	91,525	95,832	55,678	243,035
Travel	125,369	29,581	15,622	170,572
Rent	289,216	167,010	175,197	631,423
Utilities	31,752	5,006		36,758
Repair & Maintenance	267,182	15,625	3,126	285,933
Other Expenses	623,262	139,526	914,728	1,677,516
Total	<u>3,847,802</u>	<u>691,320</u>	<u>1,939,176</u>	<u>6,478,298</u>
Equipment & Intangible Assets				
Equipment	115,335		296,660	411,995
Intangible Assets			208,577	208,577
Installment purchases-equipmnt			248,603	248,603
Total	<u>115,335</u>		<u>753,840</u>	<u>869,176</u>
Grants				
From State Sources			172,022	172,022
Total			<u>172,022</u>	<u>172,022</u>
Benefits & Claims				
From State Sources			318,255	318,255
Total			<u>318,255</u>	<u>318,255</u>
Transfers-out				
Fund transfers	232,027		540,736	772,763
Total	<u>232,027</u>		<u>540,736</u>	<u>772,763</u>
Post Employment Benefits				
Other Post Employment Benefits	1,925			1,925
Employer Pension Expense	(47,016)			(47,016)
Total	<u>(45,091)</u>			<u>(45,091)</u>
Total Expenditures & Transfers-Out	<u>\$ 8,752,079</u>	<u>\$ 4,467,349</u>	<u>\$ 5,011,074</u>	<u>\$ 18,230,501</u>
EXPENDITURES & TRANSFERS-OUT BY FUND				
General Fund	\$ 2,975,689		\$ 115,081	\$ 3,090,770
State Special Revenue Fund	2,080,049	\$ 4,385,347	4,948,759	11,414,155
Federal Special Revenue Fund	2,253,249			2,253,249
Enterprise Fund	1,443,092			1,443,092
Custodial Fund		82,002	(52,766)	29,236
Total Expenditures & Transfers-Out	8,752,079	4,467,349	5,011,074	18,230,501
Less: Nonbudgeted Expenditures & Transfers-Out	(33,865)	83,271	1,589,514	1,638,920
Prior Year Expenditures & Transfers-Out Adjustments	(18,029)	4,179	64	(13,786)
Actual Budgeted Expenditures & Transfers-Out	8,803,973	4,379,899	3,421,497	16,605,368
Budget Authority	10,909,905	4,520,213	4,724,071	20,154,188
Unspent Budget Authority	<u>\$ 2,105,932</u>	<u>\$ 140,314</u>	<u>\$ 1,302,574</u>	<u>\$ 3,548,820</u>
UNSPENT BUDGET AUTHORITY BY FUND				
General Fund	\$ 403,846		\$ 11,686	\$ 415,532
State Special Revenue Fund	838,038	\$ 140,314	1,185,888	2,164,241
Federal Special Revenue Fund	682,449		105,000	787,449
Enterprise Fund	181,599			181,599
Unspent Budget Authority	<u>\$ 2,105,932</u>	<u>\$ 140,314</u>	<u>\$ 1,302,574</u>	<u>\$ 3,548,820</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.

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, and Federal Special Revenue). In applying the modified accrual basis, the department records:

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

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

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

Basis of Presentation

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

The department uses the following funds:

Governmental Fund Category

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

State Special Revenue Fund – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include Brand Inspection and Control, Animal Health, Milk and Egg, Shielded Egg, Milk Control, Predatory Animal, Livestock Loss Board Restricted, Livestock Loss Reduction, Livestock Loss Prevention, Wolf Mitigation Donation Fund, Stock Estray, Producers Milk Pool, and Per Capita which funds the Department's operations.

Federal Special Revenue Fund – to account for activities funded from federal revenue sources. Federal Special Revenue Funds include Meat and Poultry Inspection, Federal Umbrella, National Animal Health Laboratory Network (NAHLN), Animal Disease Traceability and Federal Shell Egg Inspection program.

Proprietary Fund Category

Enterprise Fund – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Department Proprietary Fund includes Montana Veterinarian Diagnostic Laboratory.

Fiduciary Fund Category

Custodial Fund – to account for resources held by the state in a custodial capacity. Custodial funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end. The department custodial fund includes the Beef Check-Off.

2. General Fund Equity Balance

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2022 and June 30, 2023.

3. General Fund Unspent Authority

During the 2021 legislation, construction for a new veterinarian diagnostic laboratory (MVDL) was approved in HB14. Authority for the new building's operations and maintenance (O&M) costs was provided as a placeholder for future budget development and was not to be spent until after the new building was in operation. The authority for the O&M for the MVDL building was \$213,550 and \$427,100 for FY 2022 and FY 2023, respectively.

During the 2021 legislation, the Cooperative Interstate Shipping (CIS) program was approved for the Meat & Poultry Inspection program. Authority of \$80,000 was awarded for inspection of meat processing plants who participated in the program. There were no plants inspected for the CIS program in FY 2022 and FY 2023.

4. State Special Revenue Unspent Authority

-Livestock Loss Reimbursement and Livestock Loss Reduction budget authority was inadvertently doubled in FY 2022 and 2023 creating excess unspent authority in these programs of \$313,100 and \$528,700, respectively.

-The 2019 legislature approved the department's House Bill 10 budget request to fund information technology improvements in the amount of \$1,300,000. HB 10 authority is carried forward until the IT project has been completed. HB 10 unspent authority in FY 2022 and FY 2023 was \$600,080 and \$64,130, respectively.

-During the 2021 legislation, construction for a new veterinarian diagnostic laboratory (MVDL) was approved in HB14. Authority for the new building's operations and maintenance (O&M) costs was provided as a placeholder for future budget development and was not to be spent until after the new building was in operation. The authority for the O&M for the MVDL building was \$631,800 and \$738,600 for FY 2022 and FY 2023, respectively.

-The department utilizes budget authority carryforward which increases overall authority. The department had carryforward authority for FY 2022 and FY 2023 in amounts of \$324,500 and \$289,000, respectively.

-The department's proprietary revenue was higher than anticipated which the department utilized to save state special revenue cash in anticipation of upcoming capital investments.

-The department has had significant variation in program expenditures leading to abnormally higher unspent authority this biennium.

5. Proprietary Unspent Authority

During the 2021 legislation, construction for a new veterinarian diagnostic laboratory (MVDL) was approved in HB14. Authority for the new building's operations and maintenance (O&M) costs was provided as a placeholder for future budget development and was not to be spent until after the new building was in operation. The authority for the O&M for the MVDL building was \$167,200 and \$274,000 for FY 2022 and FY 2023, respectively.

6. Direct Entries to Fund Equity and General Fund Transfers

Direct entries to fund equity in the General, State Special Revenue, and Federal funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. Other agency transfer to the Department were for Livestock Loss Board (LLB) License Plate Donation fund and the Wolf Mitigation Donation fund (WMDF).

Amount transferred to the Department's General Fund was \$3,171,787 and \$3,112,595 in FY 2022 and FT 2023, respectively. The amounts transferred to LLB was \$8,040 and \$7,900 for FY 2022 and FY 2023, respectively. The amount transferred to the WMDF was \$100,572 and \$113,858 for FY 2022 and FY 2023, respectively.

7. Unearned Revenues

Revenues are recognized when they are realizable, measurable, earned, and available. Unearned revenue is the balance of the revenues collected that has not been earned and is unavailable for current year expenditures but will be available in future years. The department's unearned revenues consists of four groups.

Brands rerecord occurs every ten years. The 2021 rerecord began in January 2021 and ended December 31, 2021. Monies received from the 2021 rerecord was posted to the unearned revenue liability account. This will be amortized over the ten-year period as the revenues are earned beginning January 2022 and ending December 2031.

New brands and brand transfers are purchased during the rerecord period from January 2022 through December 2031. New brands and transfer revenues are amortized over the period remaining until the next brands rerecord which will be December 2031.

Brand mortgage renewal revenues are amortized over a five-year period from January 2018 to December 2022.

Brand mortgage renewal for the calendar year period 2023-2027 started in December 2022 and was completed March 2023.

New brand mortgage revenues are amortized over the same period as mortgage renewals.

This is the schedule of unearned revenues:

	FY 2022	FY 2023
Brands Rerecord	\$7,696,049	\$6,718,665
New Brands & Transfers	657,184	859,804
Brand Mortgage Renewals	18,702	107,058
New Brands Mortgages	42,135	9,392
TOTAL	\$8,414,070	\$7,694,919

8. **Nonbudgeted Expenditures and Transfers-Out**

Per 81-1-112 MCA, the department is required to transfer cash from the Livestock Loss Mitigation Fund (LLMF) to the Livestock Loss Reduction Fund (LLRF) when the unencumbered fund balance is in excess of \$300,000 at end of fiscal year. These are recorded as Nonbudgeted Transfers. In FY 2022, the LLMF expenditures exceeded \$300,000 leaving no cash available to transfer to the LLFR. In FY 2023 The amount of transfer was \$25,858 in FY 2023.

Per 15-24-925 MCA, the department must transfer at least \$350,000 from per-capita-fees state special revenue fund to predatory animal special revenue fund. The department transferred \$425,000 and \$424,980 in FY 2022 and FY 2023, respectively.

Estray defined, means livestock not bearing a brand and the ownership of which cannot be determined by the stock inspector of the district in which the animal is found. Per 81-4-606 MCA, when the proceeds from the sale of the estrays have remained in the hands of the state treasurer for a period of 2 years, it shall be immediately placed to the credit of the state special revenue fund for the use of the department. The amount of transfer from the custodial fund to the SSRF was \$56,940 and \$101,593 in FY 2022 and FY 2023, respectively.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller
Miki Cestnik

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

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Livestock for each of the fiscal years ended June 30, 2023, and 2022, and the related notes to the financial schedules, and have issued our report thereon dated July 10, 2024.

Internal Control Over Financial Reporting

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

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

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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 on B-2, that we consider to be a significant deficiency.

- As described in recommendation 1, the department does not have adequate internal controls in place to ensure that deposits are made timely in accordance with state law. If deposits are not made timely, there is an increased risk of loss or theft of the currency collected. Additionally, there is an increased risk of misstating inspection revenues.

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 Livestock 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

July 10, 2024

DEPARTMENT OF
LIVESTOCK

DEPARTMENT RESPONSE

STATE OF MONTANA

GREG GIANFORTE, GOVERNOR

DEPARTMENT OF LIVESTOCK

PO BOX 202001
HELENA, MONTANA 59620-2001DEPARTMENT OF LIVESTOCK (406) 444-7323
ANIMAL HEALTH DIVISION (406) 444-2043
BRANDS ENFORCEMENT DIVISION (406) 444-2045
CENTRALIZED SERVICES DIVISION (406) 444-4993
FAX (406) 444-1929

September 13, 2024

Angus Maciver, Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620RECEIVED
September 20, 2024
LEGISLATIVE AUDIT DIV.

Subject: Financial-Compliance Audit #23-39: Department of Livestock Response

Dear Mr. Maciver:

The Department of Livestock has reviewed the September 2024 Financial-Compliance Audit for two fiscal years ending June 30, 2023, and thanks the Audit Committee and staff for their ongoing efforts to assist our agency in becoming more efficient and effective in our service to all Montanans. Our response and corrective action plan for the one recommendation appears below.

Recommendation #1*We recommend the Department of Livestock:*

- A. Enhance internal controls to ensure that deposits of inspection fees are made timely as required by state law; and
- B. Make deposit in the timeframe required by state law.

Response: Concur

The Department agrees the number of late deposits identified in the audit are an unacceptable level of compliance. Despite having strong operating procedures, separation of duties and audit processes instituted with regards to the accuracy of these funds, the department has not met the requirements when it comes to managing, communicating and enforcing the weekly requirement for depositing of inspection fees by our employees dispersed across the state. To address the audit findings, the department has already reasserted long standing business practice expectations with all relevant field staff and instituted a biweekly monitoring procedure in the Helena central office.

Corrective Action:

Now that retraining actions have been completed, follow-on review and communications on late deposits are an ongoing management practice. These reports will be compiled bi-weekly and reviewed by finance staff and senior leadership with a requirement to document appropriate corrective action on each incident. A standard of new employee onboarding for positions that hold a responsibility to collect and deposit payments will be a strong emphasis on the necessity to meet these requirements. Repeated failure to meet deposit timelines will result in formal disciplinary actions for employees who fail to meet requirements.

STATE OF MONTANA

GREG GIANFORTE, GOVERNOR

Planned Completion Date: 12/31/2024 (Full institution of new standard procedures for routine monitoring and reporting of individual deposits including documentation of follow up corrective actions taken); Ongoing (Will require continued work and documentation of control to discourage return to poor practices, and require proper training of all new employees)

I want to thank the Legislative Audit Committee for the opportunity to respond to these findings, and express appreciation to the audit staff for their professionalism during all phases of the process. We were very satisfied by the willingness of the auditors to discuss recommendations and respond to our questions.

Sincerely,



Mike Honeycutt
Executive Officer
Montana Board of Livestock