



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Department of
Corrections*

*For the Two Fiscal Years Ended
June 30, 2008*

OCTOBER 2008

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DIVISION

08-15

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LEGISLATIVE AUDIT DIVISION

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Angie Grove

October 2008

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report for the Department of Corrections for the two fiscal years ended June 30, 2008. This report contains 14 recommendations related to the department's control structure, contract administration, various aspects of financial accountability, and the department's compliance with state laws and policies and department policies. The department's response to the audit recommendations begins on page B-3, at the end of the audit report.

We thank the director and his staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

| | | |
|--|--|---------------------|
| Director's Office | Mike Ferriter, Director | |
| Health, Planning, & Information Services Division | Gary Hamel, Division Administrator | |
| Administrative & Financial Services Division | Rhonda Schaffer, Division Administrator | |
| Community Corrections | Pam Bunke, Division Administrator | |
| Youth Corrections | Steve Gibson, Division Administrator | |
| Secure Custody Facilities | Mike Mahoney, Warden, Montana State Prison Jo Acton, Warden, Montana Women's Prison | |
| Human Resources | Steve Barry, Division Administrator | |
| Montana Correctional Enterprises | Gayle Lambert, Division Administrator | |
| Board of Pardons and Parole | | <u>Term Expires</u> |
| | Vance Curtiss, Chair | 1/1/2009 |
| | Margaret Hall, Member | 1/1/2010 |
| | John Rex, Member | 1/1/2011 |
| | Melbert Eaglefeathers, Auxiliary Member | 1/1/2009 |
| | Teresa McCann O'Connor, Auxiliary Member | 1/1/2009 |
| | Darryl Dupuis, Auxiliary Member | 1/1/2010 |

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REPORT SUMMARY

Department of Corrections

This financial-compliance audit report contains the results of our audit of the Department of Corrections for the two fiscal years ended June 30, 2008. We issued an unqualified opinion on the financial schedules contained in this report. This means the reader can rely on the financial information presented and the supporting detailed information on the state's accounting records.

This report contains 14 recommendations. The recommendations relate to the department's control structure, contract administration, various aspects of financial accountability, and the department's compliance with state laws, state policies, and its own policies.

The prior audit report contained 12 recommendations. The department implemented five recommendations, partially implemented four recommendations, and did not implement three recommendations.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the department complete implementation of state accounting policy concerning internal control. 10

Department response: Concur B-3

Recommendation #2

We recommend the department:

- A. Provide training to its contract liaisons to improve contract administration.
- B. Incorporate contract administration in its internal control documentation. 11

Department response: Concur B-3

Recommendation #3

We recommend the department:

- A. Implement procedures to ensure it spends within its appropriation authority as required by law.
- B. Provide budget training to fiscal staff. 13

Department response: Concur B-4

Recommendation #4

We recommend the department monitor controls over medical claims to ensure they continue to work as intended. 14

Department response: Concur B-4

Recommendation #5

We recommend the department deposit inmate room and board fees in the General Fund as required by state law. 15

Department response: Concur B-4

Recommendation #6

We recommend the department implement procedures to ensure prescription drug orders received by correctional facilities are accurate and complete. 15

Department response: Concur B-5

Recommendation #7

We recommend the department monitor the progression of the general appropriations bill to ensure all approved internal service fund rates are included. 16

Department response: Concur B-5

Recommendation #8

We recommend the department exhaust all available state special revenue fund authority before spending General Fund money as required by state law. 17

Department response: Concur B-5

Recommendation #9

We recommend the department record its production livestock assets as noncurrent assets in accordance with state law. 18

Department response: Concur B-5

Recommendation #10

We recommend the department:

- A. Comply with state law concerning acceptance of federal assistance and recovery of indirect costs.
- B. Modify and document its indirect cost rate development procedures to help ensure the rates are properly calculated. 20

Department response: Concur B-6

Recommendation #11

We recommend the department:

- A. Adopt administrative rules in accordance with state laws relating to monitoring of level three sexual offenders, prison industries training program, and electronic records of youth.
- B. Ensure the WATCH facility restricts offenders to the courtyard in accordance with administrative rule. 21

Department response: Concur B-6

Recommendation #12

We recommend the department comply with state law and its operating procedures concerning probation and parole officer training.22

Department response: ConcurB-6

Recommendation #13

We recommend the department implement procedures to ensure confiscated cash is deposited in accordance with state law.23

Department response: ConcurB-7

Recommendation #14

We recommend the department:

- A. Document its consultations with prison inmates concerning the use of inmate welfare funds to ensure compliance with state law.
- B. Document approval of expenditures from inmate welfare funds as required by department policy.....24

Department response: ConcurB-7

Chapter I – Introduction and Background

Introduction and Scope

We performed a financial-compliance audit of the Department of Corrections for the two fiscal years ended June 30, 2008, to meet the following objectives:

1. 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 improvement in the internal and management controls of the department.
2. Determine whether the department has complied with selected laws and regulations.
3. Determine the implementation status of audit recommendations made in the previous audit report.
4. Determine whether the department’s financial schedules for each of the two fiscal years ended June 30, 2008, fairly present the results of operations, in accordance with state accounting policy.

Auditing standards require us to communicate, in writing, control deficiencies we identified as a result of audit objective #1 above and considered to be significant or material. A control deficiency exists when the design or operation of a control does not allow management or employees to prevent or detect misstatements on a timely basis. A significant deficiency is one or more control deficiencies that affect management’s ability to accurately process transactions. A material weakness is one or more significant deficiencies that adversely affect management’s ability to fairly present its financial schedules.

Table 1 below outlines the status of significant deficiencies and material weaknesses we identified during this audit.

| Subject | Significant Deficiency | Material Weakness | Page |
|-----------------------------------|------------------------|-------------------|------|
| Internal Control Structure | Yes | No | 9 |
| Overspent Appropriation Authority | Yes | No | 12 |
| Medical Claims | Yes | No | 13 |

This report contains 14 recommendations to the department. Areas of concern deemed not to have a significant effect on the successful operation of department programs are not specifically included in the report but have been discussed with management.

In accordance with section 5-13-307(2), MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations in this report.

As required by section 17-8-101(6), MCA, we reviewed and are reporting on the reasonableness of Internal Service Fund fees and fund equity balances at the department. We reviewed the Internal Service Fund activity of the prison industries training program and determined the rates are commensurate with costs for fiscal years 2006-07 and 2007-08. We also reviewed the Montana State Prison cook/chill operation and determined the rates are commensurate with costs for fiscal years 2006-07 and 2007-08. Although we determined cook/chill fees are commensurate with costs, some fees were not approved by the legislature as discussed on page 16.

Background

The Department of Corrections promotes public safety and trust by holding adult and juvenile offenders accountable for their actions against victims through custody, supervision, treatment, work, restitution, and skill development.

As of June 30, 2008, the Department of Corrections adult male inmate population was 2170 and the adult female inmate population was 165. Figures 1, 2, and 3 below demonstrate the trends in adult populations over the last six years.

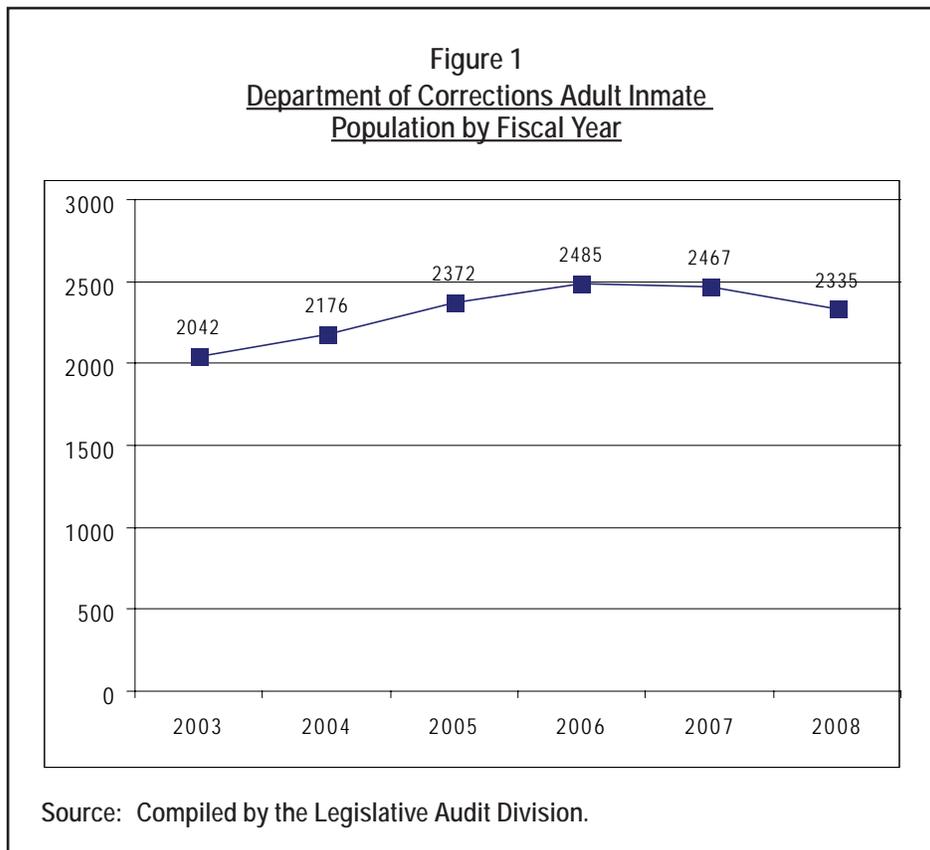
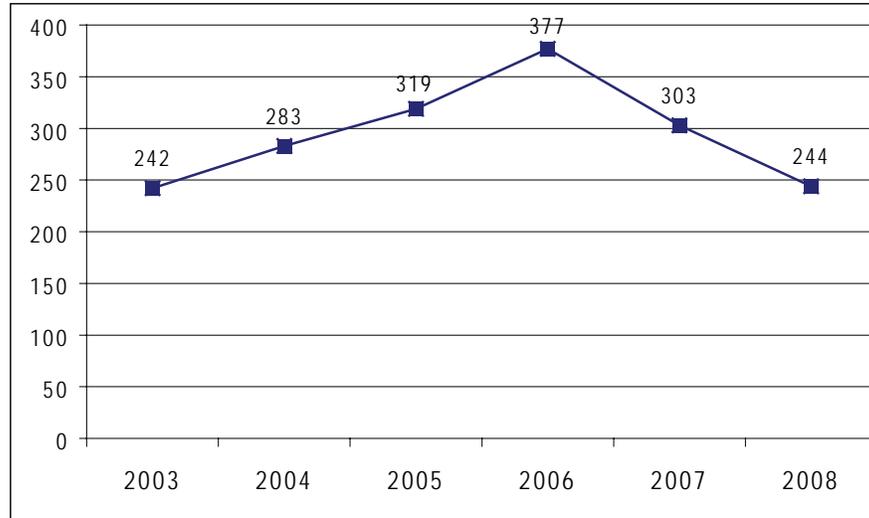
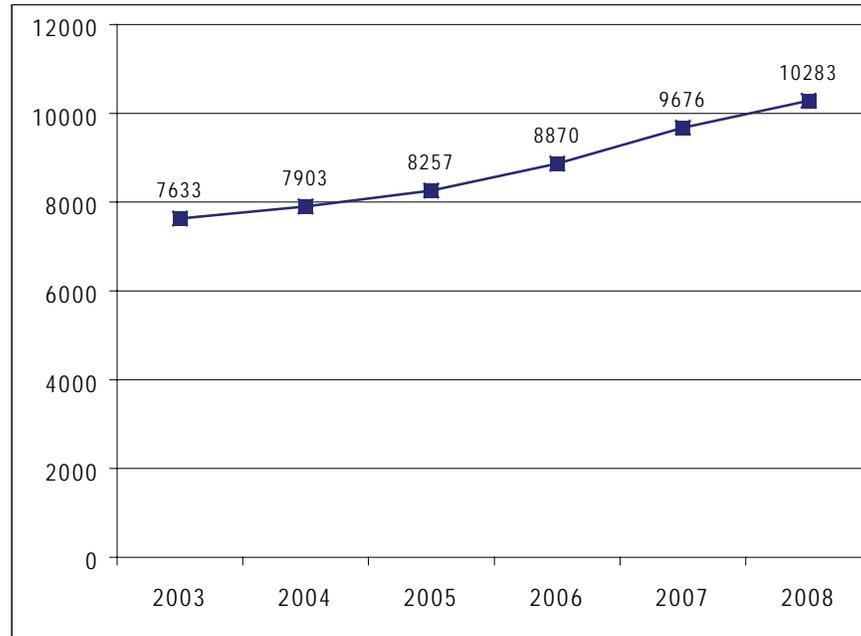


Figure 2
Department of Corrections Adult County Jail
Population by Fiscal Year



Source: Compiled by the Legislative Audit Division.

Figure 3
Department of Corrections Adult Community Corrections
Population by Fiscal Year



Source: Compiled by the Legislative Audit Division.

The adult secure-care system in Montana consists of Montana State Prison, Montana Women's Prison, regional prisons located in Cascade, Dawson, and Missoula Counties, and a private prison located in Shelby. The adult secure-care system accounts for approximately 20 percent of offenders under the supervision of the department. The remaining 80 percent are in other programs such as prelease centers, probation and parole, youth transition centers, boot camp, revocation centers, and treatment programs. The community corrections programs complement the department's secure operations. Table 2 depicts the programs and locations for the adult offender population for fiscal years 2005-06, 2006-07, and 2007-08. The following programs are abbreviated in the table:

- ◆ **TSCCTC** – Treasure State Correctional Training Center
- ◆ **WATCH** – Warm Springs Addictions Treatment and Change
- ◆ **START** – Sanction, Treatment, Assessment, Revocation and Transition

Table 2
Department of Corrections
Adult Population

| | FY2006 | FY2007 | FY2008 |
|--|---------------|---------------|---------------|
| MALE PRISON | | | |
| Montana State Prison - Deer Lodge | 1458 | 1463 | 1391 |
| Great Falls Regional Prison | 151 | 147 | 143 |
| Dawson County Regional Prison - Glendive | 142 | 142 | 141 |
| Crossroads Correctional Center - Shelby | 501 | 506 | 495 |
| TOTAL MALE PRISON | 2252 | 2258 | 2170 |
| % Growth | 3% | 0.3% | -4% |
| FEMALE PRISON | | | |
| Montana Women's Prison - Billings | 218 | 191 | 148 |
| Intensive Challenge Program-MWP-Billings | 15 | 18 | 17 |
| TOTAL FEMALE PRISON | 233 | 209 | 165 |
| % Growth | 21% | -10% | -21% |
| MALE JAIL HOLD/ ASSESSMENT/ PLACEMENT HOLD | | | |
| County Jails | 177 | 133 | 78 |
| Missoula Assessment and Sanctions Center | 135 | 138 | 137 |
| TOTAL MALE HOLD/ ASSESSMENT | 312 | 269 | 215 |
| % Growth | 21% | -14% | -20% |
| FEMALE JAIL HOLD/ ASSESSMENT/ PLACEMENT HOLD | | | |
| County Jails | 45 | 28 | 16 |
| Passage Assessment | 20 | 6 | 13 |
| TOTAL FEMALE HOLD/ ASSESSMENT | 65 | 34 | 29 |
| % Growth | 7% | -48% | -15% |
| ALTERNATIVES TO SECURE PLACEMENT / MANAGED BY COMMUNITY CORRECTIONS | | | |
| TSTC Boot Camp (male) - Deer Lodge | 52 | 52 | 54 |
| START (revocations only) - Warm Springs | 35 | 65 | 59 |
| Passages Revocations – Billings | | 10 | 16 |
| START Sanctions | 6 | 16 | 24 |
| Passages Sanctions | | 4 | 4 |
| County Jail Sanctions | 11 | 6 | 7 |
| Connections Corrections (male) – Butte/Warm Springs | 67 | 77 | 92 |
| Passages ADT (female) - Billings | 20 | 25 | 24 |
| Meth Treatment (male) – Lewistown | | 3 | 81 |
| Meth Treatment (female) – Boulder | | 5 | 40 |
| Sex Offender Treatment – Location Pending | | | |
| WATCH Program (DUI) - male - Warm Springs / Glendive | 123 | 125 | 129 |
| WATCH Program (DUI) - female - Glendive | 22 | 20 | 20 |
| TOTAL ALTERNATIVES TO SECURE PLACEMENT | 336 | 408 | 550 |
| % Growth | 31% | 21% | 35% |
| COMMUNITY CORRECTIONS – PRERELEASE/TRANSITIONAL LIVING | | | |
| Prelease (male) | 515 | 607 | 651 |
| Prelease Transitional Living Male | 46 | 47 | 52 |
| Prelease (female) | 120 | 145 | 138 |
| Prelease Transitional Living Female | 12 | 11 | 8 |
| TOTAL COMMUNITY CORRECTIONS - PRERELEASE /TRANSITIONAL LIVING | 693 | 810 | 849 |
| % Growth | 8% | 17% | 5% |
| COMMUNITY CORRECTIONS – INTENSIVE SUPERVISION/DAY REPORTING | | | |
| Intensive Supervision Program | 305 | 331 | 309 |
| Day Reporting | | | 17 |
| Number of ISP/DR Officers | 15 | 15 | 17 |
| TOTAL INTENSIVE SUPERVISION | 305 | 331 | 326 |
| COMMUNITY CORRECTIONS - PROBATION & PAROLE | | | |
| Probation & Parole | 7531 | 8050 | 8451 |
| Enhanced Supervision Program | 5 | 77 | 107 |
| Number of P&P Officers | 89 | 100.5 | 113.5 |
| TOTAL PROBATION & PAROLE | 7536 | 8127 | 8558 |
| TOTAL ACTUAL ADULT ADP | 11,732 | 12,446 | 12,862 |
| % Growth | 7% | 6% | 3% |
| Increase From Previous Year | 784 | 714 | 416 |

Source: Compiled by the Department of Corrections.

The department operates five programs in carrying out its mission: Administration and Support Services, Community Corrections Division, Youth Services Division, Secure Custody, and Montana Correctional Enterprises. The following paragraphs describe the organization of the department at June 30, 2008. The full-time equivalent (FTE) numbers listed for each program were obtained from the Legislative Fiscal Division Fiscal Report for the 2009 Biennium and department personnel and are those budgeted for fiscal year 2008-09.

Administration and Support Services

The Administration and Support Services program (107.50 FTE) includes the Director's Office; the Health, Planning, and Information Services Division; the Administrative and Financial Services Division; the Human Resources Division; and the administratively attached Board of Pardons and Parole. The Director's Office provides leadership and management support to all department facilities and divisions. The Director's Office also provides legal services, quality assurance, investigation, and victim's information. The Health, Planning, and Information Services Division includes the health services, information and business technology, and the planning management bureaus. The Administrative and Financial Services Division focuses primarily on agency budgeting, procurement, contracting, payroll processing, and other fiscal responsibilities. The Human Resources Division provides employee benefits, training and policy functions. The Board of Pardons and Parole oversees Montana's inmate parole and furlough programs. The board also reviews requests for executive clemency and makes recommendations to the Governor concerning those requests.

Community Corrections

The Community Corrections program (262 FTE) includes the supervision and alternative activities for adult offenders, including the Interstate Compact Unit, Adult Probation and Parole, Treasure State Correctional Training Center, Warm Springs Addiction Treatment and Change (WATCH) DUI facility, methamphetamine treatment facilities, the Adult Prerelease Unit, the Sanction Treatment, Assessment, Revocation and Transition (START) program for those who violated conditions of community placement, and programs to divert offenders from prison. Community Corrections provides supervision for approximately 80 percent of the adult offenders in the state correctional system.

Youth Services

The Youth Services Division (202.85 FTE) includes expenditures for all state operated youth programs, including the Pine Hills Youth Correctional Facility in Miles City, Riverside Youth Correctional Facility in Boulder, and Youth Community Corrections Bureau, including parole services and youth transition centers. The program is also

responsible for administering the Juvenile Interstate Compact for youth on probation or parole, licensing juvenile detention facilities, and juvenile placement related financial services.

Secure Custody Facilities

The Secure Custody Facilities program (657.04 FTE) includes the Montana State Prison (MSP) in Deer Lodge, Montana Women’s Prison (MWP) in Billings, and contract facilities, which include Crossroads Correctional Center in Shelby, Dawson County Correctional Facility in Glendive, Cascade County Regional Prison in Great Falls, and Missoula Assessment and Sanctions Center. These facilities provide for the custody, treatment, training, and rehabilitation of 20 percent of the adult offenders in the state correctional system.

Montana Correctional Enterprise

The Montana Correctional Enterprises (MCE) program (77 FTE) is responsible for the following programs:

- ◆ **Industries** - includes furniture, upholstery, print, sign, laundry, custom cowboy boot manufacturing, and wag bag assembly at Montana State Prison; and sewing and embroidery, heat transfers, hygiene kit assembly, custom lanyard manufacturing, bow sight assembly, gun sling assembly and packaging, and oversight of the Prison Paws for Humanities Dog Training Program at Montana Women’s Prison. In addition, the Industries program operates the Montana State Prison Hobby store located in Deer Lodge. The Industries program sells products and services to governmental agencies and nonprofit organizations, and through a dealer network and contracts.
- ◆ **Agriculture** - includes beef and dairy cattle, crops, feedlot, dairy milking parlor, dairy processing, lumber processing, wild land fire crew, community worker program, and the Montana Food Bank Network Cannery, all located at the Montana State Prison facility. Dairy products are sold to governmental agencies and nonprofit organizations, and through contracts. Agriculture products are sold on the open market and Cannery services are provided to the Montana Food Bank Network for distribution across Montana.
- ◆ **Vocational Education** - operates a motor vehicle maintenance shop, custom Toyota Training Cutaway operation, the driver’s licensing program, and vocational education classrooms. Products and services are sold to governmental agencies and nonprofit organizations, and through contracts.
- ◆ **Food Factory** - operates a cook/chill operation and bakery, which provide food products to various institutions and nonprofit organizations.
- ◆ **Canteen** - provides commissary items to inmates at the Montana State Prison, Montana Women’s Prison, Elkhorn Treatment Center, and the Dawson County Correctional Facility.
- ◆ **License Plate Factory** - provides over 125 different types of license plates to the Department of Justice Motor Vehicle Division.

Prior Audit Recommendations

Our previous audit report for the department, covering the two fiscal years ended June 30, 2006, contained 12 recommendations. The department concurred with 11 of the recommendations. Of these the department implemented five of the recommendations, partially implemented four of the recommendations, and did not implement three recommendations.

The department did not concur with the recommendation to record livestock assets in accordance with state policy, and did not implement the recommendation. That issue is discussed again in this report on page 17.

The department has made improvements in contract administration. Further improvements are necessary. This is discussed on page 10. Recommendations related to contracts have been in the previous five audit reports.

The department has not enforced the terms of a \$25,000 contract nor sought reimbursement for services not received as was recommended in the prior audit. The contract purpose was to determine the feasibility of providing commercial transportation for correctional facility employees from several communities to the various correctional facilities. The contract required the following:

- ◆ determine the feasibility of providing commercial transportation for correctional facility employees from several communities to the various correctional facilities
- ◆ determine the staffing needs and potential transport and funding options for the various facilities
- ◆ review current shift strength at the various facilities to determine absolute capacity of commercial transport per shift
- ◆ submit a final report

The contractor's final report did not fully address each of these requirements, but the department did not seek reimbursement, and released the contractor from any further responsibility. Although the recommendation related to this contract is not implemented, we make no further recommendation at this time.

Chapter II – Findings and Recommendations

Internal Control Structure

The department has not fully implemented state policy concerning identification, documentation, and testing of major internal control systems.

According to state accounting policy, MOM 2-0250, issued in May 2008, state agencies are responsible for implementing internal control procedures to ensure all transactions necessary for compliance with generally accepted accounting principles are recorded before fiscal year-end and were to have documented their internal controls for major financial processes by June 30, 2008. The Department of Administration developed an internal control manual for agencies' use in the documentation process and distributed it on January 1, 2008. This manual discusses all five elements of control: environment, risk assessment, information and communication, control activities, and monitoring. Department personnel are using this manual in their documentation process.

In November 2007, we notified the department we would, as part of this audit, request internal control documentation, including any documentation of monitoring controls used to evaluate the effectiveness of its internal controls. The department informed us it had formed an Internal Control Committee and was in the process of preparing a job description for an internal control officer, with the expectation that position would be filled by approximately March 15, 2008. The position was not filled until August 2008. Factors contributing to the delay included obtaining input for the job profile from several people to address the position's duties, classifying the position, and recruiting for the position.

While the internal control officer position was in development, department personnel continued to gather control information. The department's management team, however, decided against moving forward with any formal documentation and testing prior to the internal control officer position being filled. Consequently, the department did not meet the June 30, 2008, implementation date for documenting internal control over major financial processes, testing those controls, and monitoring those controls. If the department had documented and monitored its control systems, it may have identified and corrected the issues discussed in this report concerning contract administration (page 10), appropriation authority (page 12), medical claims (page 13), and indirect costs (page 19).

RECOMMENDATION #1

We recommend the department complete implementation of state accounting policy concerning internal control.

Contract Administration

The department does not have adequate controls in place over contract administration.

The department conducts a significant amount of its business through contracts for goods and services. The department has over 200 active contracts, expending in excess of \$133 million during fiscal years 2006-07 and 2007-08 on services purchased through contracts. The department also has over 40 revenue-generating contracts in place. State accounting policy requires state agencies be responsible for implementing internal control procedures to ensure all transactions necessary for compliance with generally accepted accounting principles are recorded on the accounting records before fiscal year-end and that internal control be documented, tested, and monitored (page 9). In prior audits, we have recommended that the department implement adequate controls over contract administration. While we have seen an overall improvement in the administration of contracts, areas still exist where controls should be improved. The following section describes the areas in need of improvement.

Contract Payment Monitoring

The contract liaisons are responsible for ensuring that payments are made in accordance with the contract terms. We reviewed 34 invoices during the audit and found 12 where payments were not made in accordance with the contract, as noted below:

- ◆ A contract stated that a doctor at the prison should be compensated \$50 for on-call services, which does not include the time that he is on duty. The doctor was reimbursed twice during one month for on-call services at the same time he was on duty, resulting in an overpayment of \$100. Because department personnel indicated that this occurs regularly, we estimate the total overpayment under this contract could be as high as \$2,400 over two years.
- ◆ An invoice for mental health services provided to inmates showed a charge of \$25 for unscheduled time. The contract with this facility did not provide for compensating unscheduled time. The total payment for unscheduled time was \$125 during a one-month period.

- ◆ A purchase order was issued for \$5,500. However, \$7,400 was expended without amending the purchase order, resulting in a \$1,900 overpayment.
- ◆ A contract stated that the maximum compensation would be \$32,500, but \$33,200 was expended, resulting in a \$700 overpayment.
- ◆ Two revenue contracts regarding lumber processing were not invoiced according to their respective contracts resulting in a loss of revenue of approximately \$3,538.
- ◆ The contract liaison knowingly approved payments over the amounts allowed by contract. Based on our analysis, approximately half of the invoices were overpaid and the average overpayment was \$3,750. We estimate the department potentially overpaid the providers by \$270,000 during fiscal years 2006-07 and 2007-08.
- ◆ One invoice for \$6,245 did not contain evidence the contract liaison reviewed the invoice for compliance with contract terms.

In addition to the above examples, we also reviewed payments related to contracts the department has with prerelease centers (PRCs) throughout the state. Compensation to the PRCs is based on the population demographics within the PRCs. Due to the complexity of the compensation terms, the department created an electronic invoice for the PRCs to use. This invoice contains formulas which calculate compensation based on the demographics data entered. However, the formulas do not conform to the contract language. We determined that the department overpaid one PRC by \$30,065. Based on this overpayment, we estimate the total overpayment to the PRCs during fiscal years 2006-07 and 2007-08 could be as high as \$361,000.

According to various department personnel responsible for approving contract payments, the above errors occurred due to (1) oversights by the approvers; (2) not understanding the contract terms; (3) a missing contract clause; or (4) standard billing according to type of service provided rather than according to contract. Department supervisory personnel stated contract liaisons are responsible for ensuring invoices conform to contract terms prior to approval for payment. They further stated they have determined that most contract liaisons have had no training as to what is required of a liaison and such training will be provided.

RECOMMENDATION #2

We recommend the department:

- A. *Provide training to its contract liaisons to improve contract administration.*
 - B. *Incorporate contract administration in its internal control documentation.*
-

Overspent Appropriation Authority

The department overspent its fiscal year 2005-06 appropriation authority for inmate outside medical care and its 2006-07 appropriation authority for salaries and benefits related to the Vocational Education Program.

Section 17-8-103(1), MCA, requires the department to keep expenditures, obligations, and liabilities within the amount of legislative appropriations, including any approved, authorized, and valid budget amendments.

During our audit, we identified the following two instances where the department overspent its appropriation authority:

- ◆ The department incurs expenditures for inmate outside medical care and at fiscal year-end department personnel usually estimate accruals for the services provided, but not billed, as of June 30 based on projections and historical costs. In fiscal year 2005-06 however, the department did not calculate an estimate. Instead, personnel recorded the liability in an amount that used the remaining appropriation authority for these services, which was less than the actual costs incurred. The department overspent its approved outside medical care appropriation authority by \$119,661 in fiscal year 2005-06.

Department personnel stated they did not move appropriation authority from fiscal year 2006-07 to 2005-06 for these costs because they thought they missed the deadline to submit changes. However, department personnel did not contact the Office of Budget Program and Planning (OBPP) to determine whether they could still move appropriation authority.

- ◆ Montana Correctional Enterprises (MCE) hired an employee in July 2006 to supervise its industries program. The employee's salary and benefits were paid from the Vocational Education Program in the General Fund. However, at fiscal year-end 2006-07, MCE had insufficient appropriation authority in the Vocational Education Program and charged the remaining salary and benefits to the MCE Enterprise Fund which does not benefit from that employee's work. As a result, General Fund expenditures are understated by \$21,704, and the MCE Enterprise Fund expenditures are overstated by the same amount in fiscal year 2006-07.

The two errors identified above were the result of a lack of knowledge concerning budgets and appropriations. In both cases, the department could have submitted budget change documents to the Office of Budget and Program Planning and had appropriation authority transferred. However, department personnel did not seek budget amendments because they did not fully understand the budget amendment process. The department should provide budget training to fiscal staff to reduce the risk of overspending appropriations. The department should also include budget monitoring in its internal control documentation (see page 9).

RECOMMENDATION #3

We recommend the department:

- A. Implement procedures to ensure it spends within its appropriation authority as required by law.*
 - B. Provide budget training to fiscal staff.*
-

Medical Claims

The department's controls over medical claims for the private prison did not operate as the department intended.

The department contracts with a private prison to house inmates. Under the contract provisions, the private prison pays a \$1,000 deductible for each inmate's medical expenses, not including those services deemed routine medical procedures. Providers send the claims to the department's third party administrator, who in turn sends a statement to the department outlining the services and inmates for which claims have been received. Department personnel then review each claim to determine whether it is the responsibility of the department, or of the private prison.

With the assistance of department personnel, we identified a total of \$2,459 of claims errors, \$1,150 of which were overpayments and \$1,309 of which were underpayments. Personnel indicated the errors probably occurred due to various interruptions as claims were processed. According to department personnel, the department's intention for processing these claims was to have one employee complete the claims review for allowability of services and for deductible status, and to have a second employee review the first employee's work to ensure accurate processing. However, for most of the audit period, the department had only one of those positions filled and thus, the control over medical claims was not in effect.

The errors discussed above occurred over the last three fiscal years and though the errors were small, the potential existed for significant errors to have occurred and remained undetected. When we brought this issue to the attention of the department, personnel responded immediately to address it by assigning personnel to review the claims processing. If the department had documented its control systems and monitored the operation of controls (as discussed on page 9), this situation may have been avoided.

RECOMMENDATION #4

We recommend the department monitor controls over medical claims to ensure they continue to work as intended.

Room and Board Fees

The department accounted for inmate room and board fees contrary to state law.

Montana Correctional Enterprises (MCE) has federally certified programs that allow inmates to work for wages higher than those paid for prison sponsored jobs. Federal law allows the department to collect room and board fees from inmates working in these programs. Inmate room and board expenditures are paid with General Fund moneys. The department deposited the room and board withholdings in the MCE Enterprise Fund, rather than the General Fund. The room and board fees totaled \$112,314 for fiscal years 2005-06, 2006-07, and 2007-08.

We identified this error in the prior audit. In response to our recommendation, the department implemented a policy directing deposits of the room and board fees in the MCE Enterprise Fund. However, section 17-2-102(1), MCA, requires the General Fund account for all financial resources except those required to be accounted for in another fund. The room and board fees are not required by law to be accounted for in another fund and should be accounted for in the General Fund. Department policy does not supersede state law.

Department personnel stated the room and board fees were directed to the Enterprise Fund to offset the overhead costs of operating the federally certified work programs, for which there is no other funding source. After we pointed out the state law discussed above, the department recorded a liability in the Enterprise Fund and a receivable in the General Fund to record the room and board fee revenue in the appropriate fund. MCE personnel stated they will liquidate the liability as cash becomes available. Department personnel also stated they intend to request legislation to require the room and board fees to be deposited in the MCE Enterprise Fund. Until state law is amended, the department should deposit the room and board fees in the General Fund.

RECOMMENDATION #5

We recommend the department deposit inmate room and board fees in the General Fund as required by state law.

Inadequate Controls Over Prescription Drug Orders

Cascade County Regional Prison does not have adequate controls over the receipt of prescription drug orders.

State policy, MOM 2-0250, requires state agencies to implement internal control procedures, and management is responsible for establishing and maintaining agency internal controls. We visited two regional prisons and found that one does not have adequate controls over the receipt of prescription drug orders. Each correctional facility is responsible for ordering its own prescription drugs. During the current audit, we found the department ensures each facility receives a copy of its pharmacy bill so the facility can review it for reasonableness. However, we found that Cascade County Regional Prison personnel do not verify that the drug prescriptions they ordered are what they actually received.

Personnel stated it did not occur to them to compare the shipping documents to the original orders, but thought it was a good idea when we brought it to their attention. Personnel said the only way they would know they did not receive the prescriptions ordered is if they needed to dispense a drug and the drug was not there. Not performing this comparison is a control deficiency because it increases the risk of not having prescriptions on hand when needed, of undetected theft, and of paying for drugs not received. The department should require that prescription drug shipments be compared to original orders to verify the shipments are accurate and complete.

RECOMMENDATION #6

We recommend the department implement procedures to ensure prescription drug orders received by correctional facilities are accurate and complete.

Internal Service Fund Rates

The department is assessing internal service fund charges and fees that were not approved by the 2007 Legislature in the general appropriations bill.

Our prior audit report contained a recommendation that the department comply with state law concerning internal service fund fees and charges. One of the issues discussed in the report was that some of the fees and charges assessed by the department's cook/chill operation had not been approved as required by section 17-7-123(l)(f)(ii), MCA. The department included all of its proposed cook/chill fees and charges in the budget request for the 2009 biennium. According to department and Legislative Fiscal Division personnel, all fees and charges were approved in a legislative committee hearing. However, two charges, bulk food and overhead, were not included in the general appropriations act. These charges were not approved by the 2007 Legislature, and therefore cannot be assessed legally as the above statute prohibits fees and charges from exceeding the level approved by the legislature.

In May 2007, subsequent to the legislative session, the department acquired a new cook/chill customer, who purchases tray meals. Although the base tray meal charge was approved by the legislature, the delivery fee assessed this customer was not approved by the legislature and cannot be assessed legally because it was not approved by the legislature.

The department should monitor the progression of the general appropriations bill to ensure its internal service fund charges and fees approved by legislative committee are included in the bill for the legislature's consideration and approval. With respect to delivery fees, the department could calculate a per-mile cost to run the delivery vehicle and submit it for legislative approval. This rate could then be assessed and allocated to all cook/chill customers.

RECOMMENDATION #7

We recommend the department monitor the progression of the general appropriations bill to ensure all approved internal service fund rates are included.

Use of General Fund Money

The department did not spend \$153,000 available in a State Special Revenue Fund before using General Fund money.

Section 17-3-1004(2), MCA, states, “in the payment of claims presented by a state institution entitled to interest and income from land grants or money from a land grant, a warrant may not be drawn against the appropriation made by the state out of the general fund for the maintenance of the institution filing the claim until interest and income money available for the payment of the items in the claim is exhausted.” The department did not spend any of the money in its Pine Hills School Interest-Income state special revenue fund for the first eight months in fiscal year 2007-08 as required by state law. The fund had cash and appropriation available but the department used General Fund resources rather than first exhausting the interest and income money available. As of May 2008, the department had remaining appropriation authority of \$153,000 and available cash of \$195,460 in this fund.

Department personnel stated they were saving the appropriation authority to use for new bleachers at Pine Hills. After we brought this issue to their attention, personnel moved expenditures from the General Fund to the Pine Hills Donations state special revenue fund.

RECOMMENDATION #8

We recommend the department exhaust all available state special revenue fund authority before spending General Fund money as required by state law.

Cattle Inventory

The department’s livestock assets are not recorded according to state accounting policy.

The department’s Montana Correctional Enterprises maintains livestock, which include range and dairy cattle, as part of its ranching operation. The livestock herds include animals kept for production purposes and animals intended for sale. Animals kept for production purposes can remain in the herds for up to eight years.

As discussed in the prior audit report, all of these livestock assets are recorded on the accounting records as current assets. According to state accounting policy (MOM 2-1730), established by the Department of Administration, livestock held for resale is considered inventory, which is a current asset, and recorded at market value at June 30 each year. Livestock not held for resale that has a historical unit cost less than the \$5,000 capitalization threshold is to be expensed.

At June 30, 2008, the recorded value of livestock was \$4,036,828. The entire value is recorded as inventory indicating all animals are held for resale. However, approximately \$3.2 million of the total reflects the value of the production herds that are maintained on an on-going basis. These animals are not held for sale as the department keeps them for production purposes, making them noncurrent assets and subject to capitalization. Neither the department, nor the Department of Administration, believes the value of any single animal meets the \$5,000 capitalization threshold, although there are no records to support that belief. Further, during the audit period, the Department of Administration declined to consider aggregating the value of the individual animals to a production herd level, in recognition that the actual assets to be accounted for may, in fact, be the herds, not the individual animals. Under current state accounting policy, the department's assets and fund balances are overstated by approximately \$3.2 million at June 30, 2008. To comply with state accounting policy, the department should remove the value of the production herds from the accounting records and continue to safeguard those assets through control methods currently in place.

Not recording the production herds as noncurrent assets could indicate the ranch cattle operation has no productive assets, which may be as misleading to financial report users as reporting all livestock as inventory, which indicates all will be sold within a year. Section 17-1-102(2), MCA, requires the Department of Administration to prescribe an accounting and reporting system that meets the requirements of generally accepted accounting principles. Section 17-1-102(4), MCA, requires each agency to maintain its accounting records in accordance with generally accepted accounting principles. Under generally accepted accounting principles, if the application of an accounting principle results in a misleading presentation, the principle should not be applied. We believe recording the production herds as inventory is misleading. The department should record the value of its production herds as noncurrent assets to reflect their long-term nature.

RECOMMENDATION #9

We recommend the department record its production livestock assets as noncurrent assets in accordance with state law.

Indirect Costs

The department did not receive approval prior to accepting a grant not allowing full recovery of indirect costs, did not recover indirect costs according to state law, and made errors calculating its fiscal year 2007-08 indirect cost rate.

The department expended approximately \$800,000 of federal assistance in fiscal year 2006-07 and approximately \$900,000 in fiscal year 2007-08. During our current audit, we identified problems related to approval of grants not allowing full recovery of indirect costs, indirect cost recoveries, and indirect cost rates. These issues are discussed in the following paragraphs.

- ◆ Section 17-1-106(2), MCA, requires an agency receiving funds through federal grants that do not allow the agency to fully recover indirect costs, to notify and receive written approval from OBPP prior to accepting the funds. The department accepted a Prison Rape Elimination Act (PREA) grant in the amount of \$442,364, prior to receiving approval from the Office of Budget and Program Planning (OBPP). The PREA grant does not allow for full recovery of indirect costs. Department staff stated they misunderstood the state law and indicated to OBPP the grant allowed for full recovery of indirect costs so approval was not requested.
- ◆ The department negotiates an indirect cost rate with its federal cognizant agency, the U.S. Department of Justice (DOJ), on an annual basis. The rate proposal is due to DOJ by December 31 of each year. The rate proposals for each of the fiscal years ended June 30, 2007, and 2008, were approved near the end of the state's fiscal years. The department did not recover any indirect costs for fiscal year 2006-07 until DOJ approved the rate. The department did not recover fiscal year 2007-08 indirect costs until at least May 2008.
- ◆ Department personnel made errors in the calculation of the proposed fiscal year 2007-08 indirect cost rate. The total costs used to calculate the rate were \$5,544,845 too low. Neither personnel responsible for the initial calculations nor personnel responsible for reviewing the calculations noticed the omission of these costs. The omission caused the proposed rate to be higher than it should have been. The fiscal year 2007-08 rate proposed to, and approved by, DOJ was 7.99 percent; the proposed rate should have been 7.66 percent. The higher rate resulted in the department over-recovering indirect costs, which we estimated to be between \$1,171 and \$1,434.

Since the indirect cost rate proposal process occurs only once per year, the department should create procedural documents for personnel to use in the initial calculation and in the review of those calculations to minimize risk of undetected errors.

RECOMMENDATION #10

We recommend the department:

- A. *Comply with state law concerning acceptance of federal assistance and recovery of indirect costs.*
 - B. *Modify and document its indirect cost rate development procedures to help ensure the rates are properly calculated.*
-

Administrative Rules

The department did not comply with state laws and administrative rule relating to monitoring of sexual offenders, prison industries training program, electronic records of youth, and facility use restrictions.

Section 46-23-1010(2), MCA, enacted by the 2005 Legislature and effective July 1, 2005, requires the department to adopt rules for the establishment and operation of a continuous, satellite-based monitoring of sexual offenders designated as level 3 offenders, including rules establishing supervisory fees. Department personnel stated they are in the process of developing the rules and subsequent program policies, and personnel plan to address the supervisory fees during the next legislative session, but because other programs and facilities may want to use this monitoring system, rules are not final.

Section 41-5-220, MCA, enacted by the 2005 Legislature and effective October 1, 2005, requires the department to adopt rules to ensure adequate integrity, security, and confidentiality of any electronic records of a youth generated or maintained in any management information system. The department filed a notice of proposed rulemaking in August 2007 with a public hearing held in September 2007. The proposed rules were never adopted due to comments on the proposed rules. The comments indicated the proposed rules required substantial changes and the department chose to develop new rules. Department personnel have not yet drafted new rules due to department priorities.

Section 53-30-133, MCA, was enacted by the 1982 Legislature in Special Session and requires the department to adopt rules implementing the prison industries training program. The purpose of this program is to provide opportunities to inmates that promote reformation and rehabilitation through on-the-job training, vocational training, and production experience. The rules have never been established. Department legal

staff stated they were not aware of this requirement, but indicated they will establish the rules as required.

The WATCH facility in Glendive contains a fenced-in courtyard for offenders to have access to the outdoors while still remaining in a secured area. The department's administrative rules state that offenders are restricted from all outside areas except for the courtyard. This rule was made to reduce the risk of escape and to reduce visual contact with the public. However, department personnel stated this rule is not followed, and offenders are allowed outside the facility, because they believe the courtyard is too small for the offenders to receive adequate outdoor recreation. WATCH facility personnel stated they requested a rule change, which was denied by department management. When we informed the department of this situation, department personnel responded immediately by sending a communication to the WATCH facility directing facility personnel to comply with administrative rule.

RECOMMENDATION #11

We recommend the department:

- A. *Adopt administrative rules in accordance with state laws relating to monitoring of level three sexual offenders, prison industries training program, and electronic records of youth.*
 - B. *Ensure the WATCH facility restricts offenders to the courtyard in accordance with administrative rule.*
-

Probation and Parole Officer Training

The department is not in compliance with training requirements for probation and parole officers.

Section 46-23-1003(2), MCA, requires each probation and parole officer to obtain 16 hours of training each year in subjects relating to the power and duties of probation officers. Department operating procedure for the Probation and Parole Bureau requires probation and parole officers to complete 40 hours of standard in-service training annually, of which 16 hours must be position specific. This issue was reported in our prior audit.

During this audit, we reviewed the probation and parole officers' training records for calendar year 2007. We found that each of the six regions had probation and parole

officers with less than the 40 hours of training required by department policy and officers with less than the 16 hours of training required by state law. There are approximately 210 probation and parole officers in the state. Of these, 18 did not meet the 16-hour requirement and 55 did not meet the 40-hour department requirement.

Department personnel responsible for policy development stated they changed one policy related to training, but were not aware of the more stringent operating procedure in effect at the bureau level. Department management believed the officers had met the statutory training requirement.

RECOMMENDATION #12

We recommend the department comply with state law and its operating procedures concerning probation and parole officer training.

Cash Deposits

The department did not deposit cash confiscated from inmates in accordance with state law.

Section 17-6-105(6), MCA, states, “Except as otherwise provided by law and subject to subsection (8), all money, credits, evidences of indebtedness, and securities received by a state agency must be deposited with the state treasurer or in a depository approved by the state treasurer each day when the accumulated amount of coin and currency requiring deposit exceeds \$200 or total collections exceed \$750. All money, credits, evidences of indebtedness, and securities collected must be deposited at least weekly.”

As of June 22, 2008, the department had \$1,698 of contraband cash confiscated from prisoners. Department personnel stated they had not deposited confiscated cash since March 2000. However, state law requires them to deposit money at least weekly. After we discussed the deposit requirement, prison personnel deposited the contraband cash. Department personnel responsible for safeguarding this cash stated they were unaware of the statutory deposit requirements.

The department should implement monitoring procedures designed to verify cash deposits are made in accordance with state law and take appropriate action when violations are identified.

RECOMMENDATION #13

We recommend the department implement procedures to ensure confiscated cash is deposited in accordance with state law.

Inmate Welfare Funds

The department does not have documentation to support its compliance with state law and department policy concerning the use of inmate welfare funds.

The department has instituted a dog training program at the private prison to provide training opportunities to its inmates. The training program expenses, which are paid with inmate welfare funds, exceeded \$4,500 in fiscal year 2007-08 and the fiscal year 2008-09 budget is \$7,200.

Section 53-1-109(2), MCA, requires the administrator of each prison to consult with inmates about the use of inmate welfare funds, which may be used for the needs of inmates and their families. Department policy requires approval of inmate welfare fund expenditures exceeding \$2,500 by an adult secure care facility committee appointed by the director.

Department personnel could not provide evidence the inmates at the private prison were consulted about using inmate welfare funds for the dog training program, which benefits only those inmates who participate in the program. Although personnel provided minutes of a meeting where the department's adult secure care facility committee discussed the dog training program, those minutes did not include committee action approving the program. We observed that other expenditures of inmate welfare funds were approved by formal committee action.

The department cannot be assured it meets its legal obligations with respect to the use of inmate welfare funds without documentation of consultation with inmates concerning the use of those funds. Documenting approval of high dollar expenditures, in accordance with department policy, is necessary to avoid over-obligating the available inmate welfare funds at a secure care facility.

RECOMMENDATION #14

We recommend the department:

- A. *Document its consultations with prison inmates concerning the use of inmate welfare funds to ensure compliance with state law.*
 - B. *Document approval of expenditures from inmate welfare funds as required by department policy.*
-

Independent Auditor's Report and Department Financial Schedules

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Corrections for each of the fiscal years ended June 30, 2008, and June 30, 2007. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Department of Corrections for the fiscal years ended June 30, 2008, and June 30, 2007, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

September 3, 2008

DEPT OF CORRECTIONS
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Enterprise Fund | Internal Service Fund | Agency Fund |
|---|--------------------|-------------------------------|---------------------------------|--------------------|--------------------------|------------------|
| FUND BALANCE: July 1, 2007 | \$ (10,736,163) | \$ 1,995,148 | \$ 0 | \$ 11,745,512 | \$ 3,822,925 | \$ 0 |
| PROPERTY HELD IN TRUST: July 1, 2007 | | | | | | \$ 453,233 |
| ADDITIONS | | | | | | |
| Budgeted Revenues & Transfers-In | 296,235 | 4,150,997 | 917,264 | 7,167,901 | 3,770,588 | |
| Nonbudgeted Revenues & Transfers-In | (15,654) | 1,123 | | 30,485 | | |
| Prior Year Revenues & Transfers-In Adjustments | 4,332 | 55,369 | | (47,842) | 1,100 | |
| Direct Entries to Fund Balance | 152,917,152 | 59,223 | 1,019 | (2,150) | | |
| Additions to Property Held in Trust | | | | | | 7,155,828 |
| Total Additions | <u>153,202,065</u> | <u>4,266,712</u> | <u>918,283</u> | <u>7,148,394</u> | <u>3,771,688</u> | <u>7,155,828</u> |
| REDUCTIONS | | | | | | |
| Budgeted Expenditures & Transfers-Out | 157,450,329 | 3,465,243 | 913,283 | 6,541,602 | 3,725,860 | |
| Nonbudgeted Expenditures & Transfers-Out | 733 | 330 | | 57,287 | 320,352 | |
| Prior Year Expenditures & Transfers-Out Adjustments | 131,177 | 3,616 | 5,000 | 69,730 | 3 | |
| Reductions in Property Held in Trust | | | | | | 7,128,093 |
| Total Reductions | <u>157,582,239</u> | <u>3,469,189</u> | <u>918,283</u> | <u>6,668,619</u> | <u>4,046,215</u> | <u>7,128,093</u> |
| FUND BALANCE: June 30, 2008 | \$ (15,116,337) | \$ 2,792,671 | \$ 0 | \$ 12,225,287 | \$ 3,548,398 | \$ 0 |
| PROPERTY HELD IN TRUST: June 30, 2008 | | | | | | \$ 480,968 |

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.

DEPT OF CORRECTIONS
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Enterprise Fund | Internal Service Fund | Agency Fund |
|---|--------------------|-------------------------------|---------------------------------|--------------------|--------------------------|------------------|
| FUND BALANCE: July 1, 2006 | \$ (6,733,017) | \$ 1,432,083 | \$ (373) | \$ 12,615,968 | \$ 3,883,613 | \$ 0 |
| PROPERTY HELD IN TRUST: July 1, 2006 | | | | | | \$ 671,997 |
| ADDITIONS | | | | | | |
| Budgeted Revenues & Transfers-In | 173,202 | 3,841,905 | 823,459 | 5,567,278 | 3,523,004 | |
| Nonbudgeted Revenues & Transfers-In | (2,684) | 1,115 | | 32,753 | | |
| Prior Year Revenues & Transfers-In Adjustments | 7,136 | 37,207 | | | (0) | |
| Direct Entries to Fund Balance | 133,582,272 | 70,055 | 3,062 | (14,355) | | |
| Additions to Property Held in Trust | | | | | | 6,931,575 |
| Total Additions | <u>133,759,926</u> | <u>3,950,282</u> | <u>826,521</u> | <u>5,585,676</u> | <u>3,523,004</u> | <u>6,931,575</u> |
| REDUCTIONS | | | | | | |
| Budgeted Expenditures & Transfers-Out | 137,608,185 | 3,387,054 | 826,148 | 5,831,964 | 3,483,061 | |
| Nonbudgeted Expenditures & Transfers-Out | | | | 623,546 | 100,631 | |
| Prior Year Expenditures & Transfers-Out Adjustments | 154,887 | 163 | | 622 | | |
| Reductions in Property Held in Trust | | | | | | 7,150,339 |
| Total Reductions | <u>137,763,072</u> | <u>3,387,217</u> | <u>826,148</u> | <u>6,456,132</u> | <u>3,583,692</u> | <u>7,150,339</u> |
| FUND BALANCE: June 30, 2007 | \$ (10,736,163) | \$ 1,995,148 | \$ 0 | \$ 11,745,512 | \$ 3,822,925 | \$ 0 |
| PROPERTY HELD IN TRUST: June 30, 2007 | | | | | | \$ 453,233 |

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.

DEPT OF CORRECTIONS
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Enterprise Fund | Internal Service Fund | Total |
|---|-----------------|-------------------------------|---------------------------------|--------------------|--------------------------|--------------|
| TOTAL REVENUES & TRANSFERS-IN BY CLASS | | | | | | |
| Taxes | \$ 5,308 | \$ 1,123 | | | | \$ 6,431 |
| Charges for Services | | 1,810,821 | | \$ (47,679) | | 1,763,142 |
| Sale of Documents, Merchandise and Property | | 1,347,502 | | 7,198,223 | \$ 3,771,688 | 12,317,413 |
| Contributions and Premiums | (16,681) | | | | | (16,681) |
| Miscellaneous | 238,646 | | | | | 238,646 |
| Grants, Contracts, Donations and Abandonments | | 613,254 | | | | 613,254 |
| Other Financing Sources | 22,908 | 434,789 | | | | 457,697 |
| Federal | | | \$ 917,264 | | | 917,264 |
| Federal Indirect Cost Recoveries | 34,732 | | | | | 34,732 |
| Total Revenues & Transfers-In | 284,913 | 4,207,489 | 917,264 | 7,150,544 | 3,771,688 | 16,331,898 |
| Less: Nonbudgeted Revenues & Transfers-In | (15,654) | 1,123 | | 30,485 | | 15,954 |
| Prior Year Revenues & Transfers-In Adjustments | 4,332 | 55,369 | | (47,842) | 1,100 | 12,959 |
| Actual Budgeted Revenues & Transfers-In | 296,235 | 4,150,997 | 917,264 | 7,167,901 | 3,770,588 | 16,302,985 |
| Estimated Revenues & Transfers-In | 65,554 | 3,715,699 | 1,902,863 | 5,260,000 | 3,090,000 | 14,034,116 |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | \$ 230,681 | \$ 435,298 | \$ (985,599) | \$ 1,907,901 | \$ 680,588 | \$ 2,268,869 |
| BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS | | | | | | |
| Charges for Services | | \$ 248,427 | | \$ (30,000) | | \$ 218,427 |
| Sale of Documents, Merchandise and Property | | 202,411 | | 1,937,901 | \$ 680,588 | 2,820,900 |
| Miscellaneous | \$ 180,132 | | | | | 180,132 |
| Grants, Contracts, Donations and Abandonments | | (52,545) | | | | (52,545) |
| Other Financing Sources | 45,817 | 37,005 | | | | 82,822 |
| Federal | | | \$ (985,599) | | | (985,599) |
| Federal Indirect Cost Recoveries | 4,732 | | | | | 4,732 |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | \$ 230,681 | \$ 435,298 | \$ (985,599) | \$ 1,907,901 | \$ 680,588 | \$ 2,268,869 |

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.

DEPT OF CORRECTIONS
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Enterprise Fund | Internal Service Fund | Total |
|---|-----------------|-------------------------------|---------------------------------|--------------------|--------------------------|----------------|
| TOTAL REVENUES & TRANSFERS-IN BY CLASS | | | | | | |
| Taxes | \$ 4,300 | \$ 1,115 | | | | \$ 5,415 |
| Charges for Services | | 1,655,745 | | \$ 30,396 | | 1,686,141 |
| Sale of Documents, Merchandise and Property | | 1,282,235 | | 5,569,635 | \$ 3,523,004 | 10,374,874 |
| Miscellaneous | 173,354 | 10,310 | | | | 183,664 |
| Grants, Contracts, Donations and Abandonments | | 487,894 | | | | 487,894 |
| Other Financing Sources | | 442,928 | | | | 442,928 |
| Federal | | | \$ 823,459 | | | 823,459 |
| Total Revenues & Transfers-In | 177,654 | 3,880,227 | 823,459 | 5,600,031 | 3,523,004 | 14,004,375 |
| Less: Nonbudgeted Revenues & Transfers-In | (2,684) | 1,115 | | 32,753 | | 31,184 |
| Prior Year Revenues & Transfers-In Adjustments | 7,136 | 37,207 | | | (0) | 44,343 |
| Actual Budgeted Revenues & Transfers-In | 173,202 | 3,841,905 | 823,459 | 5,567,278 | 3,523,004 | 13,928,848 |
| Estimated Revenues & Transfers-In | 28,462 | 5,762,120 | 1,663,462 | 5,274,200 | 3,470,000 | 16,198,244 |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | \$ 144,740 | \$ (1,920,215) | \$ (840,003) | \$ 293,078 | \$ 53,004 | \$ (2,269,396) |
| BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS | | | | | | |
| Charges for Services | | \$ (453,173) | | \$ 396 | | \$ (452,777) |
| Sale of Documents, Merchandise and Property | | (1,162,967) | | 306,882 | \$ 53,004 | (803,081) |
| Rentals, Leases and Royalties | | | | (14,200) | | (14,200) |
| Miscellaneous | \$ 144,740 | (24,063) | | | | 120,677 |
| Grants, Contracts, Donations and Abandonments | | (465,711) | | | | (465,711) |
| Other Financing Sources | | 185,699 | | | | 185,699 |
| Federal | | | \$ (840,003) | | | (840,003) |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | \$ 144,740 | \$ (1,920,215) | \$ (840,003) | \$ 293,078 | \$ 53,004 | \$ (2,269,396) |

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.

DEPT OF CORRECTIONS
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

| PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT | ADMIN & FINANCIAL SERVICES | ADULT COMMUNITY CORRECTIONS | MONT CORRECTIONAL ENTERPRISES | SECURE CUSTODY FACILITIES | YOUTH SERVICES | Total |
|---|----------------------------|-----------------------------|-------------------------------|---------------------------|----------------------|-----------------------|
| Personal Services | | | | | | |
| Salaries | \$ 4,812,091 | \$ 9,759,926 | \$ 2,749,878 | \$ 24,250,151 | \$ 7,841,594 | \$ 49,413,640 |
| Hourly Wages | 36,549 | 1,963 | 605,132 | 288,411 | 33,834 | 965,889 |
| Other Compensation | 34,880 | | | | | 34,880 |
| Employee Benefits | 1,537,913 | 3,736,821 | 1,050,122 | 9,152,502 | 3,001,496 | 18,478,854 |
| Personal Services-Other | | | 35,120 | | | 35,120 |
| Total | 6,421,433 | 13,498,710 | 4,440,252 | 33,691,064 | 10,876,924 | 68,928,383 |
| Operating Expenses | | | | | | |
| Other Services | 8,325,154 | 36,622,370 | 171,538 | 25,223,101 | 1,103,496 | 71,445,659 |
| Supplies & Materials | 2,012,855 | 869,890 | 2,810,488 | 5,075,727 | 1,140,098 | 11,909,058 |
| Communications | 224,195 | 268,700 | 29,220 | 178,639 | 90,456 | 791,210 |
| Travel | 174,602 | 97,106 | 34,213 | 159,691 | 146,714 | 612,326 |
| Rent | 480,655 | 1,590,485 | 226,286 | 182,638 | 222,798 | 2,702,862 |
| Utilities | 46 | 80,480 | 315,697 | 1,498,487 | 357,429 | 2,252,139 |
| Repair & Maintenance | 73,758 | 76,059 | 513,638 | 401,839 | 183,809 | 1,249,103 |
| Other Expenses | 292,394 | 53,645 | 986,307 | 156,370 | 79,028 | 1,567,744 |
| Goods Purchased For Resale | | | 4,323,622 | (3,402) | 4,205 | 4,324,425 |
| Total | 11,583,659 | 39,658,735 | 9,411,009 | 32,873,090 | 3,328,033 | 96,854,526 |
| Equipment & Intangible Assets | | | | | | |
| Equipment | | | | 407,625 | 7,190 | 414,815 |
| Livestock | | | | 8 | | 8 |
| Total | | | | 407,633 | 7,190 | 414,823 |
| Capital Outlay | | | | | | |
| Buildings | | | (63,799) | | | (63,799) |
| Other Improvements | | | 61,649 | | | 61,649 |
| Total | | | (2,150) | | | (2,150) |
| Benefits & Claims | | | | | | |
| From State Sources | | | | | 4,174,835 | 4,174,835 |
| From Federal Sources | | | | | 1,020 | 1,020 |
| OPEB Expenses | | | 188,192 | | | 188,192 |
| Total | | | 188,192 | | 4,175,855 | 4,364,047 |
| Transfers | | | | | | |
| Accounting Entity Transfers | | | | | 2,124,916 | 2,124,916 |
| Total | | | | | 2,124,916 | 2,124,916 |
| Total Expenditures & Transfers-Out | \$ 18,005,092 | \$ 53,157,445 | \$ 14,037,303 | \$ 66,971,787 | \$ 20,512,918 | \$ 172,684,545 |
| EXPENDITURES & TRANSFERS-OUT BY FUND | | | | | | |
| General Fund | \$ 16,892,788 | \$ 52,625,751 | \$ 2,001,424 | \$ 66,736,817 | \$ 19,325,459 | \$ 157,582,239 |
| State Special Revenue Fund | 677,804 | 531,694 | 1,313,326 | 100,000 | 846,365 | 3,469,189 |
| Federal Special Revenue Fund | 353,834 | | 88,385 | 134,970 | 341,094 | 918,283 |
| Enterprise Fund | 48,198 | | 6,620,421 | | | 6,668,619 |
| Internal Service Fund | 32,468 | | 4,013,747 | | | 4,046,215 |
| Total Expenditures & Transfers-Out | 18,005,092 | 53,157,445 | 14,037,303 | 66,971,787 | 20,512,918 | 172,684,545 |
| Less: Nonbudgeted Expenditures & Transfers-Out | | 330 | 377,639 | | 733 | 378,702 |
| Prior Year Expenditures & Transfers-Out Adjustments | 48,483 | 172,884 | 65,407 | (114,910) | 37,662 | 209,526 |
| Actual Budgeted Expenditures & Transfers-Out | 17,956,609 | 52,984,231 | 13,594,257 | 67,086,697 | 20,474,523 | 172,096,317 |
| Budget Authority | 20,374,289 | 54,796,559 | 15,401,821 | 74,354,626 | 21,100,562 | 186,027,857 |
| Unspent Budget Authority | \$ 2,417,680 | \$ 1,812,328 | \$ 1,807,564 | \$ 7,267,929 | \$ 626,039 | \$ 13,931,540 |
| UNSPENT BUDGET AUTHORITY BY FUND | | | | | | |
| General Fund | \$ 1,754,097 | \$ 1,785,047 | \$ 403,224 | \$ 7,256,147 | \$ 568,159 | \$ 11,766,674 |
| State Special Revenue Fund | 315,174 | 27,281 | 479,834 | | 4,520 | 826,809 |
| Federal Special Revenue Fund | 348,409 | | 109,932 | 11,782 | 53,360 | 523,483 |
| Enterprise Fund | 0 | | 666,137 | | | 666,137 |
| Internal Service Fund | | | 148,437 | | | 148,437 |
| Unspent Budget Authority | \$ 2,417,680 | \$ 1,812,328 | \$ 1,807,564 | \$ 7,267,929 | \$ 626,039 | \$ 13,931,540 |

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.

DEPT OF CORRECTIONS
 SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007

| PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT | ADMIN & FINANCIAL SERVICES | ADULT COMMUNITY CORRECTIONS | MONT CORRECTIONAL ENTERPRISES | SECURE CUSTODY FACILITIES | YOUTH SERVICES | TOTAL |
|---|-------------------------------|--------------------------------|----------------------------------|------------------------------|----------------------|-----------------------|
| Personal Services | | | | | | |
| Salaries | \$ 4,324,521 | \$ 8,595,268 | \$ 2,677,585 | \$ 22,366,511 | \$ 7,403,791 | \$ 45,367,676 |
| Hourly Wages | 33,369 | 921 | 497,218 | 291,022 | 30,003 | 852,533 |
| Other Compensation | 28,250 | | | | | 28,250 |
| Employee Benefits | 1,341,861 | 3,239,181 | 970,325 | 8,492,557 | 2,719,519 | 16,763,443 |
| Personal Services-Other | | | 20,071 | | | 20,071 |
| Total | <u>5,728,001</u> | <u>11,835,370</u> | <u>4,165,199</u> | <u>31,150,090</u> | <u>10,153,313</u> | <u>63,031,973</u> |
| Operating Expenses | | | | | | |
| Other Services | 6,288,867 | 25,508,381 | 77,227 | 29,349,331 | 727,485 | 61,951,291 |
| Supplies & Materials | 637,788 | 481,066 | 1,904,570 | 4,303,541 | 886,114 | 8,213,079 |
| Communications | 157,037 | 253,032 | 24,323 | 202,678 | 91,239 | 728,309 |
| Travel | 137,131 | 108,019 | 18,975 | 133,906 | 97,602 | 495,633 |
| Rent | 382,165 | 1,293,494 | 56,420 | 164,077 | 178,197 | 2,074,353 |
| Utilities | 10 | 62,629 | 318,275 | 1,316,710 | 367,574 | 2,065,198 |
| Repair & Maintenance | 69,824 | 60,744 | 441,911 | 428,412 | 52,670 | 1,053,561 |
| Other Expenses | 199,602 | 68,966 | 1,391,289 | 149,632 | 50,138 | 1,859,627 |
| Goods Purchased For Resale | 1,101 | | 4,034,849 | 1,165 | 5,042 | 4,042,157 |
| Total | <u>7,873,525</u> | <u>27,836,331</u> | <u>8,267,839</u> | <u>36,049,452</u> | <u>2,456,061</u> | <u>82,483,208</u> |
| Equipment & Intangible Assets | | | | | | |
| Equipment | | | | 91,798 | | 91,798 |
| Total | | | | <u>91,798</u> | | <u>91,798</u> |
| Capital Outlay | | | | | | |
| Buildings | | | (14,355) | | | (14,355) |
| Total | | | <u>(14,355)</u> | | | <u>(14,355)</u> |
| Benefits & Claims | | | | | | |
| From State Sources | | | | | 3,974,952 | 3,974,952 |
| From Federal Sources | | | | | 2,689 | 2,689 |
| Total | | | | | <u>3,977,641</u> | <u>3,977,641</u> |
| Transfers | | | | | | |
| Accounting Entity Transfers | | | | | 2,337,642 | 2,337,642 |
| Total | | | | | <u>2,337,642</u> | <u>2,337,642</u> |
| Debt Service | | | | | | |
| Capital Leases | | | 108,354 | | | 108,354 |
| Total | | | <u>108,354</u> | | | <u>108,354</u> |
| Total Expenditures & Transfers-Out | <u>\$ 13,601,526</u> | <u>\$ 39,671,701</u> | <u>\$ 12,527,037</u> | <u>\$ 67,291,340</u> | <u>\$ 18,924,657</u> | <u>\$ 152,016,261</u> |
| EXPENDITURES & TRANSFERS-OUT BY FUND | | | | | | |
| General Fund | \$ 12,643,197 | \$ 39,188,773 | \$ 1,284,072 | \$ 67,105,383 | \$ 17,541,647 | \$ 137,763,072 |
| State Special Revenue Fund | 769,333 | 482,928 | 1,244,211 | 100,000 | 790,745 | 3,387,217 |
| Federal Special Revenue Fund | 147,926 | | | 85,957 | 592,265 | 826,148 |
| Enterprise Fund | 37,735 | | 6,418,397 | | | 6,456,132 |
| Internal Service Fund | 3,335 | | 3,580,357 | | | 3,583,692 |
| Total Expenditures & Transfers-Out | 13,601,526 | 39,671,701 | 12,527,037 | 67,291,340 | 18,924,657 | 152,016,261 |
| Less: Nonbudgeted Expenditures & Transfers-Out | | | 724,176 | | | 724,176 |
| Prior Year Expenditures & Transfers-Out Adjustments | 152,732 | (1,701) | 622 | | 4,021 | 155,674 |
| Actual Budgeted Expenditures & Transfers-Out | 13,448,794 | 39,673,402 | 11,802,239 | 67,291,340 | 18,920,636 | 151,136,411 |
| Budget Authority | 14,769,573 | 40,577,294 | 14,007,607 | 69,364,550 | 20,066,840 | 158,785,864 |
| Unspent Budget Authority | <u>\$ 1,320,779</u> | <u>\$ 903,892</u> | <u>\$ 2,205,368</u> | <u>\$ 2,073,210</u> | <u>\$ 1,146,204</u> | <u>\$ 7,649,453</u> |
| UNSPENT BUDGET AUTHORITY BY FUND | | | | | | |
| General Fund | \$ 543,361 | \$ 706,655 | \$ 997,620 | \$ 1,886,153 | \$ 476,895 | \$ 4,610,684 |
| State Special Revenue Fund | 136,109 | 197,237 | 145,454 | | 249,393 | 728,193 |
| Federal Special Revenue Fund | 632,259 | | | 187,057 | 419,916 | 1,239,232 |
| Enterprise Fund | 8,575 | | 777,604 | | | 786,179 |
| Internal Service Fund | 475 | | 284,690 | | | 285,165 |
| Unspent Budget Authority | <u>\$ 1,320,779</u> | <u>\$ 903,892</u> | <u>\$ 2,205,368</u> | <u>\$ 2,073,210</u> | <u>\$ 1,146,204</u> | <u>\$ 7,649,453</u> |

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

Montana Department of Corrections

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2008

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 Internal Service) and Fiduciary (Agency) 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 is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment except for a state special revenue account that was transferred by the Department of Administration to another state agency, and not deleted from the Department of Corrections cash balance.

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 majority of the department’s activity is recorded in this fund.
- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific state program purposes. The department has several State Special Revenue Funds that account for activities including supervision fees, canteen, inmate welfare, restitution, income and interest from state lands, and third party contributions for juvenile placement.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include resources for the Serious & Violent Offender Re-Entry Initiative, the Prison Rape Elimination Act, substance abuse treatment, school foods, and various education programs.

Proprietary Fund Category

- ♦ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. Department Internal Service Funds include the Montana State Prison Industries Training and Cook/Chill programs.
- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities’ cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Department Enterprise Funds include Montana State Prison Ranch and Prison Industries programs.

Fiduciary Fund Category

- ♦ **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency 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 agency funds include moneys belonging to inmates of facilities and restitution for victims.

2. General Fund Balance

The negative fund 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 balances for each of the fiscal years ended June 30, 2007 and June 30, 2008.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General, Special Revenue, Federal Special Revenue and Enterprise funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

DEPARTMENT OF
CORRECTIONS

DEPARTMENT RESPONSE

DEPARTMENT OF CORRECTIONS

B-3



BRIAN SCHWEITZER, GOVERNOR

1539 11TH AVENUE

STATE OF MONTANA

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October 9, 2008

Ms. Tori Hunthausen
Legislative Auditor
Legislative Audit Division
Room 135, State Capitol
PO Box 201705
Helena, MT 59620-1705

RECEIVED

OCT 9 2008

LEGISLATIVE AUDIT DIV.

Re: Response to Legislative Audit Recommendations

Dear Ms. Hunthausen:

Thank you for the opportunity to respond to the financial-compliance audit report for the Department of Corrections. We have reviewed the recommendations contained in the report and our responses are as follows:

RECOMMENDATION #1:

We recommend the department complete implementation of state accounting policy concerning internal control

Response:

Concur. The department staff will implement a department wide policy that adopts the Internal Control Guidebook in MOM chapter 9900. In addition, the department will also document internal controls over major financial process, test and monitor those controls.

RECOMMENDATION #2:

We recommend the department:

- A) Provide training to its contract liaisons to improve contract administration.
- B) Incorporate contract administration in its internal control documentation.

Response:

Concur. A) The department will develop an instructional presentation that will be provided to all contract liaisons, administrators and wardens, and will specifically outline and address the responsibilities of the contract liaison position in the department's contracting purchasing manual.

B) Prior to issuance of a contract, designated contract liaisons will be required to acknowledge (in writing) that they have: reviewed the specific contract that identifies them as the contract liaison; observed the contract liaison instructional presentation; read the contract liaison section of the contracting and purchasing manual; and understand their role and responsibility as a contract liaison. The department will also require administrators, wardens and appropriate management staff to receive this training and acknowledge their role and responsibility for the contract liaison. The Contracts Management Bureau will maintain a list of all persons that have acknowledged acceptance of their role as a contract liaison or supervisor, as appropriate.

RECOMMENDATION #3:

We recommend the department:

- A) Implement procedures to ensure it spends within its appropriation authority as required by law.
- B) Provide budget training to fiscal staff.

Response:

Concur. A) The department will consult with the Office of Budget and Program Planning to ensure compliance with budget guidelines and rules. The department will accrue the projected costs of medical expenditures.

B) Department staff will provide training to all fiscal staff regarding appropriations and spending authority and communicate on a monthly basis the status budgets and projections for all divisions.

RECOMMENDATION #4:

We recommend the department monitor controls over medical claims to ensure they continue to work as intended.

Response:

Concur. All invoices and claims will be reviewed by the Accounting Bureau after receipt of the approved services by the Health Services Bureau. This will provide a final review of the billed services before sending documentation and billing to the contract facility.

RECOMMENDATION #5:

We recommend the department deposit inmate room and board fees in the general fund as required by state law.

Response:

Concur. A liability was set up to record all FY 08 and prior year room and board money payable to the general fund. Liability will be paid as operating cash becomes available in

the Industries fund. A request will be submitted to the Legislature asking for clarification of use of the room and board money.

RECOMMENDATION #6:

We recommend the department implement procedures to ensure prescription drug orders received by correctional facilities are accurate and complete.

Response:

Concur. The Health Services Bureau will coordinate with the compliance monitoring unit to ensure this requirement is added to the audit monitoring tool for all audited facilities.

RECOMMENDATION #7:

We recommend the department monitor the progression of the general appropriations bill to ensure all approved internal service fund rates are included.

Response:

Concur. Department will monitor and ensure progression of the internal service fund is passed by subcommittee.

RECOMMENDATION #8:

We recommend the department exhaust all available state special revenue fund authority before spending General Fund money as required by state law.

Response:

Concur. The department has implemented a new accounting process. Accounting staff will journal the expenses into the Interest and Income fund as soon as the revenue is deposited. To ensure the process is completed, the budget staff will verify that this fund account is zeroed out on a monthly basis.

RECOMMENDATION #9:

We recommend the department record its production livestock assets as noncurrent assets in accordance with state law.

Response:

Concur. The department has met with the Department of Administration and it is agreed that State Policy will be modified to record production livestock as non-current, non-depreciable assets.

RECOMMENDATION #10:

We recommend the department:

- A) Comply with state law concerning the acceptance of federal assistance and the recovery of indirect costs.
- B) Modify and document its indirect cost rate development procedure to help ensure the rates are properly calculated.

Response:

Concur. Staff will develop a manual to document the procedures used to establish and indirect cost rate proposal. This will include guidance for proper review of calculations to minimize the risk of undetected errors.

RECOMMENDATION# 11:

We recommend the department:

- A) Adopt administrative rules in accordance with state laws relating to the monitoring of level three sexual offenders, prison industries training program, and electronic records of youth.
- B) Ensure the WATCH facility restricts offenders to the courtyard in accordance with administrative rule.

Response:

Concur. A) The department has submitted proposed administrative rules for electronic records of youth. The Legal Unit has drafted the administrative rules that relate to monitoring of level three sexual offenders. The proposed rules will be published according to the target dates indicated. The department will begin drafting rules for the prison industries training program although the department has submitted a bill draft that will, among others, delete the requirement for administrative rules for the prison industries program. B) Upon notification of the LAD, the contract manager notified the facility via U.S. mail of administrative rule requirements restricting offenders to the courtyard. The contract manager will monitor compliance through quarterly visits to the facility.

RECOMMENDATION #12:

We recommend the department comply with state law and its operating procedures concerning probation and parole officer training.

Response:

Concur. During quarterly management meetings, the division trainer will provide updated reports to each regional manager. Within 30 days of receiving the reports, regional managers will compare the findings with respective employees and report any

inconsistencies, errors or other issues in complying with this standard, and make sure that an annual training plan is in place for each employee.

RECOMMENDATION #13:

We recommend the department implement procedures to ensure confiscated cash is deposited in accordance with state law.

Response:

Concur. The Montana State Prison investigation policy 3.1.19 will be rewritten to a departmental policy to incorporate the deposit requirements of 17-6-105(6) MCA. Money will not be held for evidence will be taken to the accounting staff located at the Montanan State Prison or the Helena Office. Once evidence money is released from the investigation, the same process will be completed.

RECOMMENDATION #14:

We recommend the department:

- A) Document its consultation with prison inmates concerning the use of inmate welfare funds to ensure compliance with state law.
- B) Document approval of expenditures from inmate welfare funds as required by department policy.

Response:

Concur. Members of the Prison Issues Board were notified to document all decisions made by the facility inmates by the use of minutes. In addition, department policy 1.2.12 Adult Offender Welfare Accounts, will be modified to include an approval process for expenditure requests that total over \$2500 in a fiscal year.

We appreciate the legislative staff time devoted to this audit. They were professionals throughout the process and their willingness to assist with any issue was exceptional. We look forward to working with your office in the future.

Sincerely,


Mike Ferriter
Director