



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Corrections

*For the Two Fiscal Years Ended
June 30, 2014*

OCTOBER 2014

LEGISLATIVE AUDIT
DIVISION

14-15

**LEGISLATIVE AUDIT
COMMITTEE**

REPRESENTATIVES

RANDY BRODEHL, CHAIR
Randybrodehl57@gmail.com

VIRGINIA COURT
vcourtrforlegislature@yahoo.com

MIKE CUFFE
mcuffe@interbel.net

MARY McNALLY
McNally4MTLeg@gmail.com

RYAN OSMUNDSON
Ryanosmundson@gmail.com

J.P. POMNICHOWSKI
pomnicho@montanadsl.net

SENATORS

DEE BROWN
repdee@yahoo.com

TAYLOR BROWN
taylor@northernbroadcasting.com

GREG JERGESON, VICE CHAIR
jergeson4senator@yahoo.com

SUE MALEK
senatormalek@gmail.com

FREDRICK (ERIC) MOORE
mail@SenatorEricMoore.com

MITCH TROPILA
tropila@mt.net

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether 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. Most staff members hold Certified Public Accountant (CPA) licenses.

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Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, MT 59620-1705

AUDIT STAFF

JEANE CARSTENSEN-GARRETT
DELSI OSMANSON

BRENDA KEDISH
KAREN E. SIMPSON

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

October 2014

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Corrections (department) for the two fiscal years ended June 30, 2014. Included in this report are four recommendations. The first recommendation is related to inadequate internal controls over procard transactions, online revenue transactions, and segregation of duties. The remaining recommendations relate to internal service fund fees, noncompliance with state and department procurement policies, and noncompliance with various other state laws.

This report includes the department's financial schedules. The financial schedule presentation is intended to provide the legislative body with information necessary for decision-making purposes; it is not intended to conform to the financial reporting requirements established in generally accepted accounting principles (GAAP). The financial schedule presentation has not changed, but audit reporting standards have changed. Auditing standards require us to clearly communicate that the financial schedule presentation is not intended to, and does not, conform to GAAP reporting requirements. The Independent Auditor's Report on page A-1 contains language to this effect in the section titled "Adverse Opinions on U.S. Generally Accepted Accounting Principles." This section does not imply the amounts presented on the department's financial schedules are not fairly stated. Page A-1 also communicates the extent to which the user can rely on the information contained in the financial schedules in the section titled "Unmodified Opinions on Regulatory Basis of Accounting."

The department's written response to the audit recommendations is included in the audit report at page B-1. We thank the Director and his staff for their cooperation and assistance 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 Batista, Director
	Loraine Wodnik, Deputy Director
Administrative & Financial Services	Pat Schlauch, Division Administrator
Information Technology	John Daugherty, Division Administrator
Adult Community Corrections	Pam Bunke, Division Administrator
Secure Custody Facilities	Leroy Kirkegard, Warden, Montana State Prison
	Joan Daly, Warden, Montana Women's Prison
Montana Correctional Enterprises	Gayle Lambert, Division Administrator
Youth Services	Cindy McKenzie, Division Administrator
Clinical Services	Connie Winner, Division Administrator
Board of Pardons and Parole	Fern Johnson, Executive Director

<u>Board Members</u>	<u>Term Expires</u>
Michael E. McKee, Chair	1/1/2015
Pete Lawrenson, Vice Chair	1/1/2017
Darryl Dupuis	1/1/2018
Sandy Heaton	1/1/2018
Colleen Magera	1/1/2017
Mary Kay Puckett	1/1/2017
John Rex	1/1/2015

For additional information concerning the Department of Corrections, contact Judy Beck, Communications Director, at:

P.O. Box 201301
Helena, MT 59620-1301
(406) 444-0409

e-mail: jbeck@mt.gov



MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Department of Corrections

For the Two Fiscal Years Ended June 30, 2014

OCTOBER 2014

14-15

REPORT SUMMARY

The Department of Corrections manages approximately 13,000 male and female offenders through various facilities. In fiscal years 2013 and 2014, approximately 88 percent of the department's funding is from the General Fund. In fiscal year 2014, this equates to approximately \$181 million in expenditures; which is roughly 8 percent of the total state General Fund expenditures.

Context

The Department of Corrections (department) supervises offenders through five prisons, three youth facilities, seven treatment programs, three assessment and sanction centers, and six prerelease centers. Offenders may engage in various skill development programs at the prisons. Some of these programs include furniture, a print and sign shop, dog training program, ranching, dairy operations, lumber processing, firefighting, motor vehicle maintenance, and cooking.

We reviewed the department's internal controls. In addition, we performed tests over transactions related to personal services and contract bed expenditures, agency fund activity, and various revenues. We also tested the department's compliance with various state laws and policies.

in place to prevent, or detect and correct, procard transaction errors or inappropriate procard use. The department also does not have procedures in place to ensure the revenue submitted by the vendor responsible for processing online payments to inmate trust accounts on behalf of the department is complete.

Audit work also identified non-implementation of a prior audit recommendation pertaining to the License Plate Internal Service Fund. We determined license plate fees are not commensurate with costs and the ending fund equity is not reasonable. In addition, we identified instances of noncompliance with state laws.

Results

This audit contains four recommendations. During the audit, we identified internal control deficiencies. For example, the department does not have adequate controls

Recommendation Concurrence	
Concur	4
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Department of Corrections (department) for the two fiscal years ended June 30, 2014, 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's financial schedules for each of the two fiscal years ended June 30, 2014, fairly present the results of operations and changes in fund equity and property held in trust.
3. Determine the implementation status of audit recommendations made in the previous audit.
4. Determine if the department has complied with selected laws and regulations.

During the audit, we obtained an understanding of the department's internal control policies and procedures, performed analytical procedures, and reviewed accounting transactions. We focused our efforts primarily on department revenues and expenditures, but also reviewed agency fund activity. In addition, we reviewed and tested the department's compliance with various state laws.

Internal Controls

Auditing standards require us to communicate, in writing, deficiencies in internal control we identified as a result of audit objective #1 above and considered to be significant or material. A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or detect and correct misstatements on a timely basis. A material weakness is one or more 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 one or more deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Table 1 (see page 2) outlines the status of significant deficiencies we identified during this audit.

Table 1
Summary of Deficiencies in Internal Control

Subject	Type of Deficiency	Page
Review and approval of procard transactions	Significant	9
Controls over online payments	Significant	10
Segregation of duties	Significant	11

Our consideration of internal control was not for the purpose of expressing an opinion on the effectiveness of internal controls. Therefore, material weaknesses or significant deficiencies may exist that were not identified.

Internal Service Funds

As required by §17-8-101(6), MCA, we reviewed, and are reporting on, the Internal Service Fund fees and fund equity balances at the department. We found that fees and fund equity for the cook-chill fund, where the Montana Correctional Enterprise's food factory activity is accounted for, and the prison industries fund are reasonable for the two fiscal years ended June 30, 2014. The fees and fund equity in the license plate fund are not reasonable for the two fiscal years ended June 30, 2014, and we report on this activity beginning on page 12.

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. The department's six programs are described below, and include the authorized full-time equivalent (FTE) positions for fiscal year 2013-14.

Administrative Services (107 FTE) includes the Director's Office, Information Technology Division, Administrative and Financial Services Division, and the Board of Pardons and Parole which is allocated to the department for administrative purposes. This program provides services to the department, governmental entities, and the public in the areas of public and victim information, human resource management, staff development and training, American Indian liaison services, policy management, information technology, legal information, technical correctional services, research and statistics, project management, payroll, budgeting and program planning, contract development, federal grants management, victim restitution, supervision

fee collection, accounting, budgeting, and various administrative and management support functions.

Adult Community Corrections (257 FTE) program includes the community supervision for adult offenders. The division provides supervision for approximately 80 percent of the more than 13,000 offenders in the corrections system. This division also includes the adult interstate compact which establishes rules for the transfers of offenders between states.

- ♦ **Treasure State Correctional Training Center** – a 60-bed correctional facility for men and women, based on a military format of discipline and treatment (boot camp). Programs employed during the trainee's 90- to 120-day incarceration include victimology, criminal thinking errors, anger management, substance abuse treatment, and academic schooling.
- ♦ **Missoula Assessment and Sanction Center (MASC)** – houses up to 141 males committed to the department for evaluation and assessment of program or prison placements. MASC is designed to identify comprehensive risk and needs information for male offenders. The center provides short-term treatment in chemical dependency, criminal thinking, sexual offender, and mental health counseling.
- ♦ **Treatment Programs** – treats up to 533 offenders with varying levels of chemical dependency, mental health, and assessment and sanction programs.
- ♦ **Prerelease Programs** – houses up to 1,189 male and female offenders in a bed or check-in program needing a step down or step up program. These centers provide transition from prison to community and an alternative to prison when public safety and the offenders' interests are best served by a level of supervision between prison and probation.
- ♦ **Probation and Parole** – supervises approximately 8,000 felony probation and parole offenders in the state.

Montana Correctional Enterprises (82 FTE) is responsible for the following programs:

- ♦ **Industries** – includes furniture, upholstery, print, sign, sewing, and laundry at Montana State Prison; silk screening, embroidery, and dog training at the 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 primarily to governmental agencies, nonprofit organizations, and to the public through dealers and contracts.
- ♦ **Agriculture** – includes beef and dairy cattle, crops, feedlot, dairy milking parlor, dairy processing, lumber processing, wild land fire crew, and community worker program, 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.

- ♦ **Vocational Education** – operates motor vehicle maintenance and metal fabrication shops, offers vocational education classes, and assists inmates in obtaining driver's licenses, birth certificates, social security cards, and state of Montana identification cards as part of re-entry services.
- ♦ **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 in the Montana State Prison, Montana Women's Prison, Elkhorn Treatment Center, Dawson County Correctional Facility, Cascade County Correctional Facility, and the Crossroads Correctional Center.
- ♦ **License Plate Factory** – provides over 160 different types of license plates to the Department of Justice Motor Vehicle Division.

Secure Custody Facilities (634 FTE) includes all prison programs for felony adult males and females, which is approximately 20 percent of the adult offenders supervised by the department.

- ♦ **Montana State Prison** in Deer Lodge houses up to 1,485 male inmates ranging from minimum to maximum security levels and provides sex offender, chemical dependency, and treatment programs.
- ♦ **Montana Women's Prison** in Billings houses up to 194 female inmates ranging from minimum to maximum security levels and provides chemical dependency, education, and treatment programs.
- ♦ **Contract Facilities** includes all contracted private and county operated prison programs housing up to 868 beds. It also includes county jail holds which range in beds depending on the needs of the department.

Youth Services Division (183 FTE) holds juvenile offenders accountable for their actions through custody, supervision, restitution, and life-skills development. The division has four primary operations described below:

- ♦ **Pine Hills Youth Correctional Facility** in Miles City is a 96-bed, secure-care program for males 10-17 years old who are judged delinquent by the Youth Court.
- ♦ **Riverside Youth Correctional Facility (RYCF)** in Boulder is an 11-bed, secure-care program for females 10-17 years old who are judged delinquent by the Youth Court. RYCF also houses up to 8 female transitional program youth for a total operational capacity of 19.

Both facilities offer year-round educational programs and focus on counseling, treatment programs, spiritual activities, daily recreation, and life skills and work restitution programs.

- ♦ **Youth Transitional Center** in Great Falls is a 7-bed transitional program for male youth. It offers an intermediate program for male youths whose placement in a less restrictive community setting has failed and also

a transition program for youths being released from Pine Hills Youth Correctional Facility.

- ♦ **Youth Community Corrections Bureau** provides intensive supervision to all youth in community placements and works with community teams to support youths' successful re-entry, providing services corresponding to assessed youth needs. The bureau oversees juvenile parole supervision, and financial and program services for both juvenile probation and juvenile parole. While juvenile probation is organized under the Office of Court Administration in the Judicial Branch, the Youth Community Corrections Bureau administers funds appropriated for juvenile placements and the Juvenile Delinquency Intervention Act.

Clinical Services Division (97 FTE) provides a standard of care department-wide for all medical, mental health, dental, and vision services provided to adult and juvenile offenders under the care of the department. The division was established in fiscal year 2014 and oversees the health services pre-authorization process and provides education to all facilities with regard to medical issues. The division works with a third party administrator to oversee all claims submitted by outside medical providers and ensures Medicaid reimbursement for the department's Medicaid-eligible inmates.

Table 2 on page 6 shows information related to adult populations, and Table 3 on page 7 shows information on youth populations.

Prior Audit Recommendations

Our prior audit report of the department for the two fiscal years ended June 30, 2012, contained three recommendations. The department implemented two recommendations and did not implement one recommendation. While the department is working toward complying with state law, the department has not implemented our prior recommendation in regards to its License Plate Internal Service Fund. We discuss this issue beginning on page 12.

Table 2
Department of Corrections Average Daily Adult Population

MALE PRISON BEDS	FY2012	FY2013	FY2014
Montana State Prison–Deer Lodge	1,469	1,447	1,445
Great Falls Regional Prison–Great Falls	151	149	150
Dawson County Regional Prison–Glendive	142	141	142
Crossroads Correctional Center–Shelby	549	540	542
Lewistown Infirmary		11	23
MSP Jail Hold	32	22	32
TOTAL MALE PRISON	2,343	2,310	2,334
% Change	-0.3%	-1%	1%
FEMALE PRISON BEDS			
Montana Women's Prison–Billings	196	192	193
Intensive Challenge Program–MWP–Billings			
MWP Jail Hold	7	7	10
TOTAL FEMALE PRISON	203	199	203
% Change	5%	-2%	2%
ALTERNATIVES TO PRISON - COMMUNITY CORRECTIONS			
Male Community Corrections Jail Hold	97	178	185
Female Community Corrections Jail Hold	24	41	71
County Jail Sanctions	4	6	3
Boot Camp (male)–Deer Lodge	53	54	52
Boot Camp (female)–Deer Lodge			1
Missoula Assessment and Sanction Center	139	141	142
Sanction, Treatment, Assessment, Revocation and Transition (START)	131	138	139
Passages Assessment, Sanction and Revocation Center	53	56	53
Connections Corrections (male)–Butte/Warm Springs	104	107	106
Passages Alcohol and Drug Treatment (female)–Billings	35	43	42
Meth Treatment (male)–Lewistown	82	85	85
Meth Treatment (female)–Boulder	40	40	42
WATCH Program (male)–Warm Springs	114	114	112
WATCH Program (male)–Glendive	35	34	25
WATCH Program (female)–Glendive	17	19	27
TOTAL ALTERNATIVES TO PRISON	928	1,056	1,085
% Change	7%	14%	3%
PRERELEASE/TRANSITIONAL LIVING–COMMUNITY CORRECTIONS			
Prelease (male)	646	667	664
Prelease (female)	163	167	175
Transitional Living (male/female)	82	82	85
TOTAL PRERELEASE/TRANSITIONAL LIVING	891	916	924
% Change	-0.9%	3%	0.9%
SPECIALIZED SUPERVISION PROGRAMS–COMMUNITY CORRECTIONS			
Specialized Programs	343	305	278
Specialized Populations		125	239
TOTAL SPECIALIZED SUPERVISION	343	430	517
% Change	12%	25%	20%
PROBATION & PAROLE–COMMUNITY CORRECTIONS			
Probation & Parole	8,051	7,792	7,806
Enhanced Supervision Program	118	153	114
TOTAL PROBATION & PAROLE	8,169	7,945	7,920
% Change	-2%	-3%	-0.3%
TOTAL Average Daily Population	12,876	12,856	12,983
Change From Previous Year	-115	-21	127
% Change	-0.9%	-0.2%	1%

Source: Compiled by Legislative Audit Division from Department of Corrections records.

Table 3
Department of Corrections Average Daily Youth Population

Youth Secure	2012	2013	2014
Pine Hills	66	62	60
Riverside	12	16	9
Total Youth Secure	78	78	69
Youth Parole	2012	2013	2014
Male Youth Treatment Center	5	5	6
Female Youth Treatment Center	2	2	1
Other Male Parole	37	38	37
Other Female Parole	11	13	13
Total Youth Parole	55	58	57

Source: Compiled by the Legislative Audit Division from Department of Corrections records.

Chapter II – Findings and Recommendations

Internal Controls

State accounting policy charges agency management with the responsibility for establishing and maintaining internal controls. A control structure is a process designed to provide management with reasonable assurance it will achieve its objectives related to financial accountability and compliance with laws and regulations. The components of a control structure work together to help an organization operate as management intends. Deficiencies in internal control increase the risk the department may not identify inappropriate or fraudulent transactions in a timely manner or be able to ensure the financial schedules are free from misstatement. The following sections discuss several areas where the Department of Corrections (department) should implement, or improve existing, internal controls to address identified control deficiencies. This is necessary to mitigate the increased risk the deficiencies present.

Procard Transactions

The department does not have adequate internal controls over procard transactions.

Through the use of procards, the department expended approximately \$1.3 million and \$2.4 million in fiscal years 2013 and 2014, respectively, for the purchase of various goods and services. State procard policy requires both the employee and their supervisor to review and sign the employee's monthly procard statements and submit the statements to the department's accounting division. The department does not follow this policy. Procard statements are not signed by the employee and supervisor and turned into the accounting division. Department personnel stated they were not aware of the state procard policy, but instead followed the department's own procard policy.

We reviewed the department's procard policy and found it directs employees to use a transaction log to record procard purchases. The purpose of the transaction log is to record the employee's charges to the procard and document the review and approval of the charges by the employee's supervisor. The reviews should verify the transactions are valid, coded correctly in the state's accounting system, are in compliance with state accounting policies, and have supporting documentation. We tested 44 procard transactions from fiscal years 2013 and 2014 and found 15 did not have a transaction log associated with them. In addition, we found 15 transactions were coded incorrectly

on the state's accounting system, 2 transactions for lodging were not in compliance with rates approved by state accounting policy, and 4 transactions did not have supporting documentation. This indicates the reviews are not sufficient to prevent, or detect and correct, errors or inappropriate card use.

Department personnel stated employees do not always turn in transaction logs timely, and supervisors do not consistently follow up with employees to ensure transaction logs are completed, nor have consequences been levied for noncompliance with policy. By not completing, reviewing, and approving procard statements or transaction logs, the department may not identify errors or fraudulent transactions recorded on the state's accounting system.

Online Payments

The department does not have controls in place to ensure it receives all payments remitted electronically through an outside vendor.

The department accepts online payments for offender restitution, inmate account deposits, and cost of care payments for youth offenders. As an example, an authorized individual can contribute to an inmate's account for commissary purchases. The department contracts with an outside vendor to process these online payments and collect the revenue on behalf of the department. The department completes reconciliations between the amounts the vendor has remitted to the department and the collection reports provided by the vendor. However, the procedures are not sufficient to verify the vendor remits all online payments to the department.

During fiscal years 2013 and 2014, the department received \$609,849 and \$716,837, respectively, in online payments from the vendor. The department believes that because the vendor is widely used throughout state government, and because it reconciles the amount received, as recorded on the state's accounting system, to what the outside vendor reported, the department has adequate controls in place to ensure the department has received the full amount the vendor collected. State accounting policy requires each agency be responsible for implementing internal controls to ensure the vendor is fulfilling its contractual obligations, and without additional procedures in place independent of the information provided by the vendor, the department does not know if the vendor is actually remitting and reporting the full amount collected. This leaves the department at risk of not receiving the entire amount of revenue.

Segregation of Duties

The department does not have adequate segregation of duties over inmate account deposits at Montana State Prison.

State accounting policy outlines control activities that are designed to help ensure management directives are carried out. Segregation of duties is one of these activities. In order to have adequate segregation of duties, individuals responsible for cash receipts functions should be segregated from those responsible for cash disbursements; individuals who receive cash into the office should not be involved in preparing bank deposits; and individuals who receive cash or make deposits should not be involved in reconciling the bank accounts.

In fiscal years 2013 and 2014, the Montana State Prison (MSP) received \$2,508,914 and \$2,095,136, respectively, from various sources to be deposited into inmate accounts. For example, an authorized individual may mail in a money order to be deposited into an inmate's account for commissary purchases. One MSP employee is responsible for receiving, logging, and posting all payments to the inmates' accounts without another person reviewing it. The same employee also prepares the deposit that is taken to the bank. Inmates receive monthly statements of their account activity, and during the audit, we observed actions being taken to correct errors identified by inmates on their accounts. However, because the department's inmate account deposit procedures do not demonstrate adequate segregation of duties, the department's risk of misstatements or fraudulent activity not being detected in a timely manner increases.

Department management stated procedures were designed to ensure segregation of duties but were not being followed, and agreed measures needed to be taken to reduce the risk of fraud or misstatements not being identified timely.

Summary

Each of the above sections identifies deficiencies in internal control procedures that increase the risk of misstatements or fraudulent activity not being detected in a timely manner. Because of the dollar amounts involved in each control deficiency identified above, and the potential of misstatements and fraudulent transactions not being identified in a timely manner, we determined these are significant deficiencies in internal controls.

RECOMMENDATION #1

We recommend the department implement or improve existing internal control procedures by:

- A. *Following state and department procard policies.*
 - B. *Ensuring all online payments are received from the contracted vendor.*
 - C. *Adequately segregating duties regarding inmate account deposits.*
-

License Plate Internal Service Fund

The department's License Plate Internal Service Fund fees are not commensurate with costs and the resulting fund equity is not reasonable.

The license plate factory supplies all vehicle license plates for the state of Montana. This activity is accounted for in an internal service fund. In accordance with §17-8-101(6), MCA, fees must be commensurate with costs. This law requires that we report on whether fees charged and fund equity are reasonable. During the prior audit, we analyzed revenues and expenditures, and determined fees were not commensurate with costs during fiscal years 2011 and 2012. We completed a similar analysis during the current audit and found that fees still were not commensurate with costs during fiscal years 2013 and 2014.

In order to determine the reasonableness of the fund equity, we also analyzed the fund's working capital for each fiscal year. State accounting policy defines working capital as the amount of cash that would remain if all of the current assets were converted, and all of the current liabilities paid. It also refers to a 60-day working capital balance as being allowable. At June 30, 2013 and 2014, working capital exceeded need by \$704,543 and \$1,213,617, respectively. The department had enough cash to operate for three-quarters of fiscal year 2013 and for almost a whole year in fiscal year 2014. We determined fees are not being reduced to use excess fund equity from prior years, thus the fund equity balance was not reasonable. In addition, a large working capital balance still exists even though at the end of 2012, the department returned \$1 million to a state special revenue account at the Department of Justice to help reduce excess working capital.

Department management stated the license plate operations incur large expenditures that often require the retention of large amounts of cash. However, as an internal service

fund, the retention of excess cash is not allowed per state law. Management stated they may request the license plate operations change from an internal service fund to an enterprise fund, or to be allowed a higher working capital allowance. Because the Montana Department of Justice is the initial customer for the license plates, and it is internal to state government, an enterprise fund would not be appropriate to account for this activity. By not actively managing the License Plate Internal Service Fund equity balance, the department may potentially be overcharging its customers and is not in compliance with state law.

RECOMMENDATION #2

We recommend the department comply with state law by ensuring fees charged for license plates are commensurate with the department's costs, taking into consideration the ending fund equity balance.

Procurement

The department did not follow state or department procurement policy when purchasing dairy products or equipment.

Per §18-4-221, MCA, the Department of Administration (DofA) is authorized to procure or supervise the procurement of all supplies and services needed by the state of Montana. It can delegate procurement authority to state agencies and this is done through a delegation agreement with the agency. The department's delegation agreement with DofA outlines different criteria for the department to follow, and also emphasizes the department must follow state procurement laws, which includes obtaining bids for any purchase above \$25,000 or completing a limited solicitation for any purchases over \$5,000. During the audit, we reviewed department expenditures and examined whether or not the department complied with state procurement laws. Below are two examples of department purchases that did not comply with the department's delegation agreement and thus, state procurement laws.

- ♦ The Montana State Prison (MSP) purchases dairy products from the Montana Correctional Enterprises (MCE) dairy. In fiscal year 2014, MSP was unable to obtain a product from the MCE dairy due to a breakdown in the machinery that produces the product. Under two purchase orders, MSP purchased approximately \$90,000 of the dairy product from an outside vendor in fiscal year 2014, without obtaining bids to determine if the purchases were the most economical as required by state policy.

Department personnel stated the purchases were due to an emergency and once the emergency passed, did not complete additional documentation or take actions as required. A provision exists in the department's delegation agreement for emergency purchases, but the provision is a short-term solution and MSP purchased the product from the outside vendor for approximately nine months.

- ♦ Montana Correctional Enterprises purchased a truck for \$9,900 at an online auction. The department did not document evidence of compliance with state procurement policy regarding the purchase.

Department personnel stated procurement policies were followed, but did not document their compliance. Without supporting documentation, we are unable to verify if state procurement policies were followed.

RECOMMENDATION #3

We recommend the department comply with state procurement policy by following the requirements outlined in its delegation agreement.

State Compliance

The department did not comply with various state laws.

During the audit, we completed testing over approximately 47 state laws pertaining, in part, to granting parole, executive clemency, supervision of probationers and parolees, and youth offenders. We found the department did not have procedures in place to ensure its compliance with four of these laws. The specific law and a description of the noncompliance is discussed below.

Montana Code Annotated	Description of Noncompliance
Section 46-23-1002(2), MCA, requires the department to adopt rules establishing firearms training requirements and procedures for authorizing the carrying of firearms.	The department has not established the required rules mandated by state law.
Section 53-1-203(1)(a)(v), MCA, requires the department to adopt rules necessary for the admission, custody, transfer, and release of persons in department programs except as otherwise provided by law.	The department does not have rules necessary for the admission, custody, and transfer of adult persons in department programs. It does have rules established for the release of persons in department programs.

Montana Code Annotated	Description of Noncompliance
<p>Section 7-22-2151, MCA, requires the department enter into a written agreement with the district weed board for land owned by Montana State Prison. The agreement must specify mutual responsibilities for integrated noxious weed management on state-owned or state-controlled land within the district. The agreement must include the following:</p> <ul style="list-style-type: none"> (a) an integrated noxious weed management plan, which must be updated biennially; (b) a noxious weed management goals statement; (c) a specific plan of operations for the biennium, including a budget to implement the plan; and (d) a provision requiring a biennial performance report by the board to the state weed coordinator in the department of agriculture, on a form to be provided by the state weed coordinator, regarding the success of the plan. 	<p>The department had a written agreement in place for fiscal years 2012 and 2013, and complied with all sections of the law. It was not updated, though weed management activities occurred, so the department is not in compliance with this law for fiscal year 2014.</p>
<p>Section 52-5-112, MCA, requires the department to notify the board of regents before August 1 of each year of the residents of a state youth correctional facility that it has designated to receive up to \$800 per year toward expenses incurred in attending a unit of the Montana university system for the next school year.</p>	<p>The department does not notify the Board of Regents of the residents it has designated to receive university aid for the next school year.</p>

The department can improve compliance with state laws by implementing internal controls to ensure employees are aware of their responsibilities pertaining to compliance with state laws.

RECOMMENDATION #4

We recommend the department implement control procedures to ensure it complies with all of its governing state laws.

Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity & 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, 2014, and 2013, and the related notes to the financial schedules.

Management's Responsibility 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.

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the department's preparation and fair presentation of the financial schedules 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, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

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, the financial schedules are prepared 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, liabilities, 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.

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" paragraph, 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, 2014, and June 30, 2013, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, presents fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Department of Corrections for each of the fiscal years ended June 30, 2014, and June 30, 2013, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

September 16, 2014

DEPT OF CORRECTIONS
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund
FUND EQUITY: July 1, 2013						
PROPERTY HELD IN TRUST: July 1, 2013	\$ (12,057,784)	\$ 4,295,954	\$ 0	\$ 12,536,995	\$ 4,270,965	\$ 19
						\$ 1,694,071
ADDITIONS						
Budgeted Revenues & Transfers-In	80,995	4,870,041	859,468	7,581,980	6,899,679	
Nonbudgeted Revenues & Transfers-In	23,124	44,456		718,014		
Prior Year Revenues & Transfers-In Adjustments	146	20,088	1,652			
Direct Entries to Fund Equity	181,697,502	48,286	240	(79,830)	(15,722)	(19)
Additions to Property Held in Trust						8,225,976
Total Additions	181,801,766	4,982,871	861,360	8,220,164	6,883,957	8,225,957
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	181,925,821	5,286,389	860,150	6,954,503	6,425,442	
Nonbudgeted Expenditures & Transfers-Out				35,160	213,088	
Prior Year Expenditures & Transfers-Out Adjustments	(797,484)	(8,856)				
Reductions in Property Held in Trust						8,755,924
Total Reductions	181,128,336	5,277,533	860,150	6,989,663	6,638,530	8,755,924
FUND EQUITY: June 30, 2014	\$ (11,384,354)	\$ 4,001,292	\$ 1,210	\$ 13,767,497	\$ 4,516,392	\$ 0
PROPERTY HELD IN TRUST: June 30, 2014						\$ 1,164,123

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-9.

DEPT OF CORRECTIONS
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund
FUND EQUITY: July 1, 2012	\$ (9,393,930)	\$ 2,330,057	\$ (410)	\$ 12,563,148	\$ 4,231,892	\$ 3
PROPERTY HELD IN TRUST: July 1, 2012						\$ 799,551
ADDITIONS						
Budgeted Revenues & Transfers-In	86,305	7,302,836	857,956	6,919,113	6,071,905	17
Nonbudgeted Revenues & Transfers-In	8,232			50,147		
Prior Year Revenues & Transfers-In Adjustments	152	44,095	393			
Direct Entries to Fund Equity	175,133,034	34,099	3,760	(30,095)	(6,272)	
Additions to Property Held in Trust						9,210,554
Total Additions	175,227,723	7,381,029	862,109	6,939,165	6,065,633	9,210,570
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	177,894,216	5,414,739	861,699	6,550,445	5,682,747	
Nonbudgeted Expenditures & Transfers-Out	(2,500)			414,873	343,813	
Prior Year Expenditures & Transfers-Out Adjustments	(138)	393				
Reductions in Property Held in Trust						8,316,034
Total Reductions	177,891,578	5,415,132	861,699	6,965,318	6,026,560	8,316,034
FUND EQUITY: June 30, 2013	\$ (12,057,784)	\$ 4,295,954	\$ 0	\$ 12,536,995	\$ 4,270,965	\$ 19
PROPERTY HELD IN TRUST: June 30, 2013						\$ 1,694,071

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-9.

DEPT OF CORRECTIONS
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Total
Taxes		\$	442		\$	442
Charges for Services	\$	1,662,799		4,334		1,667,133
Fines and Forfeits		4,539				4,539
Sale of Documents, Merchandise and Property		2,282,304		7,612,805	6,899,679	16,794,787
Rentals, Leases and Royalties				3,177		3,177
Contributions and Premiums	\$ 23,335					23,335
Grants, Contracts, and Donations		502,399				502,399
Transfers-in		479,808	406,942	679,679		886,750
Capital Asset Sale Proceeds						679,679
Federal Indirect Cost Recoveries	25,356					25,356
Miscellaneous	55,574	2,736				58,310
Federal			453,736			453,736
Total Revenues & Transfers-In	104,265	4,934,584	861,120	8,299,995	6,899,679	21,099,643
Less: Nonbudgeted Revenues & Transfers-In	23,124	44,456		718,014		785,594
Prior Year Revenues & Transfers-In Adjustments	146	20,088	1,652			21,886
Actual Budgeted Revenues & Transfers-In	80,995	4,870,041	859,468	7,581,980	6,899,679	20,292,163
Estimated Revenues & Transfers-In	84,779	6,373,801	1,962,211	7,154,178	6,588,272	22,163,241
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (3,785)	\$ (1,503,760)	\$ (1,102,744)	\$ 427,802	\$ 311,407	\$ (1,871,078)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Charges for Services	\$	(332,186)		(10,666)	\$	(342,851)
Fines and Forfeits		(13,537)				(13,537)
Sale of Documents, Merchandise and Property		(321,696)		441,291	311,407	431,001
Rentals, Leases and Royalties				(2,823)		(2,823)
Grants, Contracts, and Donations		(76,856)				(76,856)
Transfers-in	\$ (24,779)	(62,221)	(260,671)			(347,671)
Federal Indirect Cost Recoveries	20,356					20,356
Miscellaneous	639	(697,264)				(696,625)
Federal			(842,072)			(842,072)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (3,785)	\$ (1,503,760)	\$ (1,102,744)	\$ 427,802	\$ 311,407	\$ (1,871,078)

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-9.

DEPT OF CORRECTIONS
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Taxes			\$ 589			\$	589
Charges for Services	\$	1,718,550	\$	2,995			1,721,545
Fines and Forfeits		5,645					5,645
Sale of Documents, Merchandise and Property		2,572,479		6,938,716	6,071,905		15,583,100
Rentals, Leases and Royalties				3,500			3,500
Contributions and Premiums							8,232
Grants, Contracts, and Donations	\$ 8,232	477,110					477,110
Transfers-in		2,567,980	402,408				2,970,387
Capital Asset Sale Proceeds				24,050			24,050
Federal Indirect Cost Recoveries	30,384						30,384
Miscellaneous	56,073	5,166			\$	17	61,256
Federal			455,352				455,352
Total Revenues & Transfers-In	94,689	7,346,931	858,349	6,969,261	6,071,905	17	21,341,150
Less: Nonbudgeted Revenues & Transfers-In	8,232			50,147		17	58,396
Prior Year Revenues & Transfers-In Adjustments	152	44,095	393				44,640
Actual Budgeted Revenues & Transfers-In	86,305	7,302,836	857,956	6,919,113	6,071,905	0	21,238,115
Estimated Revenues & Transfers-In	227,700	7,796,773	1,620,152	7,226,067	5,838,500		22,709,192
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (141,395)</u>	<u>\$ (493,937)</u>	<u>\$ (762,196)</u>	<u>\$ (306,954)</u>	<u>\$ 233,405</u>	<u>\$ 0</u>	<u>\$ (1,471,077)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Charges for Services	\$	(856,303)	\$	(22,005)		\$	(878,308)
Fines and Forfeits		(4,355)					(4,355)
Sale of Documents, Merchandise and Property		541,739		(284,949)	233,405		490,196
Grants, Contracts, and Donations		(239,494)					(239,494)
Transfers-in	\$ (22,000)	104,308	(48,990)				33,318
Federal Indirect Cost Recoveries	24,684						24,684
Miscellaneous	(144,079)	(39,834)					(183,912)
Federal			(713,206)				(713,206)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (141,395)</u>	<u>\$ (493,937)</u>	<u>\$ (762,196)</u>	<u>\$ (306,954)</u>	<u>\$ 233,405</u>	<u>\$ 0</u>	<u>\$ (1,471,077)</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-9.

DEPT OF CORRECTIONS
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

A-7

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Administration & Financial Services	Adult Community Corrections	Clinical Services Division	Montana Correctional Enterprises	Secure Custody Facilities	Youth Services	Total
Personal Services							
Salaries	\$ 5,453,623	\$ 11,208,819	\$ 5,247,484	\$ 2,861,483	\$ 23,339,589	\$ 6,993,582	\$ 55,104,580
Hourly Wages			5,718	482,891	322,933	25,568	837,110
Other Compensation	38,556						38,556
Employee Benefits	1,789,074	4,788,780	1,893,049	1,221,267	10,204,319	3,030,321	22,926,810
Personal Services-Other				32,320			32,320
Total	<u>7,281,252</u>	<u>15,997,600</u>	<u>7,146,251</u>	<u>4,597,961</u>	<u>33,866,841</u>	<u>10,049,470</u>	<u>78,939,375</u>
Operating Expenses							
Other Services	2,475,988	44,764,934	8,054,531	182,567	32,375,668	921,138	88,774,825
Supplies & Materials	690,361	425,090	2,499,418	2,444,582	3,721,474	692,576	10,473,502
Communications	696,896	253,207	10,829	30,421	124,353	57,181	1,172,886
Travel	137,871	123,745	27,262	19,097	190,565	92,256	590,796
Rent	455,077	1,293,140	94,297	110,206	130,350	168,476	2,251,545
Utilities		75,936	3,742	284,237	1,246,641	338,038	1,948,594
Repair & Maintenance	90,071	69,721	5,115	702,003	514,781	71,290	1,452,980
Other Expenses	240,763	134,054	21,627	1,213,123	343,200	93,172	2,045,939
Goods Purchased For Resale				6,980,350		2,170	6,982,520
Total	<u>4,787,027</u>	<u>47,139,826</u>	<u>10,716,820</u>	<u>11,966,585</u>	<u>38,647,033</u>	<u>2,436,296</u>	<u>115,693,588</u>
Equipment & Intangible Assets							
Equipment	9,938	18,235			265,609	47,012	340,794
Total	<u>9,938</u>	<u>18,235</u>			<u>265,609</u>	<u>47,012</u>	<u>340,794</u>
Capital Outlay							
Land & Interest In Land					20,773		20,773
Buildings				(260,309)			(260,309)
Total				<u>(260,309)</u>	<u>20,773</u>		<u>(239,537)</u>
Benefits & Claims							
From State Sources						2,439,769	2,439,769
From Federal Sources						240	240
Total						<u>2,440,009</u>	<u>2,440,009</u>
Transfers-out							
Fund transfers		6,250		135,117	53,100	3,065,954	3,260,421
Total		<u>6,250</u>		<u>135,117</u>	<u>53,100</u>	<u>3,065,954</u>	<u>3,260,421</u>
Debt Service							
Loans		70,483			173,888	20,877	265,248
Total		<u>70,483</u>			<u>173,888</u>	<u>20,877</u>	<u>265,248</u>
Other Post Employment Benefits							
Other Post Employment Benefits				194,314			194,314
Total				<u>194,314</u>			<u>194,314</u>
Total Expenditures & Transfers-Out	\$ <u>12,078,217</u>	\$ <u>63,232,394</u>	\$ <u>17,863,071</u>	\$ <u>16,633,668</u>	\$ <u>73,027,243</u>	\$ <u>18,059,619</u>	\$ <u>200,894,213</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 10,915,536	\$ 62,283,314	\$ 17,863,071	\$ 785,698	\$ 72,270,471	\$ 17,010,245	\$ 181,128,336
State Special Revenue Fund	845,448	813,515		2,276,102	569,692	772,776	5,277,533
Federal Special Revenue Fund	251,066	135,565		9,842	187,080	276,597	860,150
Enterprise Fund	41,634			6,948,029			6,989,663
Internal Service Fund	24,533			6,613,997			6,638,530
Total Expenditures & Transfers-Out	12,078,217	63,232,394	17,863,071	16,633,668	73,027,243	18,059,619	200,894,213
Less: Nonbudgeted Expenditures & Transfers-Out				248,248			248,248
Prior Year Expenditures & Transfers-Out Adjustments	(115,875)	(116,764)	2,755		(548,238)	(28,218)	(806,340)
Actual Budgeted Expenditures & Transfers-Out	12,194,092	63,349,158	17,860,317	16,385,420	73,575,480	18,087,837	201,452,304
Budget Authority	15,328,231	64,657,229	20,935,735	18,262,428	74,307,711	18,560,493	212,051,826
Unspent Budget Authority	\$ <u>3,134,139</u>	\$ <u>1,308,071</u>	\$ <u>3,075,418</u>	\$ <u>1,877,008</u>	\$ <u>732,231</u>	\$ <u>472,655</u>	\$ <u>10,599,521</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 261,722	\$ 299,276	\$ 3,075,418	\$ 343	\$ 467,781	\$ 99,342	\$ 4,203,881
State Special Revenue Fund	2,601,170	686,042		239,366	74,273	311,008	3,911,859
Federal Special Revenue Fund	271,247	322,753		158	190,177	62,306	846,641
Enterprise Fund				1,094,236			1,094,236
Internal Service Fund				542,905			542,905
Unspent Budget Authority	\$ <u>3,134,139</u>	\$ <u>1,308,071</u>	\$ <u>3,075,418</u>	\$ <u>1,877,008</u>	\$ <u>732,231</u>	\$ <u>472,655</u>	\$ <u>10,599,521</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-9.

DEPT OF CORRECTIONS
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Administration & Financial Services	Adult Community Corrections	Montana Correctional Enterprises	Secure Custody Facilities	Youth Services	Total
Personal Services						
Salaries	\$ 5,352,932	\$ 10,670,163	\$ 2,738,097	\$ 26,550,467	\$ 7,326,872	\$ 52,638,533
Hourly Wages			502,005	321,995	22,297	846,297
Other Compensation	29,950					29,950
Employee Benefits	1,714,850	4,463,772	1,124,269	11,102,998	3,064,013	21,469,903
Personal Services-Other			9,681			9,681
Total	7,097,733	15,133,936	4,374,052	37,975,461	10,413,182	74,994,363
Operating Expenses						
Other Services	10,783,123	43,986,997	151,156	33,987,226	1,206,850	90,115,352
Supplies & Materials	736,357	654,427	2,195,221	5,021,519	762,725	9,370,249
Communications	778,441	258,631	26,772	137,583	57,850	1,259,276
Travel	83,045	133,890	19,503	205,508	77,448	519,395
Rent	469,992	1,411,121	110,003	214,009	208,358	2,413,482
Utilities		45,945	315,563	1,247,015	312,771	1,921,294
Repair & Maintenance	45,055	69,873	583,793	407,652	70,677	1,177,050
Other Expenses	174,574	66,019	1,530,397	265,319	109,671	2,145,980
Goods Purchased For Resale			6,587,797		7,183	6,594,980
Total	13,070,587	46,626,902	11,520,204	41,485,831	2,813,532	115,517,056
Equipment & Intangible Assets						
Equipment	27,794					27,794
Total	27,794					27,794
Capital Outlay						
Buildings			(30,095)			(30,095)
Total			(30,095)			(30,095)
Grants						
Grant To Governmental Entities				2,538		2,538
Total				2,538		2,538
Benefits & Claims						
From State Sources					2,693,049	2,693,049
From Federal Sources					3,350	3,350
Total					2,696,399	2,696,399
Transfers-out						
Fund transfers		7,292	263,054	54,300	3,184,293	3,508,939
Total		7,292	263,054	54,300	3,184,293	3,508,939
Debt Service						
Loans		70,483		172,141	20,877	263,501
Total		70,483		172,141	20,877	263,501
Other Post Employment Benefits						
Other Post Employment Benefits			179,792			179,792
Total			179,792			179,792
Total Expenditures & Transfers-Out	\$ 20,196,113	\$ 61,838,613	\$ 16,307,007	\$ 79,690,271	\$ 19,128,283	\$ 197,160,287
EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund	\$ 19,134,936	\$ 60,764,218	\$ 809,651	\$ 79,025,099	\$ 18,157,674	\$ 177,891,578
State Special Revenue Fund	519,567	1,022,900	2,602,273	525,597	744,794	5,415,132
Federal Special Revenue Fund	444,814	51,495		139,575	225,815	861,699
Enterprise Fund	50,642		6,914,676			6,965,318
Internal Service Fund	46,154		5,980,406			6,026,560
Total Expenditures & Transfers-Out	20,196,113	61,838,613	16,307,007	79,690,271	19,128,283	197,160,287
Less: Nonbudgeted Expenditures & Transfers-Out			758,687	(2,500)		756,187
Prior Year Expenditures & Transfers-Out Adjustments				255		255
Actual Budgeted Expenditures & Transfers-Out	20,196,113	61,838,613	15,548,320	79,692,516	19,128,283	196,403,845
Budget Authority	20,865,132	62,664,334	17,426,347	80,171,358	19,543,531	200,670,702
Unspent Budget Authority	\$ 669,019	\$ 825,721	\$ 1,878,027	\$ 478,843	\$ 415,248	\$ 4,266,857
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund	\$ 193,281	\$ 103,738	\$ 1,160	\$ 147,725	\$ 179,415	\$ 625,320
State Special Revenue Fund	28,329	243,220	166,160	41,870	155,866	635,445
Federal Special Revenue Fund	447,409	478,763		289,248	79,966	1,295,387
Enterprise Fund			1,052,607			1,052,607
Internal Service Fund			658,099			658,099
Unspent Budget Authority	\$ 669,019	\$ 825,721	\$ 1,878,027	\$ 478,843	\$ 415,248	\$ 4,266,857

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-9.

Department of Corrections

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2014

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 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 that are legally restricted to expenditures for specific state program purposes. The department has several state special revenue funds that account for activities including probation supervision fees, canteen, inmate welfare, restitution, income and interest from state lands, governor's/corrections operation account 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 re-entry initiative programs, 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 state prison industries training, cook/chill programs, and license plate production.
- ♦ **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 prison ranch and 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 account for moneys belonging to inmates of facilities and restitution for victims.

2. General Fund Equity Balance (negative balances)

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, 2013 and June 30, 2014.

3. Direct Entries to Fund Equity

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

4. Unspent Budget Authority

As noted on the Schedule of Total Expenditures & Transfers-Out for Fiscal Year 2014, the department had 10.6 million in unspent budget authority. The majority of this is primarily attributed to continuing appropriations - 4.2 million in the general fund that will roll over into fiscal year 2015, and 2.3 million in state special revenue of the Governor's Operation Account that was allocated to the department with the passage of SB410.

5. Contractual Commitments

At June 30, 2014, the department had contractual commitments of approximately 23.1 million and the department made bond payments on those contracts totaling 3.2 million in fiscal year 2014. The department is contractually required to make bond payments on behalf of four pre-release and two drug treatment centers to cover the construction costs of these facilities. These costs are then recovered through the center's monthly billing for inmate room and board.

6. Additions and Deletions to Property Held in Trust-Agency Fund

In Fiscal Year 2014 an accounting entry between the agency fund and the canteen was incorrectly posted and an entry to correct was processed. The financial schedule presentation shows all activity recorded in "additions and deletions to property held in trust" on the Schedule of Changes In Fund Equity & Property Held In Trust, including corrections. As a result, the "additions and deletions to property held in trust" in Fiscal Year 2014 include all activity even though corrections were made. The ending balance in the agency fund is correct.

7. Reallocation of FTE and Operating Budgets from Existing Divisions to Create a Clinical Services Division

In Fiscal Year 2014 the department re-organized the structure of the Department of Corrections to include a Clinical Services Division. Ninety-seven FTE with personal services and operating budgets were moved from existing divisions to support all medical and mental health services.

DEPARTMENT OF
CORRECTIONS

DEPARTMENT RESPONSE



Montana Department of Corrections

Director's Office

B-1

Steve Bullock, Governor
Mike Batista, Director

October 29, 2014

Tori Hunthausen, CPA
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena, MT 59620-1705

RECEIVED
OCT 30 2014
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 implement or improve existing internal control procedures by:

- A. Following state and department Procard policies.
- B. Ensuring all online payments are received from the contracted vendor.
- C. Adequately segregating duties regarding inmate account deposits.

Response:

Concur. The department implemented procedures on 11/01/14 to improve existing internal controls by requiring employees to submit a complete transaction log with receipts signed by the employee and supervisor to verify transactions posting for the month. Logs must be received prior to the processing deadline. Employees who do not submit complete transaction logs in a timely fashion will be subject to cancellation of their purchasing card after the third occurrence. On 09/01/14, procedures for the handling of inmate account deposits were improved to better define the segregation of duties that must be followed when processing daily inmate trust account deposits. The department will work with Montana Interactive to identify a mechanism to extract data that would verify all payments initiated through the online store are received. The department will also conduct a Negative Confirmation survey of randomly selected transactions to ensure that the all payments due the department were received.

5 South Last Chance Gulch
PO Box 201301
Helena, MT 59620-1301

Phone: (406) 444-3930
Fax: (406) 444-4920
www.cor.mt.gov

RECOMMENDATION #2:

We recommend the department comply with state law by ensuring fees charged for license plates are commensurate with the department's costs, taking into consideration the ending fund equity balance.

Response:

Concur. The department complied with state law by setting its fees based on what it anticipated costs would be. That projection properly included the costs of program additions to the license plate operation that were authorized in SB508 and planned in cooperation with the Department of Justice. However, some of the program additions could not be started due to circumstances beyond the control of the Department of Corrections. The largest factor was the postponement of the 2010 license plate reissue, which was delayed until May of 2014. The department has taken steps to ensure fees are commensurate with costs by reducing the rate on plates to \$4.50 per set as of 07-01-14. Excess funds will be utilized to address infrastructure upgrades during fiscal years FY15 & FY16. The department will continue to monitor the Internal Service Fund and adjust the rates accordingly to comply with 17-8-101(6), MCA and has a cash flow plan in place to meet the 60 day working capital requirement in state accounting policy.

RECOMMENDATION #3:

We recommend the department comply with state procurement policy in addition to following the requirements outlined in its delegation agreement.

Response:

Concur. The department will continue to comply with state procurement policy and department policy as outlined in its delegation agreement. The department strengthened its procedures by requiring that all food bids include dairy products in any future request for bids. Employees are required to comply with policy and maintain proper documentation of all purchases and will be required to attend procurement training.

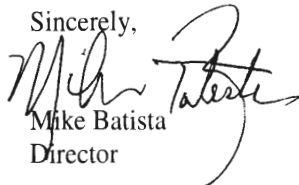
RECOMMENDATION #4:

We recommend the department implement control procedures to ensure it complies with all of its governing state laws.

Response:

Concur. The department will implement an internal review process to ensure it is adhering to all governing state laws through our Legal and Quality Assurance Offices.

Sincerely,


Mike Batista
Director