



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Corrections

*For the Two Fiscal Years Ended
June 30, 2016*

SEPTEMBER 2016

LEGISLATIVE AUDIT
DIVISION

16-15

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September 2016

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, 2016. The report contains seven recommendations to the department related to state youth correctional facility changes, accounting errors, internal control deficiencies, and noncompliance with various state laws applicable to the department.

The department's written response to the audit recommendations is included in the audit report beginning at page C-1. We have considered the non-concurring response to Recommendation #1, and our position on the recommendation remains unchanged for the reasons outlined in the Summary starting on page 11 of the report. We thank the director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

Director's Office	Mike Batista, Director
	Loraine Wodnik, Deputy Director
Business Management Services	Pat Schlauch, Division Administrator
Information Technology	John Daugherty, Division Administrator
Probation and Parole	Kevin Olson, 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	Greg Budd, Interim Executive Director

<u>Board Members</u>	<u>Qualifications</u>	<u>Term Expires</u>
Mark Staples, Chair	Public Representative	1/1/2019
Sandy Heaton	Mental Health Professional	1/1/2017
Patricia Iron Cloud	Enrolled Member of Montana Tribe	1/1/2018
Pete Lawrenson	Public Representative	7/31/2016
Colleen Magera	Attorney	1/1/2017
Bill McChesney	Public Representative	1/1/2019
Mary Kay Puckett	Public Representative	1/1/2017

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

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Department of Corrections

For the Two Fiscal Years Ended June 30, 2016

SEPTEMBER 2016

16-15

REPORT SUMMARY

The Department of Corrections is tasked with developing and maintaining comprehensive services and programs in the fields of adult and youth corrections for the state. In fiscal years 2015 and 2016 combined, the department spent approximately \$390 million of General Fund money in support of its operations. This report contains seven recommendations, including one related to the use of state youth correctional facilities to house adult offenders. The report also discusses accounting errors ranging from \$500,000 to \$1.2 million.

Context

The Department of Corrections (department) operates two prisons and two state youth correctional facilities. Through these facilities, as well as various contracted prisons, treatment centers, assessment and sanction centers, and prerelease centers throughout the state, the department supervises offenders who have been committed to the department and its programs. Offenders may engage in various skill-development programs at the prisons, intended to prepare them for re-entry into the community.

The department's operations are funded primarily by the state's general fund. Other funding sources include, but are not limited to, juvenile cost of care contributions in the state special revenue fund and profits from the Montana Correctional Enterprises programs in the enterprise and internal service funds. The department's general fund, state special revenue fund, enterprise fund, and internal service fund expenditures in fiscal years 2015 and 2016 combined were approximately \$390 million, \$14 million, \$15 million, and \$13 million, respectively. The department also received federal grant awards during the audit period.

Results

The issues identified through the audit are summarized in seven recommendations to the department, related to changes in the operations of state youth correctional facilities, accounting for regional correctional facility per diem payments, internal controls over monthly contract bed payments and capital asset transactions, segregation of duties over and timeliness of deposits, reasonableness of fees charged and fund equity balances in the cook chill internal service fund, and noncompliance with various state laws applicable to the department.

As part of these issues, we identified accounting errors ranging from approximately \$500,000 to \$1.2 million, and instances where the department unintentionally made payments without charging an appropriation, totaling approximately \$2.3 million.

Recommendation Concurrence	
Concur	6
Partially Concur	0
Do Not Concur	1
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, 2016, 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, 2016, 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 whether the department complied with selected laws and regulations.

Our audit effort focused primarily on the department's expenditures for personal services and for housing inmates at contracted correctional facilities, as well as the revenues generated by Montana Correctional Enterprise programs and activity associated with inmate trust accounts and restitution payments.

As a result of our work, this report contains seven recommendations to the department. The recommendations relate to changes in the operations of youth correctional facilities, accounting for regional correctional facility per diem payments, internal controls over monthly contract bed payments, segregation of duties over and timeliness of deposits, reasonableness of fees charged and fund equity balances in the cook chill internal service fund, and noncompliance with various state laws applicable to the department.

In accordance with §5-13-307(2), MCA, we analyzed the cost to implement the seven recommendations made in this report. With the exception of Recommendation 1, we do not consider the costs to implement the recommendations significant. For Recommendation 1, there is the potential for lost cost savings, as outlined further in the report starting on page 9.

Internal Service Funds

In accordance with §17-8-101(6), MCA, we reviewed the fees charged and the fund equity of the department's Internal Service Funds. The department operates three internal service funds, related to the Montana Correctional Enterprises program. Based on our review, we found the following, for each fund:

- ♦ **Prison Industries Training Program:** The fees charged and fund equity balance in this fund were reasonable for the two fiscal years ended June 30, 2016.
- ♦ **License Plate Production:** The fees charged and fund equity balances in this fund were not reasonable for the two fiscal years ended June 30, 2016. We report on this in the Prior Audit Recommendations section of this report on page 7.
- ♦ **Cook Chill:** The fees charged and fund equity balance in this fund were reasonable for the fiscal year ended June 30, 2015, but were not reasonable for the fiscal year ended June 30, 2016. We report on this in Recommendation 6 starting on page 23.

Background

The department is responsible for promoting 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 following paragraphs outline the department's organization as reflected in program expenditures on the Schedule of Total Expenditures and Transfers-Out on page A-9, as well as the authorized full-time equivalent (FTE) positions for fiscal year 2016.

Business Management Services, anticipated to be renamed Administrative Services, (109 FTE) includes the Director's Office, Information Technology Division, and Business Management Services Division. These three functions provide budgeting, accounting, payroll, legal, procurement, policy-setting, and information technology services to the entire department. The Director's Office also includes the Quality Assurance Office and Office of Investigations, as well as American Indian liaison services and crime victim programs.

Board of Pardons and Parole (11 FTE) is established in §2-15-2302, MCA, and is allocated to the department for administrative purposes. The board is responsible for executive clemency and parole. In fiscal year 2015, the board's operations were accounted for within Business Management Services.

Probation and Parole Division (262.5 FTE) includes the community supervision of 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. Outlined below are the programs and facilities overseen or operated by the division.

- ♦ **Treasure State Correctional Training Center,** a 40-bed correctional facility for men and women, emphasizes evidence-based programming, based on

two-way communication, that positively addresses the offender's thinking errors. The program focuses intensively on offender responsibility and self-discipline. The 120-day program concentrates on four programming areas important for successful reentry: cognitive behavior therapy, family/community structure, daily living/social skills, and self-discipline.

- ♦ **Missoula Assessment and Sanction Center (MASC)** houses up to 141 males committed to the department for evaluation and assessment prior to program or prison placement. MASC is designed to identify comprehensive risk and needs information for male offenders. The center provides short-term treatment for chemical dependency, criminal thinking, and sexual offending, as well as mental health counseling.
- ♦ **Treatment Programs** treat up to 533 offenders with varying levels of chemical dependency, mental health, and assessment and sanction programs.
- ♦ **Prerelease Programs** house up to 1,189 male and female offenders needing a step-down or step-up program. These residential or check-in 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 (81.5 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, and various contracted facilities, including Elkhorn Treatment Center, Dawson County Correctional Facility, Cascade County Correctional Facility, and the Crossroads Correctional Center.

- ♦ **License Plate Factory** provides over 260 different types of license plates to the Department of Justice Motor Vehicle Division.

Secure Custody Facilities (620 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 other treatment programs.
- ♦ **Montana Women's Prison** in Billings houses up to 194 female inmates and added 12 temporary beds, for a total of 206, 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 (172 FTE) holds juvenile offenders accountable for their actions through custody, supervision, restitution, and life-skills development. The division has three 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. In February 2016, Youth Services Division converted an existing 20-bed unit at Pine Hills into a unit specifically for male offenders 18-25 years old. By specifically addressing the needs of these offenders while they are still maturing, the department hopes to improve the outcome for the offenders and increase the likelihood that they will succeed when they return to Montana communities. We report on adult placement at Pine Hills in Recommendation 1, starting on page 9.
- ♦ **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. Based on an extremely low daily population, in July 2016, Youth Services Division finalized a contract to move the three adolescent females from RYCF to a comparable out-of-state facility. RYCF is now being used to meet the demand of treatment of adult female offenders in the department's custody. We report on this contract in Recommendation 1, starting on page 9.
- ♦ **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.

Clinical Services Division (101 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 1 (see page 6) shows information related to adult populations, and Table 2 (see page 7) shows information on youth populations. The data for these tables was provided by the department, and has not been subjected to audit procedures.

Table 1

Department of Corrections Average Daily Adult Population

MALE PRISON BEDS	FY2014	FY2015	FY2016
Montana State Prison–Deer Lodge	1,445	1,457	1,452
Great Falls Regional Prison–Great Falls	150	150	149
Dawson County Regional Prison–Glendive	142	142	142
Crossroads Correctional Center–Shelby	542	577	597
Lewistown Infirmary	23	23	23
MSP Jail Hold	32	57	16
TOTAL MALE PRISON	2,334	2,406	2,379
% Change	1%	3%	-1%
FEMALE PRISON BEDS			
Montana Women's Prison–Billings	193	201	206
MWP Jail Hold	10	21	20
TOTAL FEMALE PRISON	203	222	226
% Change	2%	9%	2%
ALTERNATIVES TO PRISON - COMMUNITY CORRECTIONS			
Male Community Corrections Jail Hold	185	147	263
Female Community Corrections Jail Hold	71	65	83
County Jail Sanctions	3	2	1
Boot Camp (male)–Deer Lodge	52	47	34
Boot Camp (female)–Deer Lodge	1	1	2
Pine Hills Training and Treatment Program			3
Riverside Reentry Program			1
Missoula Assessment and Sanction Center	142	141	141
Sanction, Treatment, Assessment, Revocation and Transition (START)	139	138	142
Passages Assessment, Sanction and Revocation Center	53	54	52
Connections Corrections (male)–Butte/Warm Springs	106	108	107
Passages Alcohol and Drug Treatment (female)–Billings	42	41	43
Meth Treatment (male)–Lewistown	85	84	85
Meth Treatment (female)–Boulder	42	42	42
WATCh Program (male)–Warm Springs	112	114	116
WATCh Program (male)–Glendive	25	30	28
WATCh Program (female)–Glendive	27	22	25
TOTAL ALTERNATIVES TO PRISON	1,085	1,036	1,168
% Change	3%	-5%	13%
PRERELEASE/TRANSITIONAL LIVING–COMMUNITY CORRECTIONS			
Prelease (male)	664	663	651
Prelease (female)	175	181	184
Transitional Living (male/female)	85	83	82
TOTAL PRERELEASE/TRANSITIONAL LIVING	924	927	917
% Change	0.9%	0.3%	-1%
SPECIALIZED SUPERVISION PROGRAMS–COMMUNITY CORRECTIONS			
Specialized Programs	278	316	311
Specialized Populations	239	250	242
TOTAL SPECIALIZED SUPERVISION	517	566	553
% Change	20%	9%	-2%
PROBATION & PAROLE–COMMUNITY CORRECTIONS			
Probation & Parole	7,806	8,112	8,353
Enhanced Supervision Program	114	105	115
TOTAL PROBATION & PAROLE	7,920	8,217	8,468
% Change	-0.3%	13%	3%
TOTAL Average Daily Population	12,983	13,374	13,711
Change From Previous Year	127	391	337
% Change	1%	3%	3%

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

Table 2
Department of Corrections Average Daily Youth Population

Youth Secure	2014	2015	2016
Pine Hills	60	57	46
Riverside	9	4	4
Total Youth Secure	69	61	50
Youth Parole	2014	2015	2016
Male Youth Treatment Center	6	6	6
Female Youth Treatment Center	1	1	0.5
Other Male Parole	37	31	27
Other Female Parole	13	7	4.5
Total Youth Parole	57	45	33

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

Prior Audit Recommendations

Our prior audit report of the department, for the two fiscal years ended June 30, 2014, contained four recommendations. The department fully implemented one recommendation, partially-implemented two recommendations, and did not implement one recommendation.

The fully-implemented recommendation was related to compliance with state procurement policy. One of the partially implemented recommendations related to internal controls over compliance with procurement card policy, ensuring completeness of online payments received, and segregation of duties over inmate trust account deposits. We determined the department implemented the portions of this recommendation related to procurement cards and online payments, but did not fully implement the portion related to inmate trust account deposits. This issue is addressed in the current report, starting on page 20. The other partially implemented recommendation related to compliance with state laws, and is addressed in this report starting on page 24. The recommendation not implemented is discussed in the following paragraphs.

License Plate Internal Service Fund

The recommendation not implemented related to fees charged and fund equity balances in the department's License Plate Production internal service fund. In the last two financial-compliance audit reports, we have reported that fees were not commensurate

with costs and fund equity balances were not reasonable in this fund. During the current audit period, we determined fees were not commensurate with costs, and the fund equity balances were not reasonable, for the fiscal years ended June 30, 2015, and June 30, 2016. From fiscal years 2011 through 2016, the department charged fees higher than necessary, in order to accumulate cash in the fund, in anticipation of replacing equipment and constructing a new building for the fund's operations. By June 30, 2016, the department had purchased the new equipment and made significant progress on the construction of the new building, and the cash balance in the fund had decreased significantly.

Management indicated there are changes to the License Plate production operations in fiscal year 2017, including the addition of a full-time delivery driver. Because of this and other changes, management indicated they have increased the fee charged for license plates from fiscal year 2016 to 2017. Management stated they plan to monitor the fund closely in the coming year.

Because the cash balance has decreased significantly, and department management indicated they plan to monitor the fund in the coming year, we make no recommendation to the department at this time. As part of our next financial-compliance audit of the department, we will review the fees charged and fund equity balances in the fund for fiscal years 2017 and 2018.

Chapter II – Findings and Recommendations

State Youth Correctional Facilities

Section 52-5-101, MCA, allows the department to establish state youth correctional facilities, for youth between the ages of 10 and 17. The Montana Youth Court Act (Act) allows youth courts across the state to commit delinquent youth to the department's care, for placement in a state youth correctional facility. The Act also defines state youth correctional facility as meaning the Pine Hills youth correctional facility in Miles City or the Riverside youth correctional facility in Boulder.

During fiscal year 2015, the department operated Pine Hills as the state male youth correctional facility and Riverside as the state female youth correctional facility. In addition to the youth correctional operations at these facilities, the department began placing adult offenders at the Pine Hills and Riverside facilities in fiscal year 2016. As of June 2016, the department had placed eight adult male offenders at Pine Hills and eight adult female offenders at Riverside. In July 2016, the department ceased youth correctional activities at Riverside, using the facility instead for adult correctional activities.

As part of the audit, we reviewed the changes the department made to the use of the Pine Hills and Riverside state youth correctional facilities in fiscal years 2016 and 2017, to determine if state law permitted the changes. As outlined in greater detail in the two following report sections, these changes were contrary to state law.

Adult Placement at Pine Hills and Riverside

The department violated state law by placing both youth and adults in the Pine Hills and Riverside state youth correctional facilities.

As noted above, in fiscal year 2016, the department began placing adult offenders at the Pine Hills and Riverside state youth correctional facilities, in addition to the youth offenders located at these facilities. Section 41-5-1522(2), MCA, prohibits the department from placing youth offenders in state adult correctional facilities or any other facility used for the execution of sentences of adults convicted of crimes. By placing both youth and adult offenders at Pine Hills and Riverside, the department is not in compliance with this state law. Additionally, placing adults at youth correctional facilities is contrary to the statutory purpose of the facilities in §52-5-101, MCA, which is to provide custody, assessment, care, supervision, treatment, education, rehabilitation, and work and skill development for youth 10 years of age or older and under 18 years of age.

Department staff indicated the decision to place adult offenders at these youth facilities was a result of several factors, including an increasing number of adult offenders committed to the department's care, with a decreasing number of youth offenders. The increasing adult population created a need for additional adult housing capacity, while the decreasing youth population resulted in unused capacity at Pine Hills and Riverside. Because of this, the department determined it was appropriate to repurpose portions of the state youth correctional facilities for adult use.

In repurposing these facilities, department staff reviewed federal regulations related to youthful offenders. These regulations require youthful offenders, such as the youth at Pine Hills and Riverside, to remain separate by sight and sound from adult offenders. The department took steps to ensure this federal regulation was followed. Department staff also indicated that in maintaining sight and sound separation, they believe they have complied with the intent of §41-5-1522(2), MCA, as they have not placed youth among the adult population in an adult facility. We agree the department has taken steps to maintain sight and sound separation, as required by federal regulations. However, §41-5-1522(2), MCA, speaks to placement at a facility level and by placing adults and youth in the same facility, the department has acted contrary to this state law. To comply with §41-5-1522(2), MCA, the department should not place youth and adults in the same facility.

Discontinuance of Youth Correctional Activities at Riverside

The department is not in compliance with the state's Youth Court Act regarding the use of the Riverside state youth correctional facility.

In July 2016, the department contracted with an out-of-state third-party provider, for the placement and care of female youths committed to the department's care. Under this contract, delinquent female youth will be transferred from the Riverside state youth correctional facility to the contracted out-of-state facility. Department management stated they intend to transition the Riverside property and buildings to a female adult correctional facility.

The Montana Youth Court Act (Act) allows youth courts across the state to commit delinquent youth to the department's care, for placement in a state youth correctional facility. Under provisions of this Act, contained in §41-5-355, MCA, the department is only permitted to contract with third-parties for delinquent youth placement and care when a state youth correctional facility has exceeded its capacity or the department has no youth correctional facility adequate for certain delinquent or criminally convicted youth. The department's decision to contract-out female youth placement and care was not as a result of an excessive youth population or because the Riverside state youth

correctional facility could not provide adequate care and supervision for specific youth. Therefore, the department contracted-out services without the legal authority to do so under the Act.

Additionally, under the Act, Riverside is designated as a state youth correctional facility. Removing youth from the facility and converting it to a female adult correctional facility constitutes the department discontinuing a legislatively-established youth correctional facility. Section 53-1-202(4), MCA, prohibits a correctional facility from being moved, discontinued, or abandoned without the consent of the legislature. The department did not obtain consent of the legislature, as required by this law, before making the decision to discontinue youth correctional operations at the Riverside state youth correctional facility.

Department management indicated the department could not responsibly or efficiently sustain its operation of the Riverside state youth correctional facility, given the low population of youth female offenders residing there. Management also indicated they believe the language in §41-5-355(4), MCA, contained within the Act, is sufficiently broad to allow them to place female youth at contracted facilities, given the small population of youth. Further, management does not believe the department has discontinued a correctional facility, given the property and buildings will be used as an adult correctional facility. While we acknowledge the department does not intend to abandon the property, it has ceased youth correctional activities at a facility designated as a state youth correctional facility under the Act.

To comply with state law, the department should continue to operate Riverside as a state youth correctional facility until it has received legislative authority to discontinue youth operations at the facility.

Summary

Department management indicated the changes they made to the operations at the Pine Hills and Riverside state youth correctional facilities were largely in response to the declining number of youth committed to the department's care for placement at those facilities. Management cited the department's statutory mandate in §53-1-201, MCA, to use state resources at maximum efficiency while providing youth and adult correctional programs, and noted the changes should result in cost savings to the department. For example, management estimated it will save approximately \$1,000 per day, per female youth, under the contract signed in July 2016. The department did not have a specific analysis of the cost savings associated with placing adults at the youth facilities, but management indicated the adults in question would likely be housed at county jails if not at youth facilities. Under House Bill 2 from the 64th

Legislature, the department is capped at a maximum rate of \$69 per person per day, in most cases, for payments to county jails.

We considered this, as well as the other information provided by management, as outlined in the prior two report sections. We acknowledge the department's decisions related to the use of state youth correctional facilities and contracting-out female youth correctional operations were made in an effort to reduce costs. However, the decisions also resulted in state youth correctional facilities being used for purposes other than those authorized in §52-5-101, MCA, violations of provisions of the Youth Court Act (Act) in Title 41 of the MCA, and the discontinuance of a legislatively-established youth correctional facility without the authorization of the Legislature, as required by §53-1-202, MCA. Until such a time as the laws governing youth placement and use of youth correctional facilities discussed in this report are no longer in place, the department should comply with them. The department's efficiency mandate in §53-1-201, MCA, should be considered in conjunction with the department's other governing statutes.

RECOMMENDATION #1

We recommend the Department of Corrections comply with state law by:

- A. *Using state youth correctional facilities only for the purposes outlined in §52-5-101, MCA.*
 - B. *Not placing youth offenders in facilities used to execute sentences of adults convicted of crimes.*
 - C. *Resuming state youth correctional activities at the Riverside state youth correctional facility.*
-

Regional Correctional Facilities

The state's accounting records do not accurately reflect the true cost of contracting with regional correctional facilities. Additionally, recorded General Fund liability balances associated with obligations to regional correctional facilities are not accurate.

The Department of Corrections contracts with three regional correctional facilities throughout the state to house state inmates, under the provisions of the Regional Correctional Facility Act in the Montana Code Annotated. Under state law and administrative rules, the contract facilities are paid a daily per diem rate for each

inmate they house on the department's behalf. All per diem payments are made from the state's General Fund.

As part of the audit, we reviewed the department's accounting practices related to the per diem payments to the regional facilities. Our audit work identified errors in the fiscal year-end accruals associated with this activity, as well as payments made without charging an appropriation. Table 3 below summarizes the errors and payments.

Table 3 Errors in Regional Correctional Facility Payment Activity		
Fiscal Year	Accrual Over (Under) Statement	Payments Made Without Charging an Appropriation
2015	(\$1.272 million)	\$1.463 million
2016	\$580,000	\$884,000

Source: Compiled by the Legislative Audit Division.

More detail on these issues is presented in the following sections.

Fiscal Year 2015 Liability Accrual Error

Administrative rule requires a new per diem rate to be calculated for each regional correctional facility, for each fiscal year, based on the expenditures incurred by the facility. Once a new rate is calculated, reviewed, and approved, it is incorporated into the department's contract with the facility. Historically, there have been delays in receiving and reviewing the rate calculations and signing contract amendments. For example, the contract amendment approving the per diem rate for one facility for fiscal year 2012 was not signed until September 2014. Until a new rate has been established in contract, the department pays the facility using the most recently-approved rate. As of fiscal year-end 2015, the most recently approved per diem rates for the three facilities were from 2011, 2012, and 2014.

This process results in the department either: 1) having an outstanding obligation to a facility at year-end, if contract rates are expected to increase; or 2) being owed money from a facility at year-end, if contract rates are expected to decrease. At June 30, 2015, the department anticipated the contract rates would increase for each facility, for each year. Given this expectation, the department had an unpaid obligation to each of the regional facilities, for inmates housed in prior years, as follows:

- ◆ **Facility A:** obligation owed for inmates housed during fiscal year 2015.
- ◆ **Facility B:** obligation owed for inmates housed during fiscal years 2013, 2014, and 2015.
- ◆ **Facility C:** obligation owed for inmates housed during fiscal years 2012, 2013, 2014, and 2015.

These unpaid amounts represent valid obligations the department had incurred, for services provided as of June 30, 2015. Under state accounting policy, the department's accounting records should have reflected a liability balance for these obligations at June 30, 2015. Based on our review, however, the recorded liability balance reflected only the amount the department projected was owed for inmates housed during fiscal year 2015. We estimate the department's General Fund liability was understated by \$1.272 million as a result.

Based on our review, the department's accrual methodology was designed under the assumption that the contracts paid-on during a year were only one year behind the current year. This was not the case for every facility in fiscal year 2015, or the prior two years. Department staff explained they have recorded the accrual the same way for several years, but agreed the liability balance reported did not reflect the full amount of the department's obligation to the contracted regional facilities at June 30, 2015.

The understatement in the liability balance caused corresponding overstatements in the June 30, 2015, and July 1, 2015, General Fund fund equity amounts reported in the department's Schedules of Changes in Fund Equity & Property Held in Trust contained within this report. Given the size of the overstatements, we do not believe a reader can rely on these reported General Fund fund equity amounts, and we have modified our Independent Auditors Report on page A-1.

Retroactive Payments Made in Fiscal Years 2015 and 2016 for Approved Contracts

As outlined in the previous report section, the department's accrual methodology for fiscal year 2015 and prior years resulted in a recorded liability balance for only the additional payments the department expected to make for inmates housed during the current fiscal year. Under this methodology, the department did not have a sufficient liability balance in either fiscal years 2015 or 2016 against which to make all additional payments to the regional facilities for per diem rate changes approved during the audit period.

As per diem rates from prior years were reviewed and approved, the department calculated the actual amount of money owed to a facility, or by a facility, as a result of the difference between the contract rate used in making payments to the facility and the newly-approved contract rate, for inmates housed in all applicable years. In cases where the department owed a facility under these calculations, the department paid the facility. Given there was not a previously-recorded liability for all of these expected payments, portions of the payments were made as direct reductions to fund

equity. In fiscal years 2015 and 2016, the retroactive payments made directly against fund equity were approximately \$1.463 million and \$884,000, respectively. Issuing payments directly against fund equity does not result in an expenditure being recorded or an appropriation being charged. As a result, the state's accounting records do not reflect the full cost of contracting with regional correctional facilities to house state inmates, and payments were made outside the appropriation process.

Department staff considered these types of payments to be corrections of errors in previously-issued payments, and noted state accounting policy requires corrections of errors from two or more years to be recorded directly against fund equity. We do not consider these types of payments to be corrections of errors, given the previously-issued payments were made using the legally-binding contract rate in place at the time of payment. The additional payments made during fiscal years 2015 and 2016 represent expenses the department incurred for contracting with regional correctional facilities, that should be reflected as such on the state's accounting records, and that should have been charged against a legislative appropriation.

Fiscal Year 2016 Liability Accrual Error

We communicated the error in the department's accrual calculation for fiscal year 2015 to the department as part of the audit, and department staff adjusted the methodology used to calculate the liability balance as of June 30, 2016. Based on our review, the department's new methodology unintentionally doubled the estimated liability associated with changes in contract rates from as early as 2012 to 2015, for inmates housed in fiscal year 2016. See Figure 1 below.

Figure 1
2016 Accrual Error

Obligation Owed For Inmates Housed In:	2013 Contract	2014 Contract	2015 Contract	2016 Contract
2013	X			
2014	X	X		
2015	X	X	X	
2016				X
	Days Included Twice in Accrual			
X	Days Appropriately Included in Accrual			

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

Department staff indicated the liability was calculated in two pieces, by two different staff. Both of the calculations applied all per diem rate changes, for contracts from

years prior to 2016, to the days used to house inmates in fiscal year 2016, resulting in a doubling of that portion of the estimate.

Summary

The errors in the fiscal year 2015 and 2016 regional correctional facility accruals represent instances where the department's accounting records do not accurately reflect the receipt, use, and disposition of public money in accordance with generally accepted accounting principle (GAAP). Section 17-1-102(2), MCA, requires the department to follow GAAP. These accounting errors indicate a need for the department to review and revise its regional correctional facility per diem accounting processes, to ensure they result in the state's accounting records reflecting a liability for the expected amount of additional obligations to regional correctional facilities at fiscal year-end. This will help eliminate the need to record payments directly against fund equity, and ensure expenditures are recorded and appropriations are charged, for all payments made to the regional facilities, in accordance with GAAP.

RECOMMENDATION #2

We recommend the Department of Corrections review and revise regional correctional facility per diem accounting processes to ensure:

- A. *The accrued liability balance at fiscal year-end reflects a reasonable estimate of the department's unpaid obligation to the facilities, in accordance with generally accepted accounting principles.*
 - B. *Per diem payments are charged to an expenditure account and appropriation, either through a payment recorded directly to an expenditure or through a payment made against a previously-established expenditure accrual.*
-

Accounting Controls

The department's internal controls were not effective in preventing, or detecting and correcting, errors in payments to contract facilities or in capital asset-related transactions.

State accounting policy requires agencies to develop and implement internal control procedures to ensure programs operate in conformity with laws and regulations, and the related transactions are accurately recorded in the state's accounting records in accordance with generally accepted accounting principles (GAAP). In addition to the department's responsibility under state accounting policy, state law requires that

the receipt, use, and disposition of all public money be accounted for in accordance with GAAP. The following two sections outline areas in which internal controls were not effective in preventing, or detecting and correcting in a timely manner, errors in payments for services and in accounting for capital assets. Due to these errors, the department's accounting records are not in accordance with GAAP.

Monthly Contract Bed Payments

The department contracts with county jails, regional correctional facilities, a private correctional facility, prerelease centers, and other facilities throughout the state to house state inmates. In fiscal years 2015 and 2016, the department expended approximately \$75.4 million and \$79.5 million, respectively, of General Fund money for contract bed payments to these facilities. Our audit procedures identified four instances of improper payments to contract facilities, and one instance of incorrect coding on the state's accounting records. Additional detail on these issues is outlined below.

- ♦ From a sample of 76 contract bed payments reviewed, we identified three instances in which the department's payments to county jail facilities were incorrect. The incorrect payments ranged from approximately \$50 to \$3,240, and resulted in a net overpayment of approximately \$3,000. Two of the incorrect payments were caused by paying for the wrong number of bed days, and the third was caused by paying the incorrect rate.
- ♦ In fiscal year 2016, the department paid a facility approximately \$3,900 over the maximum amount established in the contract between the department and the facility. Department staff monitored total payments to the facility under the contract, and reduced the June 2016 payment, so as to not exceed the maximum contract amount. However, the June 2016 payment was not reduced by a sufficient amount, and the error was not identified in the department's review of the payment.
- ♦ The department records payments for male and female bed days with separate identifiers on the state's accounting records, for internal tracking purposes. Pre-release center staff interchanged the number of female and male bed days used by the department on one monthly invoice. The department did not identify this discrepancy on the invoice, and recorded the payments as invoiced. As a result, the department's internal tracking mechanism inaccurately splits the costs incurred to house male and female inmates. While this error does not impact the financial schedules, it does impact data used in management decisions.

The errors outlined above resulted in approximately \$6,900 in identified net overpayments to contracted facilities in fiscal years 2015 and 2016. Given all contract bed payments go through the same control structure, and that the control structure was not effective in preventing or detecting and correcting the errors outlined above, there is risk that other incorrect payments were made. The department should evaluate existing internal controls, and make the necessary changes to ensure controls are

sufficient to make sure payments to facilities, and the underlying accounting records, are accurate.

Capital Asset Transactions

The department operates the Montana Correctional Enterprises (MCE) program. MCE has accounting staff, separate from the department's centralized accounting staff, who are tasked with accounting and financial reporting for the program's operations. As part of the audit, we reviewed transactions related to two capital assets for MCE, and identified errors in the state's accounting records for each asset. Due to these errors, the department's accounting records are not in accordance with state accounting policy.

Detail on each of the transactions reviewed, and identified errors, is presented below.

- ♦ In fiscal year 2015, the department purchased and paid for two trucks to be used in MCE's operations. The department charged the approximate \$62,000 payment for the trucks to an expense account in fiscal year 2015, in accordance with state accounting policy. The purchases exceeded the asset capitalization threshold in state accounting policy and therefore, the trucks, should have been recorded as capital assets. At fiscal year-end, MCE had not yet received the trucks, and did not want to start depreciating them, as they were not in service at that time. Instead of capitalizing the trucks, MCE accounting staff moved the payment for the trucks from a capitalizable expense account to a prepaid expense. There was an approximate \$62,000 error on the state's accounting records as a result. MCE accounting staff did not realize it was possible to record a capital asset on the state's accounting records without beginning the depreciation process. State accounting policy addresses this situation.
- ♦ In fiscal year 2016, MCE accounting staff capitalized the expenses incurred for a building renovation in the incorrect fund on the state's accounting records. Staff realized the asset was in the wrong fund, and attempted to correct the fund coding. The correcting entry was processed during the fiscal year-end time period, and was not reviewed by anyone prior to it being posted to the state's accounting records. The correcting entry contained an error, resulting in understated assets and overstated expenses of approximately \$492,000 in the fund as of June 30, 2016.

As a result of the 2016 accounting error, the department's Schedule of Changes in Fund Equity & Property Held in Trust for the Fiscal Year Ended June 30, 2016, and the Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2016, contain misstatements we consider to be material. Table 4 (see page 19) summarizes the misstatements, by schedule. Given the size of these errors, we do not believe a reader can rely on these specific numbers, and we have modified our Independent Auditor's Report starting on page A-1.

Table 4
Summary of Errors in Fiscal Year 2016 Financial Schedule Line Items

	Dollar Amount Over (Under) Stated	Percentage Over (Under) Stated
Schedule of Changes, on page A-5		
Internal Service Fund Nonbudgeted Expenditures and Transfers Out	\$492,000	20%
Internal Service Fund Total Reductions	\$492,000	9%
Internal Service Fund Ending Fund Equity	(\$492,000)	(8%)
Schedule of Total Expenditures, on page A-9		
Montana Correctional Enterprise Operating Expenses, Other Expense	\$492,000	18%
Montana Correctional Enterprises Total Internal Service Fund Expenditures	\$492,00	9%
Montana Correctional Enterprises Nonbudgeted Expenditures	\$492,000	20%

Source: Compiled by Legislative Audit Division.

Capital asset activity, and the related accounting transactions, is not routine activity for MCE staff, and the related accounting transactions are not done with the same frequency as other transactions. The errors we identified in the transactions, as well as the infrequency of the transactions, indicate a need to enhance internal controls over capital asset transactions at MCE.

Summary

As illustrated in the preceding sections, the department's internal controls were not effective in preventing, or detecting and correcting, errors in payments to contract facilities or in capital asset-related transactions. Effective internal controls are crucial in ensuring compliance with state law, state accounting policy, and GAAP.

RECOMMENDATION #3

We recommend the Department of Corrections:

- A. *Evaluate its internal controls over contract bed payments, and make necessary changes to ensure payments to facilities, and the underlying accounting records, are accurate.*
- B. *Enhance internal controls over capital asset transactions at Montana Correctional Enterprises, to ensure the transactions are recorded in accordance with generally accepted accounting principles.*

Deposit Practices

Controls over receipt of money at multiple facilities do not adequately segregate custody and recordkeeping duties. Additionally, not all facilities make deposits in a timely manner in accordance with state law.

Correctional facilities throughout the state, including facilities operated by the department and facilities the department contracts with, receive money from various sources to be deposited into inmate trust accounts. The department also receives customer payments for goods and services sold through the Montana Correctional Enterprises (MCE) program, including payments for the Prison Paws dog training program at the Montana Women's Prison (MWP).

As part of the audit, we reviewed deposits of collections at the department-operated MWP and Pine Hills Youth Correctional Facility (Pine Hills), as well as at the Dawson County Correctional Facility (DCCF) and Corrections Corporation of America (CCA) contracted facilities. Through this work, we identified instances where segregation of duties were not adequate and where depositing procedures were not sufficient to ensure timely deposits in accordance with state law and department policy.

Table 5 summarizes the amount of deposits reviewed for inmate trust accounts, as well as for Prison Paws customer payments.

Table 5 <u>Deposit Summary</u>		
Activity	FY15 Deposit Amounts	FY16 Deposit Amounts
Inmate Trusts at MWP	\$200,324	\$233,709
Inmate Trusts at Pine Hills	\$ 36,007	\$ 24,777
Inmate Trusts at DCCF	\$ 267,103	\$ 161,125
Inmate Trusts at CCA	\$755,387	\$813,403
Customer Payments for Prison Paws	\$132,506	\$110,838

Source: Compiled by the Legislative Audit Division from department records and the Statewide Accounting, Budgeting, and Human Resource System.

Segregation of Duties

The department is required to comply with state accounting policy governing collections. State accounting policy requires agencies to develop appropriate internal

control procedures based upon their business processes, and indicates control activities should include segregation of duties designed to reduce opportunities for a person to be in a position to perpetrate and conceal errors and frauds when performing normal duties.

Our prior audit report included a recommendation to the department, related to segregation of duties over inmate trust account deposits at Montana State Prison (MSP). The department addressed the issues at MSP during the current audit period. However, in the current audit, we identified similar control deficiencies over inmate trust account deposits at MWP, Pine Hills, and DCCF. At each of these facilities, controls did not adequately segregate the duties of receiving payments, posting payments to offender accounts, and depositing payments at the bank, as outlined below.

- ♦ **MWP:** One employee posts payments to inmate accounts, prepares the deposit slip, and takes the deposit to the bank.
- ♦ **Pine Hills:** One employee receives payments, posts payments to inmate accounts, and prepares the deposit slip.
- ♦ **DCCF:** Two employees are responsible for posting payments to inmate accounts. One of those employees is also responsible for preparing the deposit slip and taking the deposit to the bank.

Similarly, for customer payments received for the Prison Paws program at MWP, one employee prepares the deposit slip and takes the deposit to the bank.

In each of the instances outlined above, one individual was placed in a position to potentially perpetrate and conceal errors or irregularities while performing normal work duties, without timely detection, given the individuals had both custody and record keeping duties. Inadequately segregated duties increases the risk of errors and inappropriate activities occurring related to these payments.

RECOMMENDATION #4

We recommend the Department of Corrections enhance control procedures to ensure proper segregation of duties over the receipt and deposit of inmate trust account moneys received at department-operated and contracted correctional facilities, as well as for customer payments for the Prison Paws program.

Timeliness of Deposits

Section 17-6-105(6), MCA, requires all money received by a state agency to be deposited with the state treasurer or in a depository bank approved by the state treasurer each day when the accumulated amount of cash and coin requiring deposit exceeds \$200 or total collections exceed \$750. The law further requires at least weekly deposits if these daily thresholds are not met. This state law applies to deposits at department-run correctional facilities and MCE operations. The contracts between the department and the DCCF and CCA facilities require the facilities to comply with department policies, and department policies require deposits to be in compliance with state law.

We reviewed deposits for customer account payments for the MCE Prison Paws program at MWP, as well as for inmate trust account deposits at MWP, DCCF, and CCA. Based on this work, procedures at the facilities were not sufficient to ensure timely deposits in accordance with state law, as detailed below.

- ◆ **MWP:** For inmate accounts, staff deposit three times a week, on Monday, Wednesday, and Friday, regardless of the amount of money received. For Prison Paws, staff deposit twice a week, regardless of the amount of money received. In our review of select deposits for these activities, we identified instances where the daily collections on nondeposit days exceeded \$750, and therefore, should have been deposited daily as required by state law.
- ◆ **DCCF:** Staff deposit once a week, regardless of the amount of money received. In our review of select deposits, we identified instances where the daily collections exceeded \$750, and therefore, should have been deposited daily as required by state law.
- ◆ **CCA:** We reviewed copies of deposit information the department receives from this facility, for moneys received for inmate trust accounts. In this review, we identified multiple instances where daily collection amounts logged at the facility exceeded \$750, but were not deposited daily in accordance with state law.

By not complying with deposit requirements in state law, the department and contracted facilities have increased risk loss or misappropriation of payments received.

RECOMMENDATION #5

We recommend the Department of Corrections:

- A. *Deposit money received in accordance with state law.*
 - B. *Monitor contract facility deposits to ensure compliance with state law.*
-

Cook Chill Internal Service Fund

Fees were not commensurate with costs for the department's Cook Chill Internal Service Fund in fiscal year 2016, and the resulting fund equity was excessive.

The department's Montana Correctional Enterprises (MCE) program operates a food factory, which provides food products to various institutions and nonprofit organizations. The food factory's operations are accounted for in the Cook Chill Internal Service Fund. Under §17-8-101(6), MCA, fees and charges for services in internal service funds must be based upon commensurate costs. The law also requires that we audit and report on the reasonableness of fees and charges, as well as fund equity balances.

We analyzed revenues and expenses in the cook chill fund, and determined fees were not commensurate with costs in fiscal year 2016. For fiscal year 2016, operating revenues exceeded operating expenses by approximately \$272,000. In our analysis, we also reviewed the fund's working capital, which is a measure of the liquid assets available to fund operations. State accounting policy refers to a working capital balance of 60 days as the maximum balance allowable for state budgetary processes. As of June 30, 2016, the fund had approximately 66 days, or approximately \$834,000, of working capital. A significant portion of the fund's working capital amount, approximately \$710,000, was comprised of cash. The cash balance and excess working capital indicate the fund equity balance in the fund at June 30, 2016, is not reasonable.

MCE management indicated the rates charged in fiscal year 2016 were intended to support the purchase of new equipment to be used in cook chill operations. Per management, not all of the equipment was purchased by fiscal year end 2016, which contributed to the large cash balance and excess working capital.

Had the equipment been purchased in fiscal year 2016, our analysis of fees commensurate with costs would not have changed. Because internal service funds use the full accrual basis of accounting, the equipment purchase would have reduced cash and increased a capital asset, with no impact on total expenses. Therefore, revenues would have still exceeded expenses in the fund during the fiscal year. The process of charging current customers a rate intended to fund capital asset purchases, for equipment to be used primarily in future years, results in current customers being charged for costs that were not incurred to provide the product they purchased. As a result, fees and charges in the cook chill internal service fund are not based upon commensurate costs, as required

by state law. As an alternative to charging higher rates than necessary to fund capital asset purchases, the department could pursue an INTERCAP loan from the Montana Board of Investments for such purchases.

RECOMMENDATION #6

We recommend the Department of Corrections charge fees commensurate with costs for cook chill products, as required by state law.

Noncompliance With State Laws

The department did not comply with multiple state laws, and has a continuing need to monitor compliance with its governing statutes.

The department's operations are governed by statutes in various titles of the Montana Code Annotated (MCA). As part of the audit, we completed testing over the department's compliance with approximately 40 of these statutes, and followed-up on a prior audit recommendation related to implementing control procedures to ensure compliance with all governing state laws. In response to the prior audit recommendation, the department drafted a list of its governing statutes, and developed a plan for reviewing compliance with the statutes. However, due to staff turnover, only limited compliance reviews were completed by department personnel during fiscal years 2015 and 2016.

Through our work on the current audit, we identified instances of noncompliance in 12 of the laws tested, including in two of the laws where noncompliance was identified and communicated to the department in the prior audit. Some of these instances of noncompliance are outlined in Recommendations 1, 5, and 6 of this report. The nature of the remaining noncompliance during the current audit period included incomplete or missing administrative rules, not reporting required information to outside parties, not following specific requirements for the boot camp, and not establishing a mechanism to hold offenders responsible for medical and dental costs. Greater detail on some of these remaining instances of noncompliance is outlined below.

- ♦ **Reporting Admission and Release of Arsonists:** Section 53-1-104, MCA, requires the department to notify the Department of Justice whenever an individual convicted of arson is either admitted to or released from a state prison or a youth correctional facility.

Procedures at Montana State Prison (MSP) were not sufficient to ensure all necessary notifications were provided to Department of Justice during fiscal years 2015 and 2016. Based on our review, MSP did not notify Department of Justice of five individuals admitted to, and two individuals released from,

the facility during the audit period. These instances of noncompliance were for offenders who were initially admitted to MSP from prerelease centers. Per MSP staff, procedures were not sufficient to ensure these types of offender files were screened for arson charges at the time of admission to MSP.

Additionally, Montana Women's Prison (MWP) did not notify Department of Justice for one individual admitted to the facility during the audit period. Per MWP staff, the individual responsible for notifying Department of Justice was new at the time, and was still learning the job responsibilities.

- ♦ **Establishing Administrative Rules for High-Risk Sexual Offender Geographic Restrictions:** Section 45-5-513, MCA, establishes geographic restrictions for high-risk sexual offenders. This law was enacted during the 2015 Legislative Session. As of our inquiry, the department had not begun the process to establish the administrative rules required by subsections (4) and (5) of this law, related to facilities subject to or exempted from the geographic restrictions established in the law. Department staff indicated there are no plans in place to expand department facilities, and therefore, did not prioritize developing the administrative rules.
- ♦ **Admission to the Boot Camp Incarceration Program:** Section 53-30-403, MCA, requires the department to request and consider the written recommendation of the prosecuting attorney's office when determining whether to admit an inmate to the boot camp incarceration program. The department does not request a recommendation from the prosecuting attorney's office, for inmates who were committed to the department's care by the sentencing court. Department staff believed in these cases, the sentencing court's action of committing the inmate to the department's care eliminated the need to seek recommendation from the prosecuting attorney's office. However, state law does not provide an exception for these inmates.
- ♦ **Collection of Inmate Medical and Dental Expenses:** Section 53-1-107, MCA, establishes guidelines for inmate financial transactions and the inmate trust account system. Subsection (5) of the law requires the department to adopt rules establishing criteria for the use of funds within inmate accounts that ensure payment for various court-ordered amounts, as well as for the inmate's medical and dental costs, and costs of incarceration as outlined in Subsection (2). Subsection (6) of the law establishes inmate responsibility for their medical and dental expenses during their period of incarceration, and indicates inmates are obligated to repay the department for reasonable costs incurred by the department for the inmate's medical and dental expenses.

The department has not adopted administrative rules establishing criteria for use of funds from inmate accounts. Additionally, the department does not have a mechanism in place to charge inmates for medical and dental expenses. As such, inmates do not repay the department for these costs. Department management does not believe the law obligates the department to make collection efforts for medical and dental expenses. However, the law creates an expectation of repayment by inmates, and the department currently does not have a mechanism in place to allow for repayment to occur. In each fiscal years 2015 and 2016, the department spent approximately \$8 million on payments for outside medical costs.

The results of our current audit work, and work completed in the fiscal year 2013 and 2014 audit, indicate there is a continuing need for the department to develop and implement internal procedures to ensure compliance with governing state laws.

RECOMMENDATION #7

We recommend the Department of Corrections continue to develop and implement internal procedures to ensure compliance with all governing state laws.

Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

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, 2016, and 2015, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2016 and June 30, 2015, or changes in financial position or cash flows for the years then ended.

Basis for Qualified Opinions on Regulatory Basis of Accounting

The department did not record all General Fund liabilities that existed as of June 30, 2015, for obligations outstanding to regional correctional facilities. As a result, Ending Fund Equity reported in the General Fund column of the Schedule of Changes in Fund Equity & Property Held in Trust for the Fiscal Year Ended June 30, 2015, is overstated by approximately \$1,272,000. Additionally, the Beginning Fund Equity reported in the General Fund column of the Schedule of Changes in Fund Equity & Property Held in Trust for the Fiscal Year Ended June 30, 2016, is overstated by approximately \$1,272,000.

The department incorrectly recorded capital asset-related transactions in fiscal year 2016. As a result, the Internal Service Fund column of the Schedule of Changes in Fund Equity & Property Held in Trust for the Fiscal Year Ended June 30, 2016, and the Montana Correctional Enterprises column of the Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2016, contain errors, as summarized in the table below.

Summary of Errors in Fiscal Year 2016 Financial Schedule Line Items	
	Over (Under) Statement
Schedule of Changes in Fund Equity & Property Held in Trust	
Internal Service Fund Nonbudgeted Expenditures and Transfers Out	\$492,000
Internal Service Fund Ending Fund Equity	(\$492,000)
Schedule of Total Expenditures & Transfers-Out	
Montana Correctional Enterprises Operating Expenses, Other Expenses	\$492,000
Montana Correctional Enterprises Total Internal Service Fund Expenditures	\$492,000
Montana Correctional Enterprises Nonbudgeted Expenditures	\$492,000

Qualified Opinions on Regulatory Basis of Accounting

In our opinion, except for the effects of the matters described in the “Basis for Qualified Opinions” paragraph, the Schedule of Changes in Fund Equity & Property Held in Trust for the fiscal year ended June 30, 2015, and the Schedule of Changes in Fund Equity & Property Held in Trust and Schedule of Expenditures & Transfers-Out for the fiscal year ended June 30, 2016, present 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, 2016, and 2015, in conformity with the basis of accounting described in Note 1.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Total Revenues & Transfers-In present fairly, in all material respects, the results of operations of the Department of Corrections for each of the fiscal years ended June 30, 2016, and 2015, and the Schedule of Total Expenditures & Transfers-Out presents fairly, in all material respects, the results of operations of the Department of Corrections for the fiscal year ended June 30, 2015, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2016, on our consideration of the Department of Corrections’ internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department’s internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

September 6, 2016

DEPARTMENT OF CORRECTIONS
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund
	\$	\$	\$	\$	\$	\$	\$
FUND EQUITY: July 1, 2015							
PROPERTY HELD IN TRUST: July 1, 2015	<u>\$ (13,484,838)</u>	<u>1,029,014</u>	<u>1,210</u>	<u>0</u>	<u>14,469,315</u>	<u>5,339,838</u>	<u>1,865,319</u>
ADDITIONS							
Budgeted Revenues & Transfers-In	63,723	5,071,561	580,651		8,463,980	7,305,471	
Nonbudgeted Revenues & Transfers-In	(54)	6,830			56,505	11,982	
Prior Year Revenues & Transfers-In Adjustments	203	(199,905)	336		5,096	(1,735)	
Direct Entries to Fund Equity	198,995,563	534,205	(1,210)	14,910	(233,939)	(1,194,803)	
Additions to Property Held in Trust							8,513,036
Total Additions	<u>199,059,436</u>	<u>5,412,691</u>	<u>579,777</u>	<u>14,910</u>	<u>8,291,642</u>	<u>6,120,915</u>	<u>8,513,036</u>
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	198,691,247	4,993,180	580,986	14,910	9,033,036	7,782,232	
Nonbudgeted Expenditures & Transfers-Out	(293,188)	(308)			(31,163)	(1,953,422)	
Prior Year Expenditures & Transfers-Out Adjustments	(10,070)	(9,720)			347	(8,880)	
Reductions in Property Held in Trust							8,780,265
Total Reductions	<u>198,387,989</u>	<u>4,983,153</u>	<u>580,986</u>	<u>14,910</u>	<u>9,002,219</u>	<u>5,819,930</u>	<u>8,780,265</u>
FUND EQUITY: June 30, 2016	<u>\$ (12,813,391)</u>	<u>1,458,552</u>	<u>0</u>	<u>0</u>	<u>13,758,737</u>	<u>5,640,824</u>	<u>0</u>
PROPERTY HELD IN TRUST: June 30, 2016							<u>\$ 1,598,090</u>

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

DEPARTMENT OF CORRECTIONS
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund
FUND EQUITY: July 1, 2014	\$ (11,384,354)	\$ 4,001,292	\$ 1,210	\$ 13,767,497	\$ 4,516,392	\$ 0
PROPERTY HELD IN TRUST: July 1, 2014						\$ 1,164,123
ADDITIONS						
Budgeted Revenues & Transfers-In	81,937	5,441,668	806,535	7,913,777	8,365,982	
Nonbudgeted Revenues & Transfers-In	(91)	(14,304)		170,422	11,091	
Prior Year Revenues & Transfers-In Adjustments	592	52,689	249			
Direct Entries to Fund Equity	189,233,449	220,500	181	(1,151,851)	(678,702)	
Additions to Property Held in Trust						9,151,882
Total Additions	189,315,888	5,700,552	806,965	6,932,348	7,698,371	9,151,882
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	191,464,899	8,676,161	806,965	7,708,030	7,490,519	
Nonbudgeted Expenditures & Transfers-Out	1,125			(1,477,500)	(615,594)	
Prior Year Expenditures & Transfers-Out Adjustments	(49,653)	(3,332)				
Reductions in Property Held in Trust						8,450,686
Total Reductions	191,416,371	8,672,830	806,965	6,230,530	6,874,925	8,450,686
FUND EQUITY: June 30, 2015	\$ (13,484,838)	\$ 1,029,014	\$ 1,210	\$ 14,469,315	\$ 5,339,838	\$ 0
PROPERTY HELD IN TRUST: June 30, 2015						\$ 1,865,319

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

DEPARTMENT OF CORRECTIONS
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	Slate Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Total
Taxes			\$ 336			\$ 336
Charges for Services	\$	1,433,861		493		1,434,354
Fines and Forfeits		7,700				7,700
Sale of Documents, Merchandise and Property		2,554,189		8,498,375	7,303,736	18,356,300
Grants, Contracts, and Donations		315,923		21,022	11,982	348,927
Transfers-in		561,960	382,263			944,224
Capital Asset Sale Proceeds				3,350		3,350
Federal Indirect Cost Recoveries	\$ 8,019					8,019
Miscellaneous	55,853	4,852		2,342		63,047
Federal			198,387			198,387
Total Revenues & Transfers-In	63,872	4,878,486	580,986	8,525,582	7,315,718	21,364,644
Less: Nonbudgeted Revenues & Transfers-In	(54)	6,830	56,505		11,982	75,264
Prior Year Revenues & Transfers-In Adjustments	203	(199,905)	336	5,096	(1,735)	(196,006)
Actual Budgeted Revenues & Transfers-In	63,723	5,071,561	580,651	8,463,980	7,305,471	21,485,386
Estimated Revenues & Transfers-In	60,000	5,192,176	394,118	7,547,742	7,732,000	20,926,036
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 3,723	\$ (120,615)	\$ 186,533	\$ 916,238	\$ (426,529)	\$ 559,351
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Charges for Services	\$	7,440		(4,507)		\$ 2,933
Fines and Forfeits		3,200				3,200
Sale of Documents, Merchandise and Property		(149,611)		923,909	(426,529)	347,769
Rentals, Leases and Royalties				(5)		(5)
Grants, Contracts, and Donations		(92,448)				(92,448)
Transfers-in		106,960	155,849			262,809
Federal Indirect Cost Recoveries	\$ 3,019					3,019
Miscellaneous	704	3,843		(3,156)		1,389
Federal			30,684			30,684
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 3,723	\$ (120,615)	\$ 186,533	\$ 916,238	\$ (426,529)	\$ 559,351

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 Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF CORRECTIONS
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Taxes						
Charges for Services		\$ 1,715,079	\$ 249			\$ 1,715,097
Fines and Forfeits		5,273		18		5,273
Sale of Documents, Merchandise and Property		2,550,579		7,950,484	\$ 8,365,982	18,867,045
Grants, Contracts, and Donations		665,705		20,328	11,091	697,123
Transfers-in		535,191	376,331	113,370		911,523
Capital Asset Sale Proceeds	\$ 21,754					113,370
Federal Indirect Cost Recoveries	60,684	8,224				21,754
Miscellaneous						68,908
Federal			430,204			430,204
Total Revenues & Transfers-In	82,439	5,480,052	806,784	8,084,199	8,377,073	22,830,547
Less: Nonbudgeted Revenues & Transfers-In	(91)	(14,304)		170,422	11,091	167,118
Prior Year Revenues & Transfers-In Adjustments	592	52,689	249			53,529
Actual Budgeted Revenues & Transfers-In	81,937	5,441,668	806,535	7,913,777	8,365,982	22,609,900
Estimated Revenues & Transfers-In	82,000	5,753,927	1,705,499	7,267,237	7,166,400	21,975,063
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (63)	\$ (312,259)	\$ (898,964)	\$ 646,540	\$ 1,199,582	\$ 634,837
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Charges for Services		\$ (342,668)		\$ (14,982)		\$ (357,650)
Fines and Forfeits		(12,727)				(12,727)
Sale of Documents, Merchandise and Property		(153,421)		667,523	\$ 1,199,582	1,713,684
Rentals, Leases and Royalties				(6,000)		(6,000)
Grants, Contracts, and Donations		203,170				203,170
Transfers-in	\$ (22,000)	(6,838)	37,421			8,584
Federal Indirect Cost Recoveries	16,754					16,754
Miscellaneous	5,183	224				5,407
Federal			(936,385)			(936,385)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (63)	\$ (312,259)	\$ (898,964)	\$ 646,540	\$ 1,199,582	\$ 634,837

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

DEPARTMENT OF CORRECTIONS
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Board of Pardons & Parole	Business Mangement Services Division	Clinical Services Division	Montana Correctional Enterprises	Probation & Parole Division	Secure Custody Facilities	Youth Services	Total
Personal Services								
Salaries	\$ 485,027	\$ 5,545,171	\$ 5,592,818	\$ 3,376,857	\$ 11,683,584	\$ 26,848,708	\$ 7,436,146	\$ 60,968,311
Hourly Wages				505,236		355,528	28,688	889,452
Other Compensation	36,145							36,145
Employee Benefits	202,370	1,927,780	2,136,864	1,323,298	5,248,381	11,574,364	3,290,324	25,703,380
Personal Services-Other				29,376				29,376
Total	<u>723,542</u>	<u>7,472,950</u>	<u>7,729,682</u>	<u>5,234,768</u>	<u>16,931,965</u>	<u>38,778,600</u>	<u>10,755,158</u>	<u>87,626,664</u>
Operating Expenses								
Other Services	35,611	3,297,699	10,015,514	169,244	47,808,861	38,554,727	440,065	100,321,722
Supplies & Materials	74,953	697,966	3,442,886	2,286,536	469,412	3,740,836	624,305	11,336,895
Communications	10,505	795,988	13,114	26,310	275,395	136,393	54,703	1,312,407
Travel	54,198	91,583	31,516	31,410	197,897	223,103	92,318	722,026
Rent	73,033	450,003	41,061	110,317	1,378,507	197,872	161,780	2,412,573
Utilities			5,178	215,336	47,401	1,279,277	254,308	1,801,500
Repair & Maintenance	986	53,519	31,855	723,415	78,668	832,736	58,211	1,779,391
Other Expenses	41,037	145,704	27,638	3,305,259	282,005	245,977	73,200	4,120,819
Goods Purchased For Resale				7,381,936		273	1,157	7,383,366
Total	<u>290,323</u>	<u>5,532,461</u>	<u>13,608,761</u>	<u>14,249,765</u>	<u>50,538,146</u>	<u>45,211,195</u>	<u>1,760,048</u>	<u>131,190,699</u>
Equipment & Intangible Assets								
Equipment			25,000		255,373	89,526	33,321	403,220
Total			<u>25,000</u>		<u>255,373</u>	<u>89,526</u>	<u>33,321</u>	<u>403,220</u>
Capital Outlay								
Buildings				(1,803,995)				(1,803,995)
Total				<u>(1,803,995)</u>				<u>(1,803,995)</u>
Benefits & Claims								
From State Sources							528,938	528,938
Total							<u>528,938</u>	<u>528,938</u>
Transfers-out								
Fund transfers		3,258		178,505		49,500		231,263
Total		<u>3,258</u>		<u>178,505</u>		<u>49,500</u>		<u>231,263</u>
Debt Service								
Loans					70,280	216,971	20,877	308,128
Capital Leases				30,014				30,014
Total				<u>30,014</u>	<u>70,280</u>	<u>216,971</u>	<u>20,877</u>	<u>338,142</u>
Post Employment Benefits								
Other Post Employment Benefits				170,390				170,390
Employer Pension Expense				103,866				103,866
Total				<u>274,256</u>				<u>274,256</u>
Total Expenditures & Transfers-Out	\$ <u>1,013,865</u>	\$ <u>13,008,669</u>	\$ <u>21,363,443</u>	\$ <u>18,163,314</u>	\$ <u>67,795,764</u>	\$ <u>84,345,791</u>	\$ <u>13,098,341</u>	\$ <u>218,789,187</u>
EXPENDITURES & TRANSFERS-OUT BY FUND								
General Fund	\$ 1,013,865	\$ 12,295,244	\$ 21,363,443	\$ 899,216	\$ 66,921,593	\$ 83,577,639	\$ 12,316,990	\$ 198,387,989
State Special Revenue Fund		406,446		2,544,724	816,369	628,898	586,716	4,983,153
Federal Special Revenue Fund		204,204			57,802	124,344	194,636	580,986
Capital Projects Fund						14,910		14,910
Enterprise Fund		51,090		8,951,129				9,002,219
Internal Service Fund		51,685		5,768,245				5,819,930
Total Expenditures & Transfers-Out	<u>1,013,865</u>	<u>13,008,669</u>	<u>21,363,443</u>	<u>18,163,314</u>	<u>67,795,764</u>	<u>84,345,791</u>	<u>13,098,341</u>	<u>218,789,187</u>
Less: Nonbudgeted Expenditures & Transfers-Out		(308)		(1,984,585)		(293,188)		(2,278,081)
Prior Year Expenditures & Transfers-Out Adjustments		(11,853)	(4,158)	(8,533)	(11,780)	5,408	2,593	(28,323)
Actual Budgeted Expenditures & Transfers-Out	<u>1,013,865</u>	<u>13,020,831</u>	<u>21,367,601</u>	<u>20,156,432</u>	<u>67,807,545</u>	<u>84,633,570</u>	<u>13,095,748</u>	<u>221,095,591</u>
Budget Authority	<u>1,013,868</u>	<u>14,184,438</u>	<u>23,057,610</u>	<u>21,177,497</u>	<u>68,084,560</u>	<u>85,299,262</u>	<u>13,502,337</u>	<u>226,319,571</u>
Unspent Budget Authority	\$ <u>3</u>	\$ <u>1,163,607</u>	\$ <u>1,690,009</u>	\$ <u>1,021,065</u>	\$ <u>277,016</u>	\$ <u>665,691</u>	\$ <u>406,589</u>	\$ <u>5,223,980</u>
UNSPENT BUDGET AUTHORITY BY FUND								
General Fund	\$ 3	\$ 53,325	\$ 1,481,109	\$ 16,136	\$ 69,464	\$ 308,806	\$ 292,452	\$ 2,221,295
State Special Revenue Fund		39,018	208,900	100,890	13,160	324,326	8,275	694,569
Federal Special Revenue Fund		1,071,263			194,392	27,470	105,863	1,398,988
Capital Projects Fund						5,090		5,090
Enterprise Fund				485,645				485,645
Internal Service Fund				418,393				418,393
Unspent Budget Authority	\$ <u>3</u>	\$ <u>1,163,607</u>	\$ <u>1,690,009</u>	\$ <u>1,021,065</u>	\$ <u>277,016</u>	\$ <u>665,691</u>	\$ <u>406,589</u>	\$ <u>5,223,980</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.

DEPARTMENT OF CORRECTIONS
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Business Management Services Division	Clinical Services Division	Montana Correctional Enterprises	Probation & Parole Division	Secure Custody Facilities	Youth Services	Total
Personal Services							
Salaries	\$ 6,955,056	\$ 5,199,290	\$ 3,144,029	\$ 11,394,131	\$ 24,552,457	\$ 7,390,296	\$ 58,635,257
Hourly Wages			490,530		348,028	27,288	865,846
Other Compensation	34,825						34,825
Employee Benefits	2,159,507	1,938,025	1,224,345	5,030,552	10,931,815	3,258,073	24,542,317
Personal Services-Other			58,940				58,940
Total	9,149,388	7,137,315	4,917,844	16,424,682	35,832,299	10,675,656	84,137,185
Operating Expenses							
Other Services	2,867,505	9,863,240	250,718	46,024,452	35,940,460	599,098	95,545,473
Supplies & Materials	1,127,023	3,336,930	2,458,198	407,552	3,790,556	640,330	11,760,589
Communications	892,595	12,504	34,715	246,278	117,628	55,140	1,358,860
Travel	110,347	36,866	18,532	142,937	176,282	78,852	563,817
Rent	450,070	30,300	107,751	1,387,203	159,857	172,933	2,308,114
Utilities		5,091	243,517	60,110	1,294,426	294,276	1,897,420
Repair & Maintenance	242,379	23,296	700,470	103,199	820,402	151,625	2,041,372
Other Expenses	139,097	28,779	(758,565)	154,722	229,851	76,802	(129,313)
Goods Purchased For Resale		346	8,404,385			2,804	8,407,535
Total	5,829,017	13,337,352	11,459,720	48,526,453	42,529,463	2,071,862	123,753,866
Equipment & Intangible Assets							
Equipment	13,400		7,421		346,849		367,670
Total	13,400		7,421		346,849		367,670
Capital Outlay							
Buildings			(554,629)				(554,629)
Total			(554,629)				(554,629)
Grants							
Total							
Benefits & Claims							
From State Sources						2,136,001	2,136,001
From Federal Sources						181	181
Total						2,136,182	2,136,182
Transfers-out							
Fund transfers			177,879		55,750	3,369,888	3,603,517
Total			177,879		55,750	3,369,888	3,603,517
Debt Service							
Loans				70,280	173,888	20,877	265,045
Capital Leases			30,748				30,748
Total			30,748	70,280	173,888	20,877	295,793
Post Employment Benefits							
Other Post Employment Benefits			174,052				174,052
Employer Pension Expense			87,983				87,983
Total			262,036				262,036
Total Expenditures & Transfers-Out	\$ 14,991,805	\$ 20,474,667	\$ 16,301,020	\$ 65,021,416	\$ 78,938,249	\$ 18,274,464	\$ 214,001,620
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 11,665,901	\$ 20,474,667	\$ 733,440	\$ 63,090,091	\$ 78,124,463	\$ 17,327,808	\$ 191,416,371
State Special Revenue Fund	3,055,414		2,525,136	1,667,337	710,094	714,848	8,672,830
Federal Special Revenue Fund	207,478			263,987	103,692	231,808	806,965
Enterprise Fund	40,846		6,189,684				6,230,530
Internal Service Fund	22,165		6,852,760				6,874,925
Total Expenditures & Transfers-Out	14,991,805	20,474,667	16,301,020	65,021,416	78,938,249	18,274,464	214,001,620
Less: Nonbudgeted Expenditures & Transfers-Out			(2,093,094)		1,125		(2,091,969)
Prior Year Expenditures & Transfers-Out Adjustments	(2,329)		(2,751)		(3,332)	(44,573)	(52,985)
Actual Budgeted Expenditures & Transfers-Out	14,994,133	20,474,667	18,396,865	65,021,416	78,940,456	18,319,037	216,146,574
Budget Authority	15,660,461	20,486,989	20,597,210	65,704,655	79,066,496	18,759,350	220,275,161
Unspent Budget Authority	\$ 666,327	\$ 12,322	\$ 2,200,345	\$ 683,240	\$ 126,041	\$ 440,312	\$ 4,128,587
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 73,729	\$ 12,322	\$ 1,525	\$ 32,130	\$ 71,121	\$ 25,042	\$ 215,870
State Special Revenue Fund	59,229		110,362	398,916	37,265	368,936	974,709
Federal Special Revenue Fund	533,368			252,194	17,654	46,334	849,551
Enterprise Fund			1,876,477				1,876,477
Internal Service Fund			211,980				211,980
Unspent Budget Authority	\$ 666,327	\$ 12,322	\$ 2,200,345	\$ 683,240	\$ 126,041	\$ 440,312	\$ 4,128,587

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.

Montana Department of Corrections

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2016

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue). 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 (other than private-purpose trusts or major capital projects) 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, 2015 and June 30, 2016.

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 2016, the department had 5.2 million in unspent budget authority.

Business Management Services - The Business Management Services Division had unspent budget authority of 1.2 million at June 30, 2016. The Division has several federal grants that span more than one year. 1.1 million of unspent budget authority relates to the Departments NCHIP and PREA grants. The remaining amounts are comprised of restricted state special revenue funds for the collection of restitution.

Clinical Services Division - The Clinical Services Division had unspent budget authority of 1.7 million at June 30, 2016. The unspent budget authority is comprised of restricted authority for expenditures related to Medicaid Expansion (1.4 million) and Medical Copays (\$208,000).

Montana Correctional Enterprises - had 1 million in unspent budget authority on June 30, 2016 as a result of fluctuating market prices in the Enterprise and Internal Service fund operations.

The Probation and Parole, Secure Custody and Youth Services Divisions - had a combined total of unspent budget authority of 1.3 million at June 30, 2016. The unspent authority for FY16 is from contracts and grants spanning more than one year.

5. Contractual Commitments

At June 30, 2016, the department had contractual commitments of approximately 19.7 million and the department made bond payments on those contracts totaling 3.2 million in fiscal year 2016. 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 Years 2015 and 2016, 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 each of the corresponding Fiscal Years includes 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 Board of Pardons and Parole Division

In Fiscal Year 2016 the department re-organized the structure of the Department of Corrections to include a Board of Pardons and Parole Division. 11.0 FTE with personal services and operating budgets were moved from the Business Management Services Division to support all Board of Pardons and Parole services. The Board of Pardons and Parole Division is operated under program 7.

8. Contingencies

There are five pending cases in which the department is the defendant and in which there is a “reasonable possibility” as defined in GASB Statement 62, of monetary judgments against the department.

- ♦ Langford v. Bullock, 93-CV-46-The court imposed a consent decree against the department in 1994, with continued monitoring until the Department is in full compliance. The consent decree obligates the State to pay ongoing attorney and expert witness fees of an unspecified amount. In previous years the Risk Management and Tort Defense Division of the Department of Administration was responsible for payment of these fees. However, the Department of Corrections has now assumed that responsibility for the final remaining disputed issue related to ADA compliance.
- ♦ Disability Rights Montana v. Batista, 15-CV-22- Although the case was dismissed by the district court, the department is currently engaged in settlement discussions while the case is on appeal that could result in a monetary settlement. At this time the department cannot specify an anticipated amount.
- ♦ Carroll v. MDOC, DV-15-82-mandatory settlement conference; unknown value although Plaintiff claims damages in excess of \$160,000
- ♦ Stretch v. State of Montana, DV-05-475A, the department is currently in the process of settlement talks that could result in a monetary settlement in excess of \$250,000.

- ♦ Barclay v. MDOC, DV-13-26-wage claim case where Plaintiffs claim in excess of \$2,000,000 in lost wages & penalties; mandatory settlement conference;

9. Other

In FY2016 in the Internal Service fund (06572) an asset correction was made in error crediting building improvements, debiting accumulated depreciation – building improvements and non-budgeted loss on sale of expense. The error was corrected in FY2017. The result of this error overstated expenses in FY2016 \$476,881.78 (62808 NB loss on sale) and the correction will lead to the understatement of expenses in FY2017. The fund equity balance in FY2016 is understated by \$476,881.78.

In FY2015, the accrued liability for regional prison retroactive per diem payments was understated by \$1.272 million at June 30, 2015. The accrual did not take into account the outstanding retroactive payments that would be due for years prior to FY2015, therefore resulting in an overstatement of the ending fund equity balance.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

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



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

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

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity & 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, 2016, and 2015, and the related notes to the financial schedules, and have issued our report thereon dated September 6, 2016. Our report includes modified opinions on the Schedule of Changes in Fund Equity & Property Held in Trust for each of the fiscal years ended June 30, 2016, and 2015, and on the Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the Department of Corrections' internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of Department of Corrections' internal control. Accordingly, we do not express an opinion on the effectiveness of Department of Corrections' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the table below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a

combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance. The table below outlines the significant deficiencies and material weakness we identified during the audit.

Summary of Deficiencies in Internal Control		
Subject	Type of Deficiency	Page in 16-15 Report
Capital Asset Transactions	Material Weakness	18
Monthly Contract Bed Payments	Significant Deficiency	17
Segregation of Duties Over Deposits	Significant Deficiency	20

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department of Corrections' financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Department of Corrections Response to Findings

Department of Corrections' response to the findings identified in our audit are described on page C-1 of this report. The department's response was not subjected to the auditing procedures applied in the audit of the financial schedules and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

September 6, 2016

DEPARTMENT OF
CORRECTIONS

DEPARTMENT RESPONSE



Montana Department of Corrections

Director's Office

C-1

Steve Bullock, Governor
Mike Batista, Director

September 23, 2016

Angus Maciver
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena, MT 59620-1705

RECEIVED
SEP 26 2016
LEGISLATIVE AUDIT DIV.

RE: Department of Corrections response to Legislative Audit Report

Dear Mr. Maciver:

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 comply with state law by:

- A. Using state youth correctional facilities only for the purposes outlined in section 52-5-101, MCA.
- B. Not placing youth offenders in facilities used to execute sentences of adults of convicted crimes.
- C. Resuming state youth correctional activities at the Riverside State Youth Correctional Facility.

Response:

Do not concur. The department carefully performed its due diligence before making changes to the uses and population compositions of the Pine Hills and Riverside correctional facilities. The department determined that the controlling legal authority under the circumstances of very low census, rising costs of care, and excess capacity at both facilities, was §53-1-201, MCA. That statute requires that the department use state resources at maximum efficiency in a coordinated effort to develop and maintain comprehensive services and programs in the field of adult and youth corrections. The department acknowledges that other statutes pertaining to correctional facilities, including but not limited to §52-5-101, MCA, need to be reconciled with §53-1-201, MCA and with each other through legislative action.

RECOMMENDATION #2:

We recommend the Department of Corrections review and revise regional correctional facility per diem accounting process to ensure:

- A. The accrued liability balance at fiscal year-end reflects a reasonable estimate of the department's unpaid obligation to the facilities, in accordance with generally accepted accounting principles.
- B. Per diem payments are charged to an expenditure account and appropriation, either through a payment recorded directly to an expenditure or through a payment made against a previously established expenditure accrual.

Response:

Concur. In future years, should the negotiated per diem rate increases span multiple fiscal years, the Department will accrue an amount that takes into consideration the cumulative total of all retroactive payments, rather than only the additional payment that would be due for the prior fiscal year. In future years, the department will charge the retroactive payment to the accrual account, rather than the previous practice of charging a fund equity account approved by DOA.

RECOMMENDATION #3:

We recommend the Department of Corrections:

- A. Evaluate its internal controls over contracted bed payments and make necessary changes to ensure payments to facilities, and the underlying accounting records are accurate.
- B. Enhance internal controls over capital asset transactions at Montana Correctional Enterprises to ensure the transactions are recorded in accordance with generally accepted accounting principles.

Response:

Concur. Internal controls will be implemented to ensure that payments to facilities are accurate and that capital asset transactions are recorded in accordance with generally accepted accounting principles.

RECOMMENDATION #4:

We recommend the Department of Corrections enhance control procedures to ensure proper segregation of duties over the receipt and deposit of inmate trust account monies received at the department-operated and contracted correctional facilities, as well as for customer payments for the Prison Paws program.

Response:

Concur. We have communicated with key personnel at each of the facilities and the Montana Correctional Enterprises Prison Paws program about the proper segregation of duties and have implemented plans to ensure compliance in the event of a staff shortage due to absences or turnover. We also will perform periodic reviews through our quality assurance internal control testing.

RECOMMENDATION #5:

We recommend the Department of Corrections:

- A. Deposit money received in accordance with state law.
- B. Monitor contract facility deposits to ensure compliance with state law.

Response:

Concur. We have communicated with key personnel at each of the facilities and Montana Correctional Enterprises Prison Paws program about the proper timeliness of deposits depending on the daily dollar amount and have implemented plans to ensure compliance in the event of a staff shortage due to absences or turnover. We also will perform periodic reviews through our quality assurance internal control testing.

RECOMMENDATION #6:

We recommend the Department of Corrections charge fees commensurate with costs for cook chill products as required by law:

Response:

Concur. The Department will continue to monitor its working capital to ensure fees and charges for services are commensurate with costs.

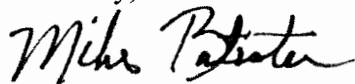
RECOMMENDATION #7:

We recommend the Department of Corrections continue to develop and implement internal procedures to ensure compliance with all governing state laws.

Response:

Concur. Through our Legal and Quality Assurance offices, the department will continue to carry out an internal review process to ensure it is adhering to all governing state laws.

Sincerely,



MIKE BATISTA
Director

MB:sj