



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Department of
Corrections*

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

JULY 2023

LEGISLATIVE AUDIT
DIVISION

22-15

FINANCIAL-COMPLIANCE AUDITS

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Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2021, was issued June 21, 2022. The Single Audit Report for the two fiscal years ended June 30, 2023, will be issued by March 31, 2024.

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

July 2023

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance report on the Department of Corrections for the two fiscal years ended June 20, 2022.

We issued an unmodified opinion on the financial schedules for fiscal year 2021 and a qualified opinion for fiscal year 2022. The fiscal year 2022 misstatements resulted from pension-related transactions processed by the Department of Administration. We issued a recommendation to the Department of Administration in its financial-compliance audit (#22-13) issued in June 2023. See page 3 of this report for more information.

The department's written response to the audit recommendation is included in the audit report beginning on page C-1. 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

Department of Corrections

Director's Office Brian Gootkin, Director
 Cynthia Wolken, Deputy Director
 Natalie Smitham, Chief Financial Officer

Central Services John Daugherty, Chief

Public Safety Jim Anderson, Chief

**Rehabilitation and
Programs** Scott Eychner, Chief

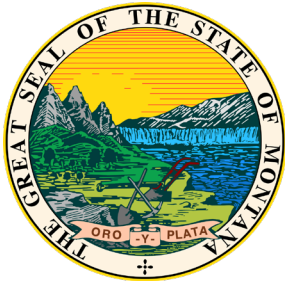
Board of Pardons and Parole	<u>Board Member</u>	<u>City</u>	<u>Term Expires January 1</u>
	Annette Carter, Chair	Deer Lodge	2027
	Darrell Bell	Billings	2025
	Kristina Lucero	Missoula	2025
	Brad Newman	Butte	2029
	Jimmy Patelis	Helena	2027

For additional information concerning the Department of Corrections,
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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Department of Corrections

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2022

A report to the Montana Legislature

BACKGROUND

The department reorganized its programs in fiscal year 2022, consolidating its six previous programs into four. You can see the impact on the financial schedules by comparing the columns on the Schedule of Expenditures and Transfers-Out in fiscal year 2021 to the same schedule in fiscal year 2022.

The department reorganized to better communicate its two-part mission of public safety and rehabilitation.

The Department of Corrections (department) received over \$38 million of coronavirus-related federal funding from the Governor’s Office in fiscal year 2021. Of this, 71 percent of the money was spent on personal services expenditures and 18 percent on room and board expenditures. The funding replaced General Fund expenses. The Schedule of Expenditures in fiscal year 2021 reports a high unspent budget authority in the General Fund, partly because of the increased federal funding.

AUDITOR’S OPINION (page A-1) – 2022 QUALIFIED and 2021 UNMODIFIED:

A qualified opinion means the reader can rely on all the information presented in the financial schedules except for certain activity. We qualified the opinion because the Department of Administration made a material error in processing pension related activity.

An unmodified opinion means the reader can rely on the information recorded on the state’s accounting records and presented in the financial schedules.

For the full context of the department’s financial activity, see the financial schedules and notes beginning on page A-5.

RECOMMENDATIONS:

In this report, we issued the following recommendations:

To the department: 0

To the legislature: 0

In this report, we determined the implementation status of recommendations in the prior audit:

Fully Implemented: 0

Partially Implemented: 1

Not Implemented: 0

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

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SUMMARY OF AUDIT WORK:

Our audit work included analyzing the financial schedules, note disclosures, and underlying financial activity for personal service expenditures, inmate housing costs, budget authority and direct entries for both fiscal years 2022 and 2021. We tested transfers-in in fiscal year 2021. We also determined the prior audit recommendation is partially implemented. The department moved some of the activity we recommended out of the Private Purpose Trust Fund but not all. They kept the Inmate Trust Fund Account in the fund instead of moving it to the State Special Revenue Fund as required by Generally Accepted Accounting Principles.

REPORT ON INTERNAL CONTROL AND COMPLIANCE (page B-1):

In this report, we identified the following:
Material Weaknesses in Internal Control: 1
Significant Deficiencies in Internal Control: 1
Material Non-Compliance: 0
Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

Chapter I – Introduction and Background

Audit Scope

To meet the following objectives, we performed a financial-compliance audit of the Department of Corrections (department) for the two fiscal years ended June 30, 2022.

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, 2022, fairly present the results of operations and changes in fund equity.
3. Determine the implementation status of the audit recommendation made in the previous audit.

Our audit work included analyzing the financial schedules, note disclosures, and underlying financial activity for personal services, inmate housing costs, budget authority, and direct entries for fiscal years 2022 and 2021. We tested fiscal year 2021 transfers-in related to COVID-19 federal funding from the Governor's Office.

Internal Service Funds

As required by §17-8-101(6), MCA, we reviewed the fees charged and the fund equity of the department's internal service funds. When we review fund equity, we remove non-spendable assets and liabilities, like pension liabilities, as these items do not represent the fund's solvency. We call this adjusted fund equity. The department operates two internal service funds related to the Montana Correctional Enterprise program.

Our review found that fees and fund equity for the prison industries training program were not reasonable for the two fiscal years ended June 30, 2022, because both working capital and adjusted fund equity was negative. Allowed working capital is 60 days of expenses.

Adjusted fund equity was reasonable in fiscal years 2021 and 2022 for the Cook Chill fund. In fiscal year 2021, we found fees were not commensurate with costs because working capital was 14 days more than the allowed 60 days. We found fees and charges were reasonable in fiscal year 2022.

We reviewed the department's internal controls related to its internal service funds and communicated ways to improve internal controls, but we noted the department did request a rate increase in the fiscal year 2023 session for both funds, indicating its calculations were giving them enough information to make appropriate decisions. The 2023 Legislature approved the increased rates. Therefore, we make no recommendations at this time.

Background

As explained in Note 1, the department reorganized its programs in fiscal year 2022, consolidating its six previous programs into four. The impact to the financial schedules is apparent by comparing the columns on the Schedule of Expenditures and Transfers-Out in fiscal years 2021 to the same schedule in fiscal year 2022. We describe the four new programs below since they are the programs in place currently and in future years. The department completed the reorganization to better communicate its two-part public safety and rehabilitation mission.

Board of Pardons and Parole (10 FTE) is established in §2-15-2305, MCA, and is allocated to the department for administrative purposes. The board is responsible for executive clemency and parole.

Director's Office CSD (105.81 FTE) includes the Director's Office and the Central Services Division. These two functions provide budgeting, accounting, payroll, legal, procurement, human resources, project management, policy-setting, and information technology services to the entire department.

Public Safety (989.36 FTE) includes all prison programs for felony adult males and females and juvenile males. The department also currently contracts with a facility in Idaho to house juvenile females. The Public Safety program also includes the department's Investigations, Public Safety Support Services, and Secure Contract Facilities Bureaus. Public Safety also includes probation and parole.

Rehabilitation and Programs (247.01 FTE) includes all other department services like the Montana Correctional Enterprises, the Community Corrections Facilities and Programs Bureau, Health Services Bureau, Victim Services Bureau, and Evidence-Based Practices and Programs.

The department's website, cor.mt.gov, includes interactive dashboards allowing the public to query a variety of reports, including the secure facility daily population.

Prior Audit Recommendations

The prior audit report contained one recommendation related to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. We recommended that the department record the Inmate Trust Accounts and Restitution Activity in the state special revenue fund and custodial funds. The department moved the Restitution Activity to the custodial fund but did not move the Inmate Trust Account to the State Special Revenue Fund. The department, in consultation with the Department of Administration (DOA), believes the Private Purpose Trust Fund is the best fit for the activity. DOA suggested the department request legislation to clarify the status of the fund. Current state law does not protect the account from the department's creditors and requires administrative involvement. Therefore, our recommendation is partially implemented. There were misstatements in both fiscal year 2021 and 2022 related to the prior audit recommendation, but they did not affect our audit opinion. We make no further recommendation at this time, because the department is considering bringing changes to the laws in the 2025 session.

Previously Issued Recommendations

This report does not include any findings, but we discuss findings found in other audit reports as explained below.

Room and Board – Recommendation to the Department of Corrections

We made a recommendation to the department in the State of Montana Audit report (#22-01) because this audit was not yet complete. The findings was related to the department paying other entities like county detention centers when they house inmates on behalf of the department. We refer to these expenses as room and board. The department did not have adequate controls in place to prevent and detect room and board expenditures misstatements in fiscal year 2021 and 2022. We found errors in its payments and its accruals. Accruals in fiscal year 2021 were approximately \$1.3 million. Approximately \$11,000 of the accrual was not supported by appropriate documentation. Fiscal year 2022 accruals were approximately \$2 million and approximately \$31,500 of the accrual either used an old rate or was unsupported, including \$1,000 in “miscellaneous” expenses in the room and board account where the expenditures were later billed as utilities and postage. During our room and board expenses sample testing, we found four rate errors out of 63 tested. This issue was considered a significant deficiency related to financial reporting for the state’s Basic Financial Statements. We did not repeat the recommendation in this report, but the issue is included in our 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* on page B-1.

Pension Transactions – Recommendation to the Department of Administration

There are material errors in the department’s financial schedules for fiscal year 2022, because the Department of Administration (DOA) made errors when recording year-end pension entries. The errors occurred because DOA made its pension entries while the department was completing a reorganization of its programs. See the Background section for more information on the reorganization. The reorganization entries temporarily skewed expenditures by fund and DOA used the incomplete data to make the pension entries. See the full recommendation in the DOA audit report (#22-13). The issue is noted in our 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* on page B-1. This issue affected our audit opinion as explained on page A-1.

Independent Auditor's Report and Department Financial Schedules

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

INDEPENDENT AUDITOR’S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

REPORT ON THE AUDIT OF FINANCIAL SCHEDULES

Opinions

We have audited the financial schedules of the Department of Corrections, which are comprised of the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out for each of the fiscal years ended June 30, 2022, and 2021, and the related notes to the financial schedules.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion on Regulatory Basis of Accounting paragraph, the accompanying financial schedules for the fiscal year ended June 30, 2022, present fairly, in all material respects, the results of operations and changes in fund equity for the fiscal year ended June 30, 2022, in conformity with the basis of accounting described in Note 1.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial schedules, present fairly, in all material respects, the results of operations and changes in fund equity for the fiscal year ended June 30, 2021, in conformity with the basis of accounting described in Note 1.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles section of our report, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the department as of June 30, 2022, and June 30, 2021, or changes in financial position or cash flows for the years then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

The Department of Administration recorded inaccurate pension information on behalf of the Department of Corrections when the books closed for fiscal year 2022. See the summary of errors in the table below.

Schedule	Program or Fund and Line Item	Overstated (Understated)
Schedule of Expenditures and Transfers-Out for the Fiscal Year Ended June 30, 2022	Rehabilitation and Programs, Employee Benefits	(\$4,650,838)
	Rehabilitation and Programs, Employer Pension Expense	\$36,233,156
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2022	Enterprise Fund Nonbudgeted, Expenditures and Transfers-Out	\$23,407,275
	Internal Service Fund, Nonbudgeted Expenditures and Transfers-Out	\$8,175,045

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

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

As described in Note 1 of the financial schedules, the financial schedules are prepared by Department of Corrections from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, deferred outflows of resources, liabilities, deferred inflows of resources, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Emphasis of Matter

As discussed in Note 7 to the financial schedules, the department consolidated six programs into four to align their financial information more closely with their public safety and rehabilitation responsibilities. The Schedules of Expenditures are not comparable between fiscal years 2021 and 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

In preparing the financial schedules, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the department's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Schedules

Our objectives are to obtain reasonable assurance about whether the financial schedules as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting

a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial schedules.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- ◆ Exercise professional judgment and maintain professional skepticism throughout the audit.
- ◆ Identify and assess the risks of material misstatement of the financial schedules, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial schedules.
- ◆ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, no such opinion is expressed.
- ◆ Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- ◆ Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2023, on our consideration of the department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

May 11, 2023

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

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Custodial Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2021	\$ (10,806,296)	\$ 1,815,492	\$ (2,346,548)	\$ 16,437,372	\$ 3,013,510	\$ 1,750,251	\$ 2,543,698
ADDITIONS							
Budgeted Revenues & Transfers-In	1,550,257	7,118,611	743,627	10,416,423	6,746,166		
Nonbudgeted Revenues & Transfers-In	8,092,081	6,320		315,921		4,850,436	6,929,912
Prior Year Revenues & Transfers-In Adjustments	36	1,796	(16,686)	434		330	35,102
Direct Entries to Fund Equity	204,867,327	65,297	2,348,667		(2,376,300)	971	(971)
Total Additions	214,509,701	7,192,024	3,075,608	10,732,778	4,369,866	4,851,738	6,964,043
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	206,237,182	6,534,077	729,451	10,209,057	6,307,032		
Nonbudgeted Expenditures & Transfers-Out	7,698,109	(309)		23,744,146	6,026,786	4,545,558	6,980,152
Prior Year Expenditures & Transfers-Out Adjustments	91,714	(3,056)		2,377	2,101		215,989
Total Reductions	214,027,006	6,530,712	729,451	33,955,580	12,335,919	4,545,558	7,196,140
FUND EQUITY: June 30, 2022	\$ (10,323,601)	\$ 2,476,804	\$ (391)	\$ (6,785,430)	\$ (4,952,543)	\$ 2,056,430	\$ 2,311,601

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
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Custodial Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2020	\$ (14,216,752)	\$ 1,909,833	\$ (4,458)	\$ 15,681,801	\$ 2,761,329	\$ 0	\$ 2,607,031
ADDITIONS							
Budgeted Revenues & Transfers-In	28,922	6,810,194	41,091,367	10,210,327	5,952,717	3,488,383	8,398,385
Nonbudgeted Revenues & Transfers-In		1,013	1,146	95,851			(1,801,644)
Prior Year Revenues & Transfers-In Adjustments	20	68,931	11,411,881	(5,218)	(543,870)	2,411,809	(36,829)
Direct Entries to Fund Equity	192,911,793	(283,606)	(2,346,157)	3,444			
Total Additions	192,940,735	6,596,532	50,158,238	10,304,405	5,408,847	5,900,192	6,559,911
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	197,401,116	6,694,025	41,390,252	8,730,205	5,647,488	4,149,941	6,056,894
Nonbudgeted Expenditures & Transfers-Out	9	580		1,051,826	(492,488)		566,350
Prior Year Expenditures & Transfers-Out Adjustments	(7,870,846)	(3,732)	11,110,076	(233,197)	1,666	4,149,941	6,623,244
Total Reductions	189,530,279	6,690,873	52,500,328	9,548,835	5,156,667	4,149,941	6,623,244
FUND EQUITY: June 30, 2021	\$ (10,806,296)	\$ 1,815,492	\$ (2,346,548)	\$ 16,437,372	\$ 3,013,510	\$ 1,750,251	\$ 2,543,698

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, 2022

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Custodial Fund	Private Purpose Trust Fund	Total
Licenses and Permits	\$	236,505					\$	236,505
Charges for Services		1,294,611		14,469				1,309,079
Fines and Forfeits		2,879						2,879
Sale of Documents, Merchandise and Property		4,461,702		10,030,258	6,738,565			21,230,524
Grants, Contracts, and Donations		462,196						462,196
Transfers-in		666,237	596,310	369,323				1,631,871
Capital Asset Sale Proceeds				292,791				292,791
Inception of Lease/Installment Contract	\$	8,092,033						8,092,033
Federal Indirect Cost Recoveries		3,713						3,713
Miscellaneous		1,546,628						1,546,628
Federal		2,597		25,938	7,602	4,850,766	6,965,014	13,398,545
Total Revenues & Transfers-in		9,642,374	130,631	10,732,778	6,746,166	4,850,766	6,965,014	46,790,766
Less: Nonbudgeted Revenues & Transfers-in		8,092,081	726,941	315,921		4,850,436	6,929,912	20,194,670
Prior Year Revenues & Transfers-In Adjustments		36	(16,686)	434		330	35,102	21,011
Actual Budgeted Revenues & Transfers-in	\$	1,550,257	743,627	10,416,423	6,746,166	0	0	26,575,084

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, 2021

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Custodial Fund	Private Purpose Trust Fund	Total
Licenses and Permits	\$	117,878						117,878
Taxes		\$	918					918
Charges for Services		1,310,979		8,171				1,319,150
Investment Earnings			6,542					6,542
Fines and Forfeits		4,959						4,959
Sale of Documents, Merchandise and Property		4,202,742		10,208,817	5,952,717			20,364,277
Grants, Contracts, and Donations		563,616						563,616
Transfers-in		691,568	38,456,648	67,275				39,148,216
Capital Asset Sale Proceeds								67,275
Federal Indirect Cost Recoveries	\$	3,229						3,229
Miscellaneous	25,713	(11,603)		16,697		3,488,383	6,596,740	10,115,930
Federal			14,040,287					14,040,287
Total Revenues & Transfers-In	28,942	6,880,138	52,504,395	10,300,961	5,952,717	3,488,383	6,596,740	85,752,276
Less: Nonbudgeted Revenues & Transfers-In		1,013	1,146	95,851		3,488,383	8,398,385	11,984,778
Prior Year Revenues & Transfers-In Adjustments	20	68,931	11,411,881	(5,218)			(1,801,644)	9,673,971
Actual Budgeted Revenues & Transfers-In	\$ 28,922	\$ 6,810,194	\$ 41,091,367	\$ 10,210,327	\$ 5,952,717	\$ 0	\$ 0	\$ 64,093,528

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

	Board of Pardons and Parole	Director's Office CSD	INA - Clinical Services Division	Public Safety	Rehabilitation and Programs	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT						
Personal Services						
Salaries	\$ 677,674	\$ 6,267,121		\$ 46,689,837	\$ 13,447,194	\$ 67,081,825
Hourly Wages	250			329,191	746,184	1,075,624
Employee Benefits	219,907	1,771,638		17,951,304	28,274	19,971,122
Personal Services-Other	(6,452)				11,496	5,044
Total	891,378	8,038,759		64,970,331	14,233,147	88,133,615
Operating Expenses						
Other Services	1,930	4,614,748	\$ (1,673)	38,224,909	54,149,113	96,989,027
Supplies & Materials	13,638	895,298	(2,363)	6,606,858	8,173,983	15,687,413
Communications	10,744	1,464,085		376,733	29,826	1,881,389
Travel	20,413	54,822	1,629	559,349	216,095	852,309
Rent	8,617	538,641		1,283,276	153,019	1,983,553
Utilities	(835)			1,484,150	291,018	1,774,333
Repair & Maintenance	4,583	49,994		1,071,027	882,188	2,007,792
Other Expenses	2,840	11,924,688		360,357	1,432,169	13,720,054
Goods Purchased For Resale	7,296			4,725	11,241,879	11,253,901
Total	69,227	19,542,277	(2,407)	49,971,384	76,569,291	146,149,771
Equipment & Intangible Assets						
Equipment				234,053	342	234,395
Capital leases - equipment				16,454		16,454
Intangible Assets	180,026			7,912,007		8,092,033
Total	180,026			8,162,514	342	8,342,882
Capital Outlay						
Buildings					(2,097,665)	(2,097,665)
Total					(2,097,665)	(2,097,665)
Transfers-out						
Fund transfers		100,000		262,371	348,863	711,234
Total		100,000		262,371	348,863	711,234
Debt Service						
Loans	(590)			510,844	97,588	607,842
Lease Liability	56,899			781,077		837,976
Total	56,309			1,291,921	97,588	1,445,818
Post Employment Benefits						
Other Post Employment Benefits					(66,867)	(66,867)
Employer Pension Expense					36,701,578	36,701,578
Total					36,634,711	36,634,711
Total Expenditures & Transfers-Out	\$ 1,196,940	\$ 27,681,036	\$ (2,407)	\$ 124,658,522	\$ 125,786,277	\$ 279,320,367
EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund	\$ 1,191,431	\$ 15,424,783	\$ (2,407)	\$ 122,558,055	\$ 74,855,143	\$ 214,027,006
State Special Revenue Fund	1,031	368,437		1,692,554	4,468,691	6,530,712
Federal Special Revenue Fund				407,913	321,539	729,451
Enterprise Fund	2,377	109,118			33,844,085	33,955,580
Internal Service Fund	2,101	36,999			12,296,819	12,335,919
Custodial Fund		4,545,558				4,545,558
Private Purpose Trust Fund		7,196,140				7,196,140
Total Expenditures & Transfers-Out	1,196,940	27,681,036	(2,407)	124,658,522	125,786,277	279,320,367
Less: Nonbudgeted Expenditures & Transfers-Out	180,026	11,526,095		7,515,972	29,772,350	48,994,442
Prior Year Expenditures & Transfers-Out Adjustments	5,509	208,015	(2,407)	(3,289)	101,298	309,125
Actual Budgeted Expenditures & Transfers-Out	1,011,405	15,946,926	0	117,145,839	95,912,630	230,016,799
Budget Authority	1,011,405	21,322,213		119,367,562	105,342,632	247,043,812
Unspent Budget Authority	\$ 0	\$ 5,375,287	\$ 0	\$ 2,221,724	\$ 9,430,002	\$ 17,027,013
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund	\$ 0	\$ 5,267,945		\$ 1,380,296	\$ 3,970,925	\$ 10,619,166
State Special Revenue Fund		107,342		661,524	274,481	1,043,347
Federal Special Revenue Fund				179,904	497,328	677,232
Enterprise Fund					4,360,176	4,360,176
Internal Service Fund					327,093	327,093
Unspent Budget Authority	\$ 0	\$ 5,375,287	\$ 0	\$ 2,221,724	\$ 9,430,002	\$ 17,027,013

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, 2021

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Administrative Support Services	Board of Pardons and Parole	Clinical Services Division	MONT Correctional Enterprises	Probation & Parole Division	Secure Custody Facilities	Total
Personal Services							
Salaries	\$ 8,307,874	\$ 656,483	\$ 4,444,431	\$ 4,372,771	\$ 30,609,579	\$ 26,499,472	\$ 74,890,611
Hourly Wages			5,025	458,866	67	378,273	842,232
Other Compensation	200						200
Employee Benefits	2,953,447	225,809	2,211,623	1,703,924	10,691,193	13,044,193	30,830,190
Personal Services-Other				(18,977)			(18,977)
Total	11,261,521	882,293	6,661,079	6,516,585	41,300,839	39,921,938	106,544,255
Operating Expenses							
Other Services	4,472,607	413	7,170,390	252,240	54,902,620	33,357,011	100,155,280
Supplies & Materials	703,693	11,692	4,718,742	2,229,652	3,768,585	7,265,419	18,697,784
Communications	1,319,988	6,690	7,021	14,221	275,872	312,770	1,936,561
Travel	40,125	2,243	12,967	15,165	131,518	239,336	441,353
Rent	604,241	64,434	65,578	64,016	1,871,404	199,924	2,869,597
Utilities			3,635	236,395	29,594	1,321,419	1,591,043
Repair & Maintenance	54,912	271	163,395	675,796	155,173	666,678	1,716,225
Other Expenses	11,406,639	38	15,969	1,902,699	722,991	377,768	14,426,105
Goods Purchased For Resale				9,503,742		2,210	9,505,952
Total	18,602,205	85,781	12,157,698	14,893,924	61,857,757	43,742,535	151,339,900
Equipment & Intangible Assets							
Equipment			8,316	24,464	1,965,635	254,270	2,252,685
Intangible Assets						(5,204)	(5,204)
Total			8,316	24,464	1,965,635	249,066	2,247,481
Capital Outlay							
Buildings				(728,738)			(728,738)
Total				(728,738)			(728,738)
Grants							
From State Sources	712,946						712,946
From Federal Sources	10,880,631						10,880,631
Total	11,593,577						11,593,577
Transfers-out							
Fund transfers	2,060,557		25,000	321,521	77,038	25,000	2,509,116
Total	2,060,557		25,000	321,521	77,038	25,000	2,509,116
Debt Service							
Loans			28,064	590	48,235	508,834	585,723
Total			28,064	590	48,235	508,834	585,723
Post Employment Benefits							
Other Post Employment Benefits				(279,219)			(279,219)
Employer Pension Expense				388,071			388,071
Total				108,851			108,851
Total Expenditures & Transfers-Out	\$ 43,517,860	\$ 968,074	\$ 18,880,158	\$ 21,137,198	\$ 105,249,504	\$ 84,447,373	\$ 274,200,167
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 18,012,593	\$ 968,074	\$ 18,880,158	\$ 2,218,434	\$ 66,533,867	\$ 82,917,153	\$ 189,530,279
State Special Revenue Fund	463,608			4,072,328	803,265	1,351,672	6,690,873
Federal Special Revenue Fund	14,155,071			254,338	37,912,372	178,548	52,500,328
Enterprise Fund	84,582			9,464,253			9,548,835
Internal Service Fund	28,821			5,127,846			5,156,667
Custodial Fund	4,149,941						4,149,941
Private Purpose Trust Fund	6,623,244						6,623,244
Total Expenditures & Transfers-Out	43,517,860	968,074	18,880,158	21,137,198	105,249,504	84,447,373	274,200,167
Less: Nonbudgeted Expenditures & Transfers-Out	10,206,572			559,338		852	10,766,762
Prior Year Expenditures & Transfers-Out Adjustments	568,218		(7,758)	(231,530)	11,089,179	(7,847,792)	3,570,316
Actual Budgeted Expenditures & Transfers-Out	32,743,070	968,074	18,887,915	20,809,390	94,160,325	92,294,313	259,863,088
Budget Authority	47,675,757	1,088,021	22,990,791	24,243,365	104,402,656	93,156,429	293,557,019
Unspent Budget Authority	\$ 14,932,687	\$ 119,947	\$ 4,102,876	\$ 3,433,975	\$ 10,242,331	\$ 862,116	\$ 33,693,931
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 445,120	\$ 119,947	\$ 3,893,976		\$ 9,925,630	\$ 438,992	\$ 14,823,664
State Special Revenue Fund	171,500		208,900	81,014	316,701	189,001	967,117
Federal Special Revenue Fund	14,316,067			580,529		234,123	15,130,718
Enterprise Fund				2,558,882			2,558,882
Internal Service Fund				213,550			213,550
Unspent Budget Authority	\$ 14,932,687	\$ 119,947	\$ 4,102,876	\$ 3,433,975	\$ 10,242,331	\$ 862,116	\$ 33,693,931

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

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2022

1. Summary of Significant Accounting Policies

Basis of Accounting

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

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

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Private-Purpose Trust) 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 fees, income and interest from state lands, and third-party contributions for juvenile placement.

- ◆ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include re-entry initiative programs, 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 and cook/chill programs.
- ◆ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Department Enterprise Funds include prison ranch, industries programs, and license plate production.

Fiduciary Fund Category

- ◆ **Private-Purpose Trust Fund** – to account for all fiduciary activities that are (a) not required to be reported in pension (and other employee benefit) trust funds or investment trust funds and (b) are held in a trust (or trust equivalent arrangement), where the principal and income benefit individuals, private organizations, or other governments. Department private-purpose trust funds account for money belonging to inmates of facilities.
- ◆ **Custodial Fund** – to account for resources of fiduciary activities held by the state in a custodial capacity which are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. The external portion of investment pools that are not held in a trust should be reported in a separate external investment pool fund column, under the custodial fund classification. Custodial funds may be used on a limited basis for internal (to the State) clearing account activity, but these must have a zero balance at fiscal year-end. Department custodial funds include restitution for victims.

Changes in Accounting Policy

Senate Bill 19 of the 2021 Legislative Session moved the administrative allocation of the Board of Crime Control from the Department of Corrections to the Department of Justice, effective July 1, 2021.

Beginning in Fiscal Year 2022, the Department implemented a reorganization. As a part of this reorganization, the six previous budget programs (Administrative Support Services Division, Board of Pardons & Parole, Clinical Services Division, Montana Correctional Enterprises, Probation & Parole Division, and Secure Custody Facilities Division) were consolidated into four new divisions (Board of Pardons and Parole, Director's Office/Central Services Division, Public Safety Division, and

Rehabilitation & Programs Division). On the Schedule of Total Expenditures & Transfers-Out for the year ended June 30, 2022, prior year adjustment activity is also reflected in the Clinical Services Division.

Beginning in Fiscal Year 2022, the State of Montana implemented GASB 87 – Leases, which generally requires long-term leases to be recorded as a liability and a corresponding right-to-use lease asset. Since these leases are accounted for as long-term debt, governmental funds will show a Non-Budgeted, Inception of Lease/Installment Contract category on the Schedule of Revenues and Transfers-in and a corresponding Non-Budgeted Expenditure on the Schedule of Total Expenditures and Transfers-out for the purchase of the leased asset.

In the Schedule of Total Expenditures and Transfers-out, readers may also see a shift from Operating Expenses - Rent to a Debt Service – Lease Liability.

2. General Fund Equity Balance

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2021 and June 30, 2022.

3. Direct Entries to Fund Equity

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

Direct entries to fund equity in the General, State Special, and Federal Special Revenue funds also include corrections of small errors from a previous period that occurred at least two fiscal years prior and adjustments to inventory balances.

Direct entries to fund equity in the Private Purpose Trust funds include a reclassification of the restitution fund from an Agency Fund to a Private Purpose Trust Fund.

4. Unspent Budget Authority

As noted on the Schedule of Total Expenditures and Transfers-Out for Fiscal Year 2021, the department had approximately \$33.7 million in unspent budget authority.

Administrative Support Services - Unspent budget authority for Administrative Support Services includes \$14.3 million of federal authority in the Board of Crime Control. This is primarily related to grants that span multiple fiscal years. The remaining amounts are comprised of general fund and restricted state special revenue funds for the collection of restitution.

Board of Pardons and Parole – had unspent budget authority of \$119,947 in the general fund on June 20, 2021.

Clinical Services Division – had unspent budget authority of approximately \$4 million on June 30, 2021. Approximately \$3.9 million of this was in the general fund. Budgeted expenses for the department were lower than anticipated due to the impact of COVID-19 on departmental operations.

Montana Correctional Enterprises – had unspent budget authority of approximately \$3.4 million for the year ending June 30, 2021 due to fluctuating market prices in the Enterprise and Internal Service funds.

Probation & Parole Division – had unspent authority of \$10.2 million as of June 30, 2021. Most of this authority relates to lower utilization of contracted community corrections beds.

Secure Custody Facilities – had unspent budget authority of approximately \$862,000 as of June 30, 2021. Approximately \$469,000 of this was in the general fund, with the remainder in the state special and federal special fund types. Budgeted expenses for the department were lower than anticipated due to the impact of COVID-19 on departmental operations.

As noted on the Schedule of Total Expenditures & Transfers-Out for Fiscal Year 2022, the department had \$17 million in unspent budget authority.

Director's Office/CSD – had unspent budget authority of approximately \$5.4 million as of June 30, 2022. Approximately \$100,000 of this was in the state special revenue fund. The remainder was in the general fund. Approximately \$4.4 million of the general fund balance relates to carryforward appropriation authority that the department plans to spend in Fiscal Year 2023. The remainder is primarily related to restricted appropriation that the department was unable to spend due to high population levels in county jails.

Public Safety Division – had unspent budget authority of approximately \$2.2 million as of June 30, 2022. Of this, \$180,000 was related to federal grants that span multiple fiscal years. Approximately \$660,000 was related to unspent state special authority for Probation & Parole Supervisory Fees and the Inmate Welfare Fund. The remainder is general fund authority. This division has biennial appropriation and anticipates larger expenses in Fiscal Year 2023.

Rehabilitation and Programs Division – had unspent budget authority of \$9.4 million. Approximately \$4.7 million of this unspent authority was in the Montana Correctional Enterprises Enterprise and Internal Service fund types. This relates to fluctuating market prices in those funds. Approximately \$4 million of unspent authority was in the general fund. This is related to lower utilization of community corrections beds early in the fiscal year, as well as a biennial appropriation for Hepatitis C treatment that was not spent until Fiscal Year 2023. Approximately \$500,000 of unspent budget authority was in the federal special revenue fund type and relates to federal grants that span multiple fiscal years. The remainder of the unspent budget authority was in the state special revenue fund type and is primarily related to the canteen revolving account and funds transferred to the agency to work on repairs to the Powell Dam – a project that spans multiple fiscal years.

5. Schedule of Total Revenues and Transfers-In

The Schedule of Total Revenues and Transfers-In no longer reports revenue estimate information. This change was approved by the Legislative Audit Committee in 2020.

6. Related Parties

The Director of the Department of Corrections is a member of the Board of Crime Control. The Department applied for and received grant funding from the Board of Crime Control during the audit period. For the fiscal year ended June 30, 2022, the amount granted to the Department was \$16,328.

7. Department Reorganization

The Department underwent a structural reorganization during the fiscal year ending June 30, 2022. This reorganization resulted in a consolidation of budget programs, reducing the number of those programs from six to four. This is reflected in the financial schedules.

8. Accounting Errors

An error was made when the Department of Administration was recording year-end pension entries for the Department of Corrections for the year ended June 30, 2022. As a result, Employer Pension Expense is materially overstated on the Schedule of Expenditures and Transfers-Out for that fiscal year. The Nonbudgeted Expenditures and Transfers-Out in the Enterprise and Internal Service Funds is also overstated by \$31,582,318. Ending Fund Equity is understated in those funds as well.

An error was made when the Department of Administration was completing the fiscal year end closing entries related to cash. Legislation transferred the Board of Crime Control from the Department of Corrections to the Department of Justice on 7/1/2021. When the Department of Administration completed the fiscal year end cash closing entry, they closed the cash from the Board of Crime Control funds to the Department of Justice rather than to the Department of Corrections. As a result, Fund Equity as of June 30, 2021 on the Schedule of Changes in Fund Equity was understated by \$365,552 in the state special revenue fund type and \$2,133,000 in the federal special revenue fund type.

An error was made when the Department of Administration was making entries to implement GASB Statement 87 on leases. Initially, all prior lease assets and liabilities were removed and new accounting entries were entered for all leases. They have since changed the process to restate beginning net position instead. As such, Nonbudgeted Revenues & Transfers-In and Nonbudgeted Expenditures and Transfers-Out are overstated \$8,092,033 for the fiscal year ending June 30, 2022.

Per the prior audit report, there were misstatements in the last audit over ending fund equity. These misstatements carried forward to beginning fund equity in fiscal year 2021. As a result, the Schedule of Changes in Fund Equity for fiscal year 2021 contains the following misstatements: beginning fund equity in the Custodial fund is understated by \$1,310,945; beginning fund equity in the State Special Revenue fund is understated by \$1,296,085; and beginning fund equity in the Private Purpose Trust fund is overstated by \$2,607,031.

An error was made when moving COVID-19 expenditures to program year 2020 (as allowed by federal regulations). As a result, only \$7.8 million was moved out of the General Fund under program year 2020. The movement out of the General Fund and into the Federal Special Revenue Fund should have been the same (\$11.1 million). As a result, the prior year expenditures and transfers out adjustment line item on the Schedule of Changes in Fund Equity is understated by \$3.3 million for fiscal year 2021 in the General Fund. Additionally, the adjustment was only by fund, however, expenditures were also moved by program. This resulted in the prior year expenditure and transfer out adjustment on the Schedule of Expenditures for the fiscal year ended June 30, 2021 being overstated by \$11 million in the Probation & Parole Division and understated by \$7.8 million in the Secure Custody Facilities Division.

The Department chose to record COVID-19 expenditures for the fiscal year ending June 30, 2021 in one division for ease of recording. This resulted in misstatements on the Schedule of Expenditures and Transfers-Out for that year. Salaries in the Probation and Parole Division are overstated by \$15.2 million, and benefits are overstated by \$3 million. Salaries in the Secure Custody Facilities Division are understated by \$12.9 million and benefits are understated by \$2 million. In the Clinical Services Division, salaries are understated by \$3.9 million and benefits are understated by \$800,000.

9. Contractual Commitments

On June 30, 2022, the department had contractual commitments of approximately \$7 million and the department made bond payments on those contracts totaling \$1.4 million in fiscal year 2022. As of this date, the department is contractually required to make bond payments on behalf of one prerelease center and two 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.

The department, through contract, agrees to provide a guarantee to ensure the contract facility is operating at 75% capacity, which is what the bonding authority has deemed necessary in order for the facility to maintain solvency and to be able to repay their bond over the course of its lifetime. Because the department has guaranteed the bonds, it is obligated to cover any capacity shortage to ensure the facility is compensated at 75% capacity, which allows the facility to maintain the 115% debt service requirement imposed by the bonding authority.

10. Contingencies

Disability Rights Montana v. Gootkin and Salmonsén (Cause # CV-15-22) is a civil rights case filed by the ACLU of Montana on behalf of Plaintiff, alleging deliberate indifference in the provision of mental health care to seriously mentally ill inmates at Montana State Prison. Plaintiff sought only declaratory and injunctive relief and later amended its complaint, seeking similar relief under Section 1983 of Title 42 of the United States Code, the Civil Action for Deprivation of Rights. The District Court had dismissed the case for failure to state a claim, which order was appealed by Plaintiffs to the Ninth Circuit Court of Appeals. The Ninth Circuit Court of Appeals overturned the district court's ruling and remanded the case back to the district court in front of a new judge. As a result, the Department of Corrections (Department) has participated in on-going discovery, with the aid of outside expert witnesses and the defense of the case through outside legal counsel. The parties had previously exchanged settlement proposals without success. Because of legislation enacted during the 2019 legislative session, the Department implemented significant changes in the use of restrictive housing, especially as related to seriously mentally ill inmates.

On April 10, 2022, the parties entered into a settlement agreement in which the Department agreed to institute a number of changes in procedures related to the housing and treatment of the seriously mentally ill inmates at Montana State Prison, to be monitored by an independent monitor. The parties were responsible for their own attorney's fees and other litigation costs. At this time, the Department is unable to specify an anticipated amount of financial obligation imposed by the settlement.

The department has multiple causes in which it is the defendant, however, there are no cases in which there is a "reasonable possibility" as defined in GASB Statement 62, of monetary judgments against the Agency and the Department is not aware of any cases in which we anticipate having a monetary settlement in the current fiscal year.

11. Subsequent Events

The 2023 Legislature passed House Bill 5 and House Bill 817, both of which make significant investments in infrastructure within the Department of Corrections. House Bill 817 provides approximately \$181 million for building and repair projects and the Montana State Prison. House Bill 5 provides approximately \$57 million for additional building and repair projects throughout the Department, along with associated operations and maintenance funding.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

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

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Corrections for each of the fiscal years ended June 30, 2022, and 2021, and the related notes to the financial schedules, and have issued our report thereon dated May 11, 2023. Our report includes a qualified opinion on the financial schedules for fiscal year 2022.

Report on Internal Control Over Financial Reporting

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

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 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. We consider the deficiency described below to be a material weakness.

- ◆ The Department of Administration (DOA) financial compliance audit report (#22-13) includes a recommendation related to an internal control deficiency regarding pension entries

made by DOA. The background section of this report also includes information on this issue on page 3.

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. We consider the deficiency described below to be a significant deficiency.

- ◆ The State of Montana Audit report (#22-01) includes a recommendation related to an internal control deficiency regarding room and board expenditures. The background section of this report also includes information on the issue on page 3.

Report on Compliance and Other Matters

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

Department of Corrections Response

Government Auditing Standards requires the auditor to perform limited procedures on the department's response to the findings identified in the separately issued State of Montana Audit report (#22-01) and the Department of Administration report (#22-13) and the response to this audit as described on page C-1 of this report. The department's response was not subjected to the auditing procedures applied in the audit of the financial schedules and, accordingly, we express no opinion on it.

Purpose of this Report

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

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

May 11, 2023

DEPARTMENT OF
CORRECTIONS

DEPARTMENT RESPONSE



Greg Gianforte, Governor | Brian M. Gootkin, Director

July 5, 2023

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

Dear Mr. Maciver:

Thank you for the opportunity to respond to the financial compliance audit report for the Department of Corrections.

The Department had no recommendations included in this report, however, the report does reference a finding that was contained in the statewide audit report. The Department's response to that finding can be located on page B-7 of the May 2022 State of Montana Financial Audit Report.

We greatly appreciate the work of the audit team and thank you for your professionalism in conducting our audit.

Sincerely,



Brian Gootkin

Director